ACCOUNTANCY EUROPE.

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

Sent by email:
comments@pcaobus.org

Brussels, 1 February 2023

Subject: Accountancy Europe's comments to the PCAOB's New Quality Control Standard

Dear Sir or Madam,

Accountancy Europe is pleased to provide you with its comments on the new Quality Control (QC) Standard proposed by the PCAOB (QC 1000). We have chosen to restrict our response to address global aspects with a public interest lens focusing on quality. When applicable, we included the question numbers for reference.

ISQM-1 AS THE STARTING POINT

We support the work that has been done by the PCAOB to develop an integrated, and risk-based standard for firms' quality control systems starting from the IAASB quality standards, ISQM-1 in particular. This will enhance both the quality and global consistency of audits in an efficient manner. As noted by the PCAOB, a very substantial majority of the firms that perform engagements under PCAOB standards, will have adopted IAASB standards, including the ones related to quality management.

We believe that ISQM-1 sets a high bar for quality management through a principle-driven and risk-based approach which can be tailored to a firm's circumstances. Audit firms in Europe have invested heavily in order to implement ISQM-1. These investments must be able to serve PCAOB purposes in general, taking into account additional requirements set by the PCAOB and the SEC.

Therefore, we encourage the PCAOB to minimise differences as far as possible, but also to clearly and concisely distinguish these additions in finalizing the standard. Otherwise, the benefits of having the ISQM-1 as the starting point will be cancelled out due to the risk of having different interpretations.

DEFINITIONS (QUESTIONS 1-4, 14-17, 53, 58 AND 59)

The terminology as defined in IAASB standards are globally understood and accepted. Redefining certain concepts or using different terms for the same concept will create confusion especially for users of financial information and for firms having PCAOB and other types of engagements, with no real benefit for audit quality.

Audit firms responded to a rapidly changing business environment by employing a proactive approach to quality management which is reinforced by the ISQM-1, instead of an "ex-post control approach". We acknowledge that The Sarbanes-Oxley Act of 2002 refers to "quality control standards" to be established by the PCAOB. Despite this divergence in terminology, we welcome that the proposed QC standard requires managing quality in a proactive way. Where QC 1000 must use a different term to that used in ISQM-1 but the phenomena is equivalent, an express acknowledgement of such equivalence would be helpful.

We have identified a few definitions proposed by the PCAOB which are not fully consistent with the IAASB standards such as quality risks, third party providers, engagement deficiency, quality control deficiency, major deficiency and other participants, and would encourage alignment to the maximum extent possible.

As a result, a firm's quality control system may be considered defective based on the PCAOB definition of a major quality control deficiency and yet it may give reasonable assurance under ISQM-1. This is likely to cause confusion. The circumstances that are presumed to evidence a major QC deficiency in the PCAOB standard (e.g., a deficiency relating to a large engagement which is significant to the firm would be presumed to be a major deficiency) may also lead to a similar inconsistency.

Finally, we recommend revising the definition of quality deficiency as

> "*a QC finding that, individually or in combination with one or more other QC findings, results in:*
>
> *(1) A significantly reduced likelihood of the firm achieving the reasonable assurance objective ~~or one or more quality objectives~~…*"

Whilst a broad definition may be helpful for firms' internal purposes, it will most likely be unsuitable for external communications (i.e. to audit committees and the PCAOB).

DESIGNING A QC SYSTEM WITHOUT IMPLEMENTATION? (QUESTIONS 5 AND 6)

The obligation to design and document a QC system that complies with proposed QC 1000 for firms that have registered but do not perform engagements pursuant to PCAOB standards will create an additional burden for firms outside the US, making the US audit market less attractive for them. The burden could either cause the firms to de-register or to voluntarily comply with the PCAOB QC requirements probably for all engagements since operating two parallel systems is impracticable. Therefore, the political impact relates to potential for extraterritorial scope creep, i.e., the impact on audit markets beyond the US.

This obligation also brings practical challenges. A stand-ready design based on hypothetical risks will most likely differ from the design of a QC system based on actual risks at the time the firm accepts and performs relevant work pursuant to PCAOB standards. The stand-ready

design will in any case need to be reviewed and revised before it can be implemented and operationalised. Preparing and documenting a stand-ready-design is not an efficient use of resources, nor will it be beneficial to the actual delivery of quality engagements, thus it is not in the public interest.

In addition, especially for the process components (i.e., risk assessment, monitoring and remediation) it will be challenging to design quality responses without implementing them.

THRESHOLD FOR ADDITIONAL REQUIREMENTS (QUESTIONS 22, 23, 28 AND 47)

PCAOB proposes additional requirements to firms that issue audit reports with respect to more than 100 issuers during a calendar year. We believe that this threshold alone may not be appropriate and the nature of the audited entities should also be taken into account to achieve better scalability. For instance, the number of large accelerated filers audited by a firm may be a factor to consider for these incremental obligations.

EVALUATION ON THE EFFECTIVENESS OF THE QC SYSTEM (QUESTIONS 57 AND 61-64)

Annual evaluation date is proposed as 30 November with the reporting date of 15 January. We believe that the PCAOB should provide flexibility by allowing firms to choose an annual evaluation date from alternatives. The firms then may decide on an evaluation date depending on the factors such as their fiscal year end, their monitoring cycle or the date of annual reporting required by the PCAOB. In addition, we have concerns about the short amount of time between the evaluation date and reporting date and would suggest at least a 90-day window between these two milestones.

There is a difference in overall evaluation of the system categories and we suggest better alignment with ISQM-1. As a matter of fact, PCAOB suggests reporting if the QC:

a) Is effective with no unremediated *QC deficiencies*; or
b) Is effective except for one or more unremediated *QC deficiencies* that are not *major QC deficiencies*; or
c) Is not effective (one or more *major QC deficiencies* exists)

whereas IAASB requires concluding whether the system of quality management provides the firm with reasonable assurance that the quality objectives are achieved.

As mentioned earlier, such differences are likely to cause confusion and we suggest PCAOB to clarify whether reasonable assurance under ISQM-1 will be equivalent to the categories a and b.

OTHER MATTERS

Some of our members have raised concerns with regards to:

- the disallowance of self-assessment for monitoring quality control which will have an impact particularly on smaller firms
- the proposed quality objective addressing the firm's external communications relating to metrics even though this is a conditional requirement
- updates to the auditor's communication and remedial action to be required for all identified engagement deficiencies since this should be required only for major deficiencies
- requirements around independence certification based on changes in circumstances for which setting a threshold would be more appropriate
- practicalities concerning the proposal to require certification on Form QC by possibly two individuals depending on certain factors

For further information on this Accountancy Europe letter, please contact Harun Saki on +32 (0) 28 93 33 85 or via email at harun@accountancyeurope.eu.

Sincerely,

Olivier Boutellis-Taft

Chief Executive

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 51 professional organisations from 35 countries that represent close to **1 million** professional accountants, auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18).