

March 16, 2020

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803
USA

Re: PCAOB Rulemaking Docket Matter No. 046

Deloitte & Touche LLP (“D&T” or “we”) is pleased to respond to the request for comments from the Public Company Accounting Oversight Board (the “PCAOB” or the “Board”) on its Potential Approach to Revisions to PCAOB Quality Control Standards (the “Concept Release”), which addresses potential changes to the PCAOB’s quality control standards.

Overall Comments

We support the Board’s efforts to enhance the PCAOB’s quality control standards. We believe that effective quality control systems are crucial for the consistent performance of high quality audit engagements and agree that it is appropriate to update the current PCAOB quality control standards to recognize changes in the audit environment including, but not limited to, the continuous improvement quality initiatives being implemented by the profession, significant advances in technology, and greater globalization of the profession in response to globalization of our clients and stakeholder expectations. We also agree with the Board’s thoughtfully documented rationale and intent to base its approach for modifying the current PCAOB quality control standards on the International Auditing and Assurance Standards Board’s (“IAASB”) proposed international standard for firms’ quality management systems (“Proposed ISQM 1”).

We support the objectives of the Board’s Concept Release and offer certain suggestions regarding the approach. In addition to the detailed observations and suggestions addressed in the attached appendix, below is a summary of the most important matters that we believe warrant additional consideration:

- Application of a principles-based framework and risk-based approach.
- Development of incremental requirements or alternative requirements in addition to those in Proposed ISQM 1.

Application of a Principles-Based Framework and a Risk-Based Approach

We appreciate the Board’s outreach to advisory groups, as well as the Board’s consideration of relevant academic research and literature. Consistent with the results of the Board’s research, we support the development of quality control standards that facilitate a proactive and risk-based approach. Further, we believe that the revised PCAOB quality control standards should use a principles-based framework as opposed to prescriptive requirements. We believe that the use of a principles-based framework and a risk-based approach has several benefits including:

- Accommodation for future changes to the audit environment.
- Scalability for different sizes of firms.

Other risk management and governance frameworks have successfully used a principles-based approach. For example, the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) used a principles-based approach when developing the 2013 *Internal Control-Integrated Framework*.¹ We believe that risk management and governance frameworks that use a principles-based framework and a risk-based approach that allows for the use of professional judgment are the most effective.

Accommodation for Future Changes to the Audit Environment

We appreciate the Board’s efforts to contemplate changes in the auditing environment related to use of technology; changes in management and organizational structure of firms; use of services and resources from firm networks, affiliates, and third-party service providers; and firms developing increasingly sophisticated and robust quality control activities. We agree that a future PCAOB quality control standard should contemplate these changes, as they are important developments that will continue to significantly affect how we conduct our audits and our quality control activities.

Requiring firms to respond to prescriptive requirements may detract from the future effectiveness of a new PCAOB quality control standard. Prescriptive requirements may be rendered irrelevant or obsolete due to a variety of changes in the audit environment, such as technology and expectations from stakeholders for increased transparency. Further, prescriptive requirements could result in unintended emphasis on risks or controls that are not as significant to a firm’s achievement of the overall system of quality control objectives or the assumption that professional judgment beyond such risks or controls is not required in areas in which risks or controls are specified. The use of a principles-based framework and risk-based approach better facilitates a proactive response to changing circumstances, actively mitigates risks, and promotes continuous improvement. As such, we believe that a principles-based framework for the system of quality control executed through a risk-based approach will be necessary in order to provide the flexibility needed for a firm’s system of quality control to adapt to a dynamic audit environment.

Scalability for Different Sizes of Firms

We support the Board’s efforts to develop a future PCAOB quality control standard that is scalable, so a firm can tailor its quality control system based on its size and complexity and the nature of the engagements performed, commensurate with applicable quality risks. We believe that implementing a principles-based framework and risk-based approach will facilitate scalability, and in so doing alleviate the potential for additive costs of a prescriptive quality control system that does not provide an impact on the achievement of a firm’s overall system of quality control objectives.

¹ Within their Executive Summary of the 2013 *Internal Control-Integrated Framework*, COSO recognizes that “new and rapidly changing business models, greater use and dependence on technology, increasing regulatory requirements and scrutiny, globalization, and other challenges demand any system of internal control to be agile in adapting to changes in business, operating and regulatory environments.” The Executive Summary also states that “an effective system of internal control demands more than rigorous adherence to policies and procedures: it requires the use of judgment.” COSO issued the 2013 *Internal Control-Integrated Framework* to assist entities and external stakeholders in their respective duties regarding internal control.

We believe that a future PCAOB quality control standard that is designed to be scalable will need to allow for judgment on the part of firms to be applied in designing and operating their quality control systems. Further, based on the principles-based framework and integrated nature of the system of quality control components there will be a range of acceptable options for designing and operating quality control systems, as many aspects may be designed and operated in an iterative manner.

Development of Incremental or Alternative Requirements in Addition to Those in Proposed ISQM 1

Our firm and member firms within our network currently perform audit engagements in accordance with a variety of standards in addition to the PCAOB's standards; therefore, we are required to implement quality control systems that comply with each set of standards. We agree with the Board that because of their foundational nature, it is not practical to develop a quality control system designed to comply with fundamentally different quality control standards. Therefore, we support the concept of using Proposed ISQM 1 as a starting point for revisions to the PCAOB quality control standards. Further, as discussed within our network's comment letter² in response to the IAASB's request for comment on Proposed ISQM 1, we believe having fundamentally different quality control standards makes it difficult for a network to support a network firm's development and adoption of consistent quality control systems, processes, and methodologies and has the potential to cause difficulty in a firm's implementing and operating an effective system of quality control, and adversely affecting audit quality instead of enhancing it.

We recognize the importance of the Board's leadership and collaboration with standard setters in other jurisdictions who are also contemplating updates to their quality control standards and believe that such collaboration will be influential to the promotion of consistent quality control standards. We support the Board's efforts to avoid unnecessary differences between a future PCAOB quality control standard and the finalized version of ISQM 1. As proposed, ISQM 1 is a robust, risk-based standard that reflects consideration for several key changes in the audit environment that are intended to be addressed through the new PCAOB quality control standard. While we recognize there are certain areas in proposed ISQM 1 where additional principles-based guidance is needed prior to finalizing the standard, we believe that appropriate adjustments are being made by the IAASB.

We appreciate the Board's ongoing monitoring of the IAASB's work and encourage the Board, in its own standard setting, to continue to pursue a path that promotes consistency, and that any supplemental guidance deemed necessary reflects the principles-based framework.

* * *

D&T appreciates the opportunity to provide our perspectives on these important topics. Our comments are intended to assist the PCAOB in analyzing the relevant issues and potential effects of the Concept Release. We are ready to engage constructively with the Board and other stakeholders on these important matters. If you have any questions, please contact Christine Davine at 202-879-4905 or Julie Vichot at 415-783-4627.

² Refer to our network's (i.e., Deloitte Touche Tohmatsu Limited) [comment letter on Proposed ISQM 1](#) for further details.

Yours sincerely,

Deloitte & Touche LLP

Deloitte & Touche LLP

cc: William D. Duhnke III, PCAOB Chairman
J. Robert Brown, Jr., PCAOB Board Member
Duane M. DesParte, PCAOB Board Member
Rebekah Goshorn Jurata, PCAOB Board Member
James G. Kaiser, PCAOB Board Member
Megan Zietsman, PCAOB Chief Auditor and Director of Professional Standards

Jay Clayton, SEC Chairman
Hester M. Peirce, SEC Commissioner
Elad L. Roisman, SEC Commissioner
Allison Herren Lee, SEC Commissioner
Sagar S. Teotia, SEC Chief Accountant

APPENDIX

We support the Board's efforts to enhance the PCAOB's quality control standards and recognize the importance of effective quality control systems to the consistent performance of quality engagements. We believe the requirements, as well as application and other explanatory material provided within Proposed ISQM 1, provide a strong basis for a future PCAOB quality control standard. For a firm or network of firms that performs engagements under multiple standards, consistency in quality control standards enables those firms to continue to prioritize focus on audit quality.

We believe Proposed ISQM 1 with its principles-based framework and risk-based approach provides a strong basis that will be improved through the PCAOB's continued monitoring as the standard is further enhanced and refined prior to its finalization. We encourage the PCAOB to carefully consider the necessity of additional requirements both in terms of scope and in application of a principles-based lens.

Examples of where we believe Proposed ISQM 1 has sufficiently robust principles that would appear to meet the goals as stated in the PCAOB's Concept Release, as well as areas where we would support further principles-based guidance within the final ISQM 1 standard or related implementation materials from the PCAOB, are highlighted in our further response below.

As the Board considers the use of Proposed ISQM 1 as a starting point for quality control standard revisions, we believe the use of such, with a similar principles-based framework and risk-based approach, would represent transformational change in existing quality control standards. Such transformational change would address not only current but also future changes in the audit environment.

We recognize that operationalizing the system of quality control changes the Board considers by using Proposed ISQM 1 as a starting point will require firms to invest significant time and resources. Key aspects related to these changes may include, but are not limited to, implementing any necessary organizational process changes within the decentralized and disparate firm ownership structures often required by local laws and regulations as well as developing or revising tools, templates, methodologies, and information technology systems related to quality control systems, as necessary. Furthermore, in connection with readiness activities, we believe firms and networks will need time to pilot and refine new and enhanced aspects of their systems of quality control prior to reporting on their effectiveness. While we continue to monitor further developments related to Proposed ISQM 1, we are currently evaluating the potential impact of the proposed changes to our existing quality control system.

Objective of a Quality Management System

We believe the objective of a quality management system, as provided in Proposed ISQM 1, would be an appropriate objective for a quality control system under PCAOB standards. Given the foundational nature of quality control systems, differences in the objective between standards would be challenging to the design, implementation, and operation of a singular quality control system in any single firm that performs engagements under both standards, or across a broader network of firms. Accordingly, an objective that is consistent with Proposed ISQM 1 would be aligned with the intent of the Board's potential standard-setting approach — to enable firms to build a single quality control system to support engagements under PCAOB and other applicable standards.

Further, we support the concept of “reasonable assurance” as provided in the objective of the existing PCAOB and IAASB quality control standards. While quality control standards are foundational in nature and inherently enhance a firm’s ability to drive improvements in audit quality, even a system of quality control that is designed, implemented, and operating effectively will not prevent all audit deficiencies. A system of quality control cannot reasonably be designed for absolute assurance given uncertainties in judgments, unpredictable risks, and related human error. A proactive risk-based approach within a system of quality control relies on a continuous improvement process supported by ongoing and periodic monitoring and remediation. Reasonable assurance is obtained through the operation of the entire system of quality control. Accordingly, we believe it continues to be appropriate for the objective of Proposed ISQM 1 and a future PCAOB quality control standard to require the system of quality control to provide reasonable, as opposed to absolute, assurance.

Audits of Brokers and Dealers

Application of a risk-based approach within a system of quality control inherently encompasses industry-specific considerations, including those considerations related to audits of brokers and dealers. In addition, application of a risk-based approach would support scalability as quality risks and related responses may differ based on the type of broker and dealer and the associated engagements. Should the Board use Proposed ISQM 1 as the starting point, such specifies that the firm consider the nature and circumstances of the firm and the engagements it performs in identifying and assessing quality risks. Such engagement considerations may include, but are not limited to, the types of entities for which engagements are undertaken, the types of engagements performed, and the reports to be issued.

Governance and Leadership

We believe a key element of governance and leadership is establishing a culture at the firm that fosters professional excellence and that focuses on firm leadership in sustaining and continually improving audit quality.

Governance and leadership is a component that has been substantially expanded within Proposed ISQM 1. Consistent with views expressed in our network’s response to the IAASB’s request for comments on Proposed ISQM 1, we support the IAASB’s focus in this area and believe the proposed revisions appropriately contemplate changes in the auditing environment, including the intensifying focus on quality and increasing stakeholder expectations, in addressing the quality control aspects associated with firm governance and the responsibilities of firm leadership.

In considering the potential for conflict between commercial interests and audit quality, Proposed ISQM 1 establishes required quality objectives addressing the importance of quality in the firm’s strategic decisions and actions. These quality objectives encompass the firm’s financial and operational priorities, as well as the ability for firm leadership to influence decisions about the firm’s resources, including financial resources, in a manner that supports the firm’s commitment to quality and the design, implementation, and operation of the firm’s system of quality management. Accordingly, we believe Proposed ISQM 1 places appropriate emphasis on financial considerations, including the allocation of financial resources.

With respect to governance and leadership, we believe it is important to recognize that revisions to the

quality control standards in this area should not be designed to supplant judgments of the firm and its partners in terms of how to govern and make management decisions.

Assignment of Responsibilities

Proposed ISQM 1 addresses the assignment of responsibilities for the system of quality management as a whole, as well as specific aspects of the system of quality management, as appropriate to the nature and circumstances of the firm. Fundamentally, we agree that clear assignment of quality-control related responsibilities has the potential to enhance audit quality. Further, we believe that any potential requirements related to the making of assignments should be flexible and functional, conducive to implementation by firms of different sizes and structures. Accordingly, we are supportive of the principles-based framework to assigning responsibilities as reflected in Proposed ISQM 1.

With respect to the specific discussion that the Board is considering making explicit the assignment of “supervisory” responsibilities, including at successive levels within a firm, we note that the Board has previously issued a concept release related to this subject. See *Concept Release on Possible Rulemaking Approaches to Complement Application of Section 105(c)(6) of the Sarbanes-Oxley Act of 2002, PCAOB Rulemaking Docket Matter No. 31*. We believe [our letter](#) in response to the Board’s prior concept release provides relevant commentary on the contours of supervisory responsibility as determined under Section 105(c)(6) of the Sarbanes-Oxley Act of 2002 and continues to reflect our positions on this subject. Among the comments reflected in our letter, we believe responsibilities relating to quality control functions may or may not be supervisory in nature. For example, there is an important difference between audit supervision (e.g., direct contact with the audit engagement team and direct oversight of the work of the audit engagement team) and performing functions that are intrinsic to the management of an audit firm (e.g., responsibilities related to running the firm from an operational perspective). Even if such audit firm management functions involve some supervisory responsibilities with respect to the quality control system that are assigned and documented, individuals holding those positions will in most instances not have supervisory responsibilities for purposes of Section 105(c)(6) of the Sarbanes-Oxley Act of 2002. We believe the intent of any proposed revisions with respect to the assignment of responsibilities should be to promote audit quality and in line with the scope of responsibilities contemplated under the statute.

Mechanisms for Independent Oversight

Though not an aspect within a firm’s system of quality control, mechanisms for independent oversight over firms’ systems of quality control exist today via the PCAOB’s inspection program (which includes a review of the firm’s quality control system) as well as inspections or similar programs in other jurisdictions or by other regulators or standard setters (e.g., the AICPA’s peer review program).

We recognize the valuable input those external to the firm may have with respect to audit quality. Accordingly, based on a firm’s risk assessment, mechanisms for engaging with external stakeholders or further independent oversight may be deemed appropriate when considering firm-specific risks under a principles-based framework. However, such mechanisms may take various forms; therefore, requiring a specific response may not be effective or practicable for all firms. Moreover, if the Board were to proceed with a required response in this area, challenges in consistent execution may exist with respect to consideration of laws and regulations across international jurisdictions.

The Firm's Risk Assessment Process

We believe principles-based requirements related to the firm's risk assessment process are sufficient to prompt firms to appropriately identify, assess, and respond to risk. Consistent with views expressed in our network's response to the IAASB's request for comments on Proposed ISQM 1, we agree with the principle that it is not reasonable or practicable for firms to identify and assess every possible risk; as such, a process that includes a threshold for identifying and assessing those quality risks that are important for the system of quality management is necessary. Proposed ISQM 1 introduces a "threshold" based on consideration of likelihood and significance. We agree that these criteria are relevant in the identification and assessment of quality risks. While we believe it is appropriate for firms to apply professional judgment when identifying and assessing quality risks, we also believe additional direction, provided in a manner consistent with a principles-based framework, will be critical to a firm's ability to execute a more consistent approach to risk identification and assessment. For example, additional principles-based guidance would be useful to support a consistent understanding with respect to determining the "significance" of the effect of a quality risk on the achievement of a quality objective(s). This would include the determination of whether the quality risk would have a significant effect on the achievement of a quality objective(s) in combination with other quality risks that have a reasonable possibility of occurring. We support the Board's continued collaboration with the IAASB to provide further principles-based guidance in this area. To the extent the final ISQM 1 standard and related implementation materials do not provide clarity, we would encourage the Board to consider the need for additional direction.

Quality Risks

We are supportive of the risk assessment process whereby the firm establishes quality objectives and then determines the risks to achievement of those objectives in consideration of the nature and circumstances of the firm and the engagements it performs. Accordingly, we believe that specifying certain quality risks that must be assessed and responded to by all firms is contrary to a risk-based approach. Such an approach could facilitate a "checklist" mentality whereby firms are less likely to apply professional judgment in determining additional risks to the achievement of quality objectives, resulting in quality control systems that are not appropriately tailored to firms' circumstances. Further, identification of "required" quality risks could result in unintended emphasis by firms on risks that are not as significant to the firms' overall system of quality control.

Quantifiable Performance Measures

We support the continued exploration and development of quantifiable performance measures that are used in the management of audit quality and for providing transparency into both risks to and measurement of audit quality. We have found that while certain quantitative metrics are useful in combination with qualitative information for understanding and managing audit quality, they are not individually or collectively determinative of audit quality.

We believe that principles-based expectations are sufficient and provide firms with the flexibility to continue to identify and use quantitative performance metrics where useful, but that it would not be appropriate to require that firms establish quantifiable performance metrics for the achievement of each quality objective. As noted earlier, reasonable assurance is obtained through the operation of the entire system of quality control versus any single or collective performance metric.

Relevant Ethical Requirements

We recognize that relevant ethical requirements that are applicable in the context of a system of quality control may vary, depending on the nature and circumstances of the firm and its engagements. For the U.S. regulatory environment, such relevant ethical requirements include existing PCAOB ethics and independence standards and PCAOB and SEC independence rules. With the *International Code of Ethics for Professional Accountants (Including International Independence Standards)* as the basis for the Proposed ISQM 1 requirements, we agree with the Board that a future PCAOB quality control standard may need to be tailored to reflect the U.S. regulatory environment as it relates to ethical requirements. However, as the identification and assessment of quality risks would involve considerations related to applicable laws, regulations, and professional standards as well as the environment in which the firm operates, we would encourage that such incremental or alternative requirements be considered in the context of a broader principles-based framework and risk-based approach.

With respect to the Board's consideration of the member firm requirements within the AICPA's SEC Practice Section (SECPS), as the requirements address matters generally relevant to all firms' compliance with PCAOB and SEC independence rules, we support extending such requirements to all firms, subject to the PCAOB's quality control standards. When extending such requirements, we would encourage the Board to also revise the requirements in a manner more reflective of a principles-based framework.

With respect to the principal changes being considered to the SECPS member requirements:

- We support the Board's proposal to revise the requirement for professionals to report, within the firm, apparent independence violations to cover apparent violations affecting the firm's independence, not just personal independence violations.
- We support replacing the references to a "senior-level" partner with language akin to that suggested in the Concept Release (i.e., a qualified individual with appropriate knowledge, skill, ability, capacity, and authority to assume responsibility for independence). Such a change aligns with our support for a more principles-based framework, while retaining the appropriate focus from a governance and leadership perspective.
- The Board is considering adding a requirement for firms to expressly address controls over their existing responsibilities for communications with audit committees regarding independence matters. We recognize the importance of such communications; however, we believe the determination of relevant controls, including controls over audit committee communications, would be appropriately contemplated within an overarching risk-based approach, reflective of considerations related to local laws, regulations, and professional standards.

Acceptance and Continuance of Clients and Engagements

If the Board considers potential requirements incremental to those included in Proposed ISQM 1 that would expressly address situations in which the firm becomes aware of relevant contrary information after deciding to accept or continue an engagement, we believe a variety of actions may be appropriate in these situations and a firm would not automatically be required to withdraw from the engagement or client relationship. We would support the Board adopting an approach that would not require a specific course of action in these

circumstances, as determination of the most appropriate actions may differ in consideration of local laws, regulations, facts, and circumstances.

Consideration of Risks Associated with the Engagement

As an incremental quality control requirement, the Board raises consideration of risks associated with the engagement to identify matters that could significantly affect the conduct of the engagement and assess whether the firm can develop responses. With respect to footnote 58 of the Concept Release, we encourage clarity as to whether the reference to paragraph 41 of AS 2110, *Identifying and Assessing Risks of Material Misstatement*, is intended to require that some initial planning be completed prior to the acceptance or continuance of an engagement. Currently, information obtained in the acceptance and continuance process is one of many inputs that inform decisions about the planning and performance of the audit. However, assessing the risks associated with performance of the engagement or the risk that the firm will be exposed to adverse consequences as a result of association with the entity as part of the acceptance and continuance process is different from identifying and assessing risks in the context of the financial statements.

Engagement Performance

With respect to firms' responsibilities and actions to support and monitor the appropriate application of professional skepticism and significant judgments made by engagement teams, we support the emphasis on professional judgment and professional skepticism in paragraph 36(b) of Proposed ISQM 1 and believe the requirements in Proposed ISQM 1 are appropriate and sufficient. Many aspects of the firm's system of quality control are already designed to support and monitor the appropriate application of professional skepticism and significant judgments made by engagement teams.

We believe firms' actions to support the fulfillment of auditor's responsibilities under Section 10A of the Exchange Act would inherently be addressed through the firm's application of its risk assessment process, which would consider laws, regulations or other professional standards when identifying and responding to quality risks. If enhancements are necessary to support the execution of the auditor's performance responsibilities under Section 10A, we would support those revisions being made directly to the underlying standard as opposed to addressing through revisions to the quality control standards.

Use of Other Audit Participants

We are supportive of a future quality control standard addressing the use of other audit participants, including affiliated and nonaffiliated entities and individuals, including specialists and service delivery centers. Further, we believe these considerations are contemplated within Proposed ISQM 1 (inclusive of the clarifications made in the IAASB's March 2020 agenda papers).

Appendix K Requirements

We believe a firm's system of quality control should be designed to address different types of engagements as well as quality risks associated with each engagement, regardless of jurisdiction. In the context of audits of SEC registrants, a firm's system of quality control should identify those situations or risks where there are different accounting and financial reporting, auditing, and regulatory requirements and design responses to

address such differences, regardless of whether the firm is associated with a global network. Upon adoption of ISQM 1 or a future PCAOB quality control standard that embraces a similar risk-based approach, the current requirements in Appendix K become less relevant. However, if the Board determines to update the guidance for the current environment, we encourage aligning the requirements in Appendix K to responses that would be requisite in a non-U.S. firm when responding to risks to meeting quality objectives, specifically those within the resources, engagement performance, and monitoring and remediation components. With such an approach, we would encourage the Board to be clear that firm-level quality control procedures or responses deemed necessary to address identified risks retain the current liability limitations in Appendix K and do not lessen or supplant the primary responsibilities of the engagement partner and engagement quality reviewer.

Engagement Monitoring Activities

Executing an effective monitoring program requires flexibility to allow for evolution of technology in the audit as well as responsiveness to the results of the effectiveness of the monitoring activities. Monitoring reviews of in-process engagements is one of many tools available to firms to monitor the system of quality control. We are supportive of a standard that requires firms to adopt more proactive engagement monitoring activities, provided there is flexibility for firms to design and execute such requirements in a manner that is responsive to their identified and assessed quality risks.

Resources

The required quality objectives within Proposed ISQM 1 recognize the importance of individuals in quality management and engagement roles having the appropriate competence and capabilities, including sufficient time, to properly carry out their responsibilities. Proposed ISQM 1 also establishes a required quality objective focused on holding individuals accountable for their commitment to quality through timely evaluations as well as compensation, promotion, and other incentives. We believe Proposed ISQM 1 places appropriate emphasis in these areas and, as such, further emphasis or express consideration is not necessary within a future PCAOB quality control standard.

Technical Training

The Board raises consideration of providing additional direction regarding technical training as quality control requirements incremental to Proposed ISQM 1. We believe a key element of professional excellence is developing and maintaining competency and we recognize the intrinsic need for training within that key element. However, we believe building competency is a more holistic process than training alone and firms should have the ability to adapt and tailor their competency building model based on identified risks, areas of focus, and any available technologies and methods of distribution (e.g., learning courses, on-the-job training, experiences and exposures). Accordingly, we encourage the Board to adopt an approach that enables a firm's ability to adapt trainings and other competency building activities to the needs identified in the firm's risk assessment process.

Use of Emerging Technology

As incremental quality control requirements, the Board raises consideration of adding an understanding of

technology used in obtaining or evaluating audit evidence. We agree an appropriate understanding is necessary and believe professionals should be able to rely on the controls over development and testing of underlying technology by central processes. Such reliance may also be dependent on the nature of the technology used, including whether its functionality and outputs may be customized by the engagement team or others.

In addition, given the nature of breaches and how they occur, we would support a focus on the design and implementation of controls to address unauthorized access to technology and data, specifically controls that address prevention and detection.

Information and Communication

Information and communication is an area not broadly addressed within existing quality control standards. The enhancements within Proposed ISQM 1 focus on information and communication across a system of quality control and recognize the importance of effective two-way communication within a firm as well as communication with external parties about a firm's system of quality control. We support the IAASB's focus in this area and believe the Board's adoption of such proposed revisions would appropriately contemplate changes in the auditing environment, including the intensifying focus on quality and increasing stakeholder expectations.

When addressing the firm's responsibilities for obtaining, generating, using, and communicating information, Proposed ISQM 1 uses the phrase "relevant and reliable" information. We believe that implementation guidance with respect to the Board's interpretation of "relevance and reliability" and the related considerations for a firm's system of quality control would be beneficial.

The requirements within Proposed ISQM 1 aim to promote transparency through the exchange of valuable and insightful information about the firm's system of quality management with the firm's stakeholders. This is an area where judgment is needed to determine the level and nature of such communications. Accordingly, we are supportive of the focus within Proposed ISQM 1 on the firm's determination of the appropriate nature, timing, and extent of communications with external parties regarding the firm's system of quality management. A firm's determination considers relevant factors, including external parties who may use such information to support their understanding of the quality of the engagements performed by the firm as well as the nature and circumstances of the firm, including the nature of the firm's operating environment. While we support a principles-based framework, if the Board were to consider further requirements in this area, we would encourage alignment across regulatory bodies worldwide.

The Monitoring and Remediation Process

We believe the requirements related to monitoring and remediation discussed in the Concept Release would prompt firms to develop an appropriate mix of ongoing and periodic monitoring activities, and that such requirements would create an appropriate feedback loop. While no system of quality control can prevent all future engagement deficiencies, a well-designed and implemented system of quality control will strengthen auditing practices and continuously improve audit quality. We encourage a principles-based framework that encourages firms to develop a cycle of continuous improvement without prescribing the elements of the cycle to allow for the advancement and automation of monitoring through technology.

With respect to the monitoring and remediation process, while we support application of professional judgment, we believe additional guidance on evaluating findings and identifying deficiencies, such as a principles-based evaluation framework, would promote consistency in application while maintaining scalability. Specifically, we believe that there is the need for additional principles-based guidance or implementation material that would enable firms as well as regulators to consistently evaluate whether a deficiency exists, and to determine the relative severity of individual or collective deficiencies. Such additional direction is necessary not only to assist with the evaluation of findings but also with the determination of the specificity in the design of required quality risks and responses. We support the Board's continued collaboration with the IAASB to provide further principles-based guidance in this area. To the extent the final ISQM 1 standard and related implementation materials do not provide clarity, we would encourage the Board to consider the need for additional direction.

We are supportive of the requirement included in Proposed ISQM 1 for a firm to perform an annual evaluation of their quality control system. We believe the annual evaluation should be "as of" a specified date and not for a specific period ended. We would encourage the Board not to require firms to report to the Board on a firm's annual evaluation of quality control system effectiveness, as we believe such an incremental requirement would not be accretive to achieving the overall objective of the firm's system of quality control. We believe it would be appropriate upon inspection for the firm's annual evaluation to be made available to the inspection team.

Consistent with our views in "The Firm's Risk Assessment Process" section above, we would encourage the Board not to require disclosure of performance measures given the diversity of such measures in practice. Further, reasonable assurance is obtained through the operation of the entire system of quality control versus any single or collective performance metric.

We believe the requirement in Proposed ISQM 1 that the individual(s) assigned ultimate responsibility and accountability for the quality control system evaluates whether the system provides reasonable assurance that the objectives of the standard have been achieved, is appropriate and sufficient. We recognize that while such an evaluation is performed by one or more individuals, the firm itself is ultimately accountable.

Internal Inspection Program

The inspection of completed engagements is an integral part of a firm's monitoring activities. However, we believe that monitoring the completed portions of in-process engagements may generate more timely feedback relevant to audit execution than relying predominantly on the archived inspection model. We promote modernization of the standard, encouraging firms to invest in actions that would promote more preventative, effective, efficient, and innovative monitoring techniques, and varying the nature, timing, and extent of those activities based on the relevant risks. We therefore encourage the Board to adopt requirements that enable monitoring in-process engagements as part of internal inspections, and thus allow related flexibility in internal inspection selection criteria.

If a future PCAOB quality control standard does establish requirements for internal inspection selection requirements, we suggest a standard that is designed for evolving times so such requirements do not result in irrelevant or obsolete activities being performed in lieu of potentially more effective responses to monitoring engagement performance and the system of quality control.

Documentation

With respect to the potential sufficiency requirements described in the Concept Release, we are supportive of introducing an “experienced QC auditor” threshold (i.e., documentation sufficient to enable an experienced auditor that understands quality control systems in general, but has no experience with the design and implementation of the firm’s specific quality control system, to understand the basis for the firm’s assessment of the effectiveness of the quality control system, including evaluation and remediation of quality control deficiencies). The IAASB is also exploring a similar concept in considering factors that may affect the firm’s judgment about the form, content, and extent of documentation. Differences in documentation requirements or in the interpretation of similar concepts from a sufficiency perspective may pose challenges to execution considering the foundational nature of a firm’s quality control system.

With respect to the retention period, we support the principles-based approach in Proposed ISQM 1 that the firm shall establish a period of time for the retention of documentation for the system of quality management that is sufficient to enable monitoring activities to evaluate the firm’s system of quality management. Such considerations are aligned with the documentation requirements within the PCAOB’s existing QC 20 standard. Rule 2-06 of Regulation S-X, and the seven-year retention period, is specific to an audit or review engagement. Challenges would exist in applying an engagement concept to a system of quality control, which evolves in response to a changing environment and continual improvement, and is applicable across jurisdictions and regulatory environments that may have disparate laws and regulations.

We agree that firms are responsible for their own systems of quality control. Accordingly, when using network requirements or network services or service providers, it is incumbent upon firms to understand and consider the effect such requirements or services have on the firm’s system of quality control, including whether they are appropriate for use or whether any adaptation or supplementation is necessary. Such considerations would include, for example, an understanding of how network or third-party provided methodology and tools are responsive to the requirements of the professional standards as well as applicable legal and regulatory requirements for a specific firm. From a principles-based perspective, we believe firms’ documentation of their understanding of network or third-party provided methodology and tools, if used, would form part of the network requirements or services or resources provided by service providers documentation requirements established through Proposed ISQM 1.

Roles and Responsibilities of Individuals

We believe the suggested approach in the Concept Release to specify the roles and responsibilities of individuals is appropriate and that it is beneficial for firms to have flexibility in establishing roles and responsibilities within their organizations. Accordingly, we do not believe roles and responsibilities beyond those contemplated in the Concept Release and Proposed ISQM 1 are necessary, particularly as the requirements in Proposed ISQM 1 include contemplation of structures, reporting lines, and appropriate authorities and responsibilities as necessary given the nature and circumstances of the firm. Stipulating specific roles and responsibilities may limit the scalability of PCAOB quality control standard in the future.

With respect to specifying roles and responsibilities of firm personnel in relation to the firm’s quality control system, we would support further consideration as to whether such responsibilities should apply to all firm personnel. Firms have different organizational structures and many members of a firm’s personnel do not

participate in PCAOB audits. Therefore, it may be appropriate for firms to tailor the scope of responsibilities based on the different roles that personnel execute.

Related Potential Changes to Other PCAOB Standards

We believe AS 2901, *Consideration of Omitted Procedures after the Report Date*, establishes the responsibility and a framework for the auditor's remediation of engagement deficiencies based on the PCAOB, internal inspection, and peer review processes. However, the Concept Release implies some inconsistency across firms in the current application of AS 2901 due to ambiguity in how the existing standard is written. We would be supportive of updating and clarifying AS 2901, if the Board believes such revisions would prompt better performance of procedures under the standard. Further, as the Board advances with this project, we believe it is important to recognize the implications the engagement-level remediation process under AS 2901 may have on the firm's ability to identify potential areas for enhanced development and the continuous improvement opportunity on the overall system of quality control.

We believe AS 1110, *Relationship of Auditing Standards to Quality Control Standards*, provides helpful direction to auditors in discussing the relationship between auditing and quality control standards, including the impact quality control policies and procedures may have on both the conduct of individual engagements as well as the firm's audit practice as a whole. Accordingly, we would be supportive of either retaining the standard, including paragraph 3, or rescinding the standard, provided such guidance is included within a future PCAOB quality control standard. Further, while we would be supportive of providing further clarity with respect to the last sentence of AS 1110.03, we believe the statement is a valid one. While deficiencies or instances of noncompliance with a firm's quality control policies and procedures may be perceived as an indicator, in and of themselves, they would not signify that an audit engagement was not performed in accordance with applicable auditing standards.

Scalability

We believe that a principles-based framework implemented through a risk-based approach will facilitate the development of a future PCAOB quality control standard that is applicable to firms of varying size and complexity. In general, we believe overly prescriptive requirements may disproportionately affect smaller firms and have an adverse effect on the firm's risk assessment process. Further, for larger, more complex firms or based on the nature of engagements, we would discourage the Board from including additional, more specific requirements regarding certain components or areas. Application of a risk-based approach would inherently include nature and complexity considerations. Such an approach would be similar to other risk management and governance frameworks that do not specify prescriptive requirements based on size or complexity of an entity.