



The Association of  
Accountants and  
Financial Professionals  
in Business

via email

To: [comments@pcaobus.org](mailto:comments@pcaobus.org)

January 3, 2023

Office of the Secretary  
PCAOB  
1666 K Street NW  
Washington, DC 20006-2803

Re: Release No. 2022-006, PCAOB Rulemaking Docket Matter No. 046, *A Firm's System of Quality Control*

Dear Secretary Brown and PCAOB Board Members:

The Financial Reporting Committee (FRC or Committee) of the IMA® (Institute of Management Accountants) is writing to share its views on the Public Company Accounting Oversight Board (PCAOB) Release No. 2022-006, Rulemaking Docket Matter No. 046, *A Firm's System of Quality Control* (Proposal or ED).

The IMA is a global association representing over 140,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries, and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities, and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The Committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics, and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals, and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at [www.imanet.org](http://www.imanet.org) (About IMA, Advocacy, Financial Reporting Committee).

Our overall support for an updated quality control standard

A sentence on page 6 of the ED reads, "... audit quality cannot simply be inferred from financial reporting quality: an audit can be deficient even though the financial statements are not, and vice versa." If stated explicitly, those "vice versa" words could read, "an audit can be sufficient even though the financial statements are deficient." This is unfortunately true as even 100% auditing of

a company's recorded transactions would not necessarily catch matters that were not recorded but should have been or certain other matters of omission or commission. Nevertheless, independent audits are an important component of the system underlying the efficient functioning of our capital markets. Thus, as noted in our February 26, 2020 letter relating to the Concept Release preceding this ED, we support the PCAOB's efforts to update and improve the quality control (QC) standards that provide a framework for accounting firms to perform high quality audits.

We also support the general approach in the Proposal to build the QC Standard on the International Auditing and Assurance Standards Board QC Standard ISQM 1 as well as the American Institute of Certified Public Accountants' Auditing Standards Board analogous SQMS 1. At the same time, we recognize there are specific matters where the PCAOB needs to supplement those standards or require adjustments due to securities laws, Securities and Exchange rules, or other matters unique to the United States.

While in general agreement with the basic thrust of the ED, we acknowledge that its length and extensive detail make it all but impossible for us to respond comprehensively. Indeed, listing 93 questions for respondents to consider demonstrates that it is likely only the very largest accounting firms and perhaps a handful of others will comment in detail on the ED, particularly given the holiday and year-end reporting timing involved. Therefore, our general support should not be taken as agreement with all the detailed procedures and other requirements proposed. We do suggest that the PCAOB carefully evaluate comments from the larger (i.e., serving 100 or more registrants) accounting firms as to the operationality of the QC requirements. And while the ED does seem to provide for some reasonable amount of scalability to assist smaller firms in complying, we are concerned that smaller firms may not even have time to read this formidable Proposal. We recommend that the PCAOB do field testing or other outreach with smaller firms to determine whether the ED could be applied in a practical manner.

Having expressed general support together with the caveats above, we have several specific comments.

### Specific comments

Reasonable assurance – We strongly support the objective of a system of quality control stated in paragraph .05 as providing reasonable assurance, not absolute assurance. This objective, together with a principles-based risk assessment, is an essential component of a practical QC system.

Risk assessment process – The ED notes on page 76 that “The proposed risk assessment process is principles-based and could be tailored to the size and complexity of the firm and the types and variety of engagements it performs.” Further, on page 80, “The proposed standard does not specify quality risks that must be assessed and responded to by all firms; rather it includes factors for the firm to consider in its risk assessment process.” Also, on page 81, “The list in paragraph .20a is not intended to be exhaustive, and the specific examples provided in Appendix B are meant to be illustrative rather than a checklist for every firm to consider.”

We agree with a principles-based risk assessment approach toward determining the factors that should be considered in designing a firm's QC system. However, we are concerned that the

language in the draft QC Standard is not consistent with the assertions quoted above. Specifically, there is no mention in the draft standard that the risk assessment would be “principles-based.” More important, the wording before the list in paragraph .20a states, “The firm should: (emphasis added).” Further, the references to Appendix B for specific examples do not sufficiently indicate that they are meant to be illustrative rather than a checklist for every firm to consider.

The Board should carefully reconsider the language in the proposed Standard associated with risk assessment so that final wording is consistent with the assertions quoted earlier. Otherwise, application in practice may revert to a search for anything that could possibly go wrong rather than those risks that are reasonably possible. PCAOB inspectors will no doubt look to final language in this section to monitor that firms are applying the risk assessment as the Board intends.

Ultimate responsibility for a firm’s QC system – We agree with proposed sentence .11 that, “The firm’s principal executive officer (i.e., the highest-ranking executive, regardless of formal title) is ultimately responsible and accountable for the QC system as a whole.” This is analogous to a company’s Chief Executive Officer being jointly responsible for the SEC quarterly and annual certifications with respect to financial statements and internal controls. As explained further below, we also believe the firm’s principal executive officer should sign the annual quality control form provided to the PCAOB.

Independent oversight of a larger firm’s QC system – We agree with paragraph .28 of the proposed Standard stating, “If the firm issued audit reports with respect to more than 100 issuers during the prior calendar year, the firm’s governance structure should incorporate an oversight function for the audit practice that includes at least one person who is not a partner, shareholder, member, other principal, or employee of the firm and does not otherwise have a commercial, familial, or other relationship with the firm that would interfere with the exercise of independent judgment with regard to matters related to the QC system.” Such an oversight board or the like has emerged as a best practice for most if not all the larger accounting firms by now and it should be part of the regular QC system. We suggest that the Board consider providing at least some guidance in a final standard with respect to the qualifications of such independent individuals. Like the SEC’s guidance for Audit Committee Financial Experts, we believe such individuals should be reasonably well versed in current accounting and auditing requirements. We believe that appointments to date have taken this into consideration, but a final PCAOB standard should make clear that independence is necessary but not sufficient.

Reporting on QC systems – Our letter on the Concept Release supported the issuance of an annual QC report by at least the largest accounting firms. The ED mentions that this was opposed by some as it was seen as a form of required public reporting on the adequacy of quality control, which was objected to for certain legal and other reasons. We acknowledge those views and agree that it is better that “firms’ public disclosure about their QC systems should be voluntary and market driven (page 212)” at this time. More and more firms are issuing such audit quality reports and their content should continue to improve and move toward consensus as the marketplace determines which disclosures provide truly useful information.

We agree with the proposed requirement to annually file Form QC with the PCAOB calling for sign offs by the person in charge of the design of the QC system and the person in charge of its

operation. However, we feel that it is also important that the person ultimately responsible for the firm’s QC system sign such a form. Therefore, we believe that the principal executive officer should also sign Form QC. Perhaps that person’s attestation could be worded more simply than the other two on the Form, such as: “I acknowledge that as Chief Executive Officer of Firm X I have ultimate responsibility for the Firm’s Quality Control System. I am aware that \_\_\_ and \_\_\_ above have signed this Form with respect to their specific QC responsibilities.”

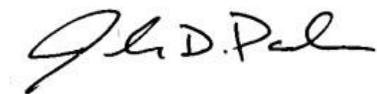
We also agree with the proposed amendment to AS 1301 to require the auditor to communicate to the audit committee about the firm’s most recent annual evaluation of its QC system. Audit committees are interested in a firm’s overall quality controls, especially those relevant to their company. Receiving this oral confirmation of what has been reported to the PCAOB on Form QC will be an important part of the audit committee’s annual assessment of the independent auditor relationship.

Related to the last paragraph, we suggest that it would be better to have audit firms determine the adequacy of their QC systems as of September 30 rather than November 30. This would allow them to report to the PCAOB by November 15 and, in turn, report to audit committees before the last minute for the many calendar-year reporting companies.

Unauthorized access to technology and data – Question 35 in the Concept Release asked, “Should a future PCAOB QC standard expressly require firms to design and implement controls to prevent unauthorized access to technology and data?” Our 2020 letter supported such a requirement noting, “To perform quality audits, firms are provided unfettered access to company financial systems and data. In return, it is essential that they maintain controls that protect against any unauthorized access.” We were unable to find any such proposed requirement in the ED, nor did we find any discussion of why this matter was not pursued – as we think it should be.

We would be pleased to discuss our comments with you or your staff at your convenience.

Sincerely,

A handwritten signature in black ink that reads "Josh Paul". The signature is written in a cursive, slightly slanted style.

Josh Paul  
Chair, Financial Reporting Committee  
Institute of Management Accountants  
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