

March 13, 2020

Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Re: PCAOB Release No. 2019-003 (Rulemaking Docket 046)

Dear Members of the Board and Staff:

Our objective in commenting at this point in the standards setting process regarding revisions to PCAOB quality control standards is to provide input on a limited number of higher-level topics that have become important since the PCAOB's interim quality control standards were written.

Goals of a system of quality control

The overall goal or objective of a revised PCAOB standard should align with the PCAOB's mission, which is to "protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports." As it relates to audits of broker-dealers, an additional part of that mission is to protect the broker-dealers' customers. The objective of a system of quality management, as presented on page 11 of the Concept Release, is consistent with the PCAOB's stated mission. We also believe, however, that there should be an acknowledgment by auditors' systems of quality control that independent auditors have an obligation to act in a manner similar to the PCAOB's mission as it relates to their provision of professional services subject to the PCAOB's oversight. We recommend that the goals of a system of quality control include explicitly the goal of performing audits in a manner that protects the interests of investors, and customers of broker dealers, as applicable, and furthers the public interest in the preparation of audit reports that are informative, accurate, and independent.

Fully incorporate insights from 15 years of inspections

The PCAOB's inspection process is the most fertile source of information on the quality controls essential to achieving audits that meet the goals identified above. The PCAOB's inspectors have first-hand experience with the relationship between quality control policies and procedures and audit deficiencies. The inspection function has developed and implemented inspection programs that have from the beginning included evaluation of matters, such as the tone at the top and an auditing firm's ethical culture that were not included in existing quality control standards. We urge the PCAOB to work closely with the inspectors and draw on their knowledge and experience in revising the quality control standards.

Delete AS 1110

The current AS 1110 section should be eliminated. The original intent of that section was to distinguish between standards that applied at the firm level and standards that applied at the individual engagement level at a time when quality control standards were relatively new. We believe that now there is general recognition of the distinction and also recognition that engagement teams have a responsibility to implement quality control standards that are applicable to the audit engagement such as the responsibilities to perform procedures regarding the continuance of the client relationship in the specific audit engagement and determine compliance with independence and other ethics requirements.

Electronic audit tools

As discussed in the Concept Release, the extent to which auditors are using information technology in performing audits and attestation engagement has increased substantially in recent years. Accordingly, we believe firms should have in place policies and procedures that will provide reasonable assurance that the electronic tools employed are designed, perform and used by engagement teams as intended, and are effective.

Compliance with relevant ethical requirements

It is particularly evident when reading enforcement releases related to audit failures, that the failure to comply with relevant ethical requirements either substantially contributed to or caused the failure. The requirements in the proposed ISQM, as described on page 19 of the Concept Release, has a requirement to obtain, at least annually, documented confirmation of compliance with independence requirements from all personnel required by relevant ethical requirements to be independent. We recommend that a similar annual written acknowledgment be required for other fundamental ethical requirements. For example, respondents should be required to acknowledge that:

- they are not permitted to subordinate their judgment and acknowledge that they understand what that means;
- they are required to be honest and candid within the constraints of client confidentiality;
- service and the public trust should not be subordinated to personal gain and advantage;
- they are obligated to impartial, intellectually honest, and free of conflicts of interest;
- they have an obligation to maintain awareness of their level of competence and to either seek consultation, additional training or supervision, or refuse an assignment if they believe that their competence is not sufficient for the tasks or responsibilities to be assigned to them;
- they are not permitted to improperly use confidential information for their own benefit; and
- they have made a commitment to honorable behavior.

Use of the Proposed ISQM

We agree that it makes sense to use the proposed International Standard on Quality Management as a starting point in drafting a new standard along with consideration of the possible differences, as outlined in the PCAOB Concept Release, that may be necessary for audits of U.S. issuers and broker-dealers.

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Thank you for this opportunity to share our observations and recommendations. Please do not hesitate to contact us if you have any questions.

Very truly yours,



Douglas R. Carmichael, Ph.D., CPA
Eli and Claire Mason Professor
Baruch College, CUNY



Thomas J. Ray, CPA
Distinguished Lecturer
Baruch College, CUNY