January 31, 2023

Via email: comments@pcaobus.org

Public Company Accounting Oversight Board
Attn: Office of the Secretary
1666 K Street NW
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 046

Dear Office of the Secretary:

BDO USA, LLP welcomes the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the Board) proposing Release No. 2022-006, *A Firm's System of Quality Control and Other Proposed Amendments to PCAOB Standards, Rules, and Forms* (release). As stated in our response to the PCAOB's Concept Release No. 2019-003, *Potential Approach to Revisions to PCAOB Quality Control Standards* (concept release), we believe that a firm's system of quality control is quintessential to a firm's ability to provide quality audits; therefore, we support the Board's efforts to improve the PCAOB's quality control standards.

We also believe it important to state here our unequivocal commitment to protecting the interests of the investing public by having a system in place that is proactive, risk-based, has a feedback loop for ongoing monitoring and remediation and that should drive continuous improvement with an explicit focus on firm governance and leadership, and accountability. In addition, we recognize that consistency in design, implementation, and operation of quality controls across firms through the proposed requirements is foundational for firms to achieve high-quality audits that the investing community relies on.

After carefully reviewing the release, we have provided responses in the accompanying Appendix to 12 of the 93 questions posed. Notwithstanding our responses to those questions, we remain steadfast in our support of the PCAOB's efforts to modernize professional standards over firms' systems of quality control. The responses to the questions below relate primarily to aspects of the release where we believe further clarity could benefit the profession's application of proposed QC 1000 as intended by the PCAOB, aspects that appear to be foundational differences from the requirements of the International Auditing and Assurance Standards Board's analogous standard, International Standard on Quality Management 1 (ISQM 1) (i.e., definitional differences), or aspects where we believe the unintended consequences (and costs) of the standard, as written, could potentially outweigh the benefits. Our comments are intended to be constructive in nature.

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We appreciate your consideration of our comments and recommendations and would be pleased to discuss them with you at your convenience. Please direct any questions to Phillip Austin, National Managing Partner – Professional Practice and Auditing at paustin@bdo.com.

Very truly yours,

BDO USA, LLP

CC:

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Responses to Certain Questions Posed in PCAOB Release 2022-006

Roles and Responsibilities:

Q.12. Are the proposed requirements related to roles and responsibilities described in the standard clear and appropriate? If not, how should they be clarified or modified?

Assignment of Roles to One Individual

The Board's proposing release states (on page 69) that "[f]or the roles specified in paragraph .12, only one individual may be assigned responsibility for each role." This "one individual" requirement does not sufficiently account for the wide range of organizational structures among firms and may unnecessarily limit a firm's ability to effectively assign the responsibilities outlined in proposed paragraph 12.

For example, we recognize that the proposed standard combines "ethics" and "independence" into a single component of a firm's system of quality control. However, depending on the nature and circumstances of the firm, the requirements in each of these areas may be unique and highly specialized. For instance, BDO's ethics policies address a wide range of local, state, federal and foreign laws, and other rules and regulations. For example, our policies address, among other things, compliance with anti-money laundering, federally mandated sanctions against foreign governments, and IRS regulations. Given the breadth and complexity of these matters, BDO currently divides responsibilities for ethics and independence matters between two distinct leadership roles: a Chief Compliance and Ethics Officer and a National Managing Partner for Independence.

In short, we agree that the assignment of the roles and responsibilities specified in paragraph .12 should be to "personnel who have the experience, competence, and authority, and time to carry out their responsibilities." We are concerned, however, that the requirement that those roles be assigned to "only one individual" is overly prescriptive and could unintentionally restrain a firm's ability to assign these roles effectively. The Board has recognized that "there should be flexibility in the requirements of the QC standard and the extent to which they apply depending on the nature and circumstances of the firm." The "one individual" requirement deprives firms of this flexibility in assigning the roles and responsibilities required by paragraph .12.

Compliance with Assigned Responsibilities

In the proposing release, the Board states (on page 75) that the individuals who are assigned specific responsibilities with respect to the QC system could be charged with violations if they fail to comply with those responsibilities. With respect to any supervision responsibilities under the proposed standard, we interpret the requisite level of supervisory activities required to be the same in principle as those required under AS 1201, and thus analogous to an engagement partner's' obligation to inform, direct, and review the work of others.

Further, we note that the proposing release references Section 105(c)(6) of the Sarbanes-Oxley Act of 2002 (SOX or Sarbanes-Oxley) in discussing the Board's authority to bring enforcement actions for failure to reasonably supervise against the individuals assigned specific responsibilities under paragraph .12. In a prior release discussing the scope of persons who might be subject to sanctions under Section 105 (c)(6), the Board explained:

> *"It does not follow, though, that each person with such responsibility, ability, or authority in relation to a particular predicate violation could be sanctioned merely because the*

> *predicate violation occurred, absent a finding that the individual failed to reasonably supervise the associated person.* ***In the Board's view, section 105(c)(6) sanctions would be appropriate only where, in relation to the predicate violation, there has been a failure to exercise such responsibility, ability, or authority reasonably with respect to an associated person."***[1]

In the same release, the Board further clarified that Section 105(c)(6) "does not create a form of strict 'failure to supervise' liability for the firm or supervisory personnel just because an associated person has committed a violation." We understand these views to apply to any supervision obligations prescribed under proposed QC 1000.

The Firm's Risk Assessment Process:

Q. 17. In the proposed definition of "quality risks" should the threshold of "reasonable possibility of occurring" also apply to all risks, including risks of intentional misconduct by firm personnel and other participants? If so, why?

We understand and agree with the need for a robust risk assessment process that seeks to identify risks to achieve the firm's quality objectives, and specifically with respect to the risk of intentional acts of misconduct. However, we are concerned that the threshold set for risks of intentional misconduct specifically may be too low. We believe that the current proposal to require identification of risks of intentional acts of misconduct by firm personnel and other participants to deceive or to violate applicable professional and legal requirements without the application of a reasonable possibility threshold is too low. That threshold could lead to firms dedicating time and resources to designing and implementing quality responses to risks that have little chance of ever arising resulting in costs of implementing the draft standard that far outweigh any benefits to audit quality.

Attempting to identify the universe of potential intentional misconduct by all firm personnel would result in significant challenges. Those challenges are compounded when application extends beyond firm personnel and scopes in other participants as defined in the proposed standard. As the Board appreciates, we would not have the same level of information related to other participants in our audit engagements, such as internal auditors, or other firms outside of our network as we do with our own firm personnel or firms within the BDO network. This would make it extremely difficult if not impossible to apply the same lens to identifying all possible ways in which intentional misconduct by other participants that could have an adverse effect on a QC system.

Further, this approach seems to be at odds with several aspects of PCAOB auditing standards. Specifically, 1) AS 2110, *Identifying and Assessing Risks of Material Misstatement*, which requires auditors, in assessing the risks of misstatement to an company's financial statements, to identify those that would rise to the level of a risk of material misstatement and in doing so, to "determine the likely sources of potential misstatement that would cause the financial statements to be materially misstated" (As 2110.61), and 2) Paragraph .07 of AS 2401, *Consideration of Fraud in a Financial Statement Audit*, which identifies the three conditions generally present when fraud occurs (i.e., incentive or pressure, opportunity, and rationalization for committing a fraudulent act). Auditors are encouraged to use their knowledge of their client and their understanding of the ways in which management could override controls in designing audit procedures responsive to those risks.

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[1] *See* page 6 of the PCAOB Release 2010-005, *Application of the "Failure to Supervise" Provision of the Sarbanes-Oxley Act of 2002 and Solicitation of Comment on Rulemaking Concepts*," dated August 5, 2010.

While recognizing the need to address the inherent risks of intentional misconduct by firm personnel, we would encourage the Board to afford firms the opportunity to use the deep knowledge they have of their own nature and circumstances (i.e., considering the factors in Appendix B of the release) in developing a well-reasoned view of the "reasonable possibility" factor associated with risks of intentional misconduct when conducting its risk assessment.

Governance and Leadership:

Q. 21. Are the proposed quality objectives for governance and leadership appropriate? Are changes to the quality objectives necessary for this component? If so, what changes?

With respect to the proposed requirements set out in paragraph .28 of the standard, the release states (on page 98) that "[t]he requirements we are proposing would not specify how the firm would establish its governance structure or assign authority, other than having at least one person in an **oversight role** who would be in a position to **exercise independent judgment** with regard to QC matters. As proposed, the person in the oversight role could be, but would not be required to be, in the "chain of command" under the SEC independence rule. This would enable the firm, in the context of its own organizational structure, to address concerns such as the liability and independence challenges identified by commenters. While the proposed requirement specifies that such oversight be over the audit practice, the firm may choose to extend it more broadly."

In addition, the Board states (on page 97) of the release that "[t]he concept release acknowledged that some of the largest firms have independent directors or have established alternative means of external oversight, such as advisory committees [emphasis added]..." Given this language, we understand the PCAOB's position to be that firms have discretion to establish boards with oversight authority or more of an advisory functionality. In addition, we seek clarity on whether the PCAOB would intend for the authority under SOX section 105(c)(6) with respect to supervisory liability to be applied equally to members of a body with either an oversight or advisory function.

Ethics and Independence:

Q. 28. Is the proposed specified quality response to have an automated process for identifying direct or material indirect financial interests appropriate? If not, why not? Is the proposed threshold (firms that issued audit reports with respect to more than 100 issuers during the prior calendar year) appropriate? If not, why not?

Applicability to firms with greater than 100 issuer audits

In considering the PCAOB's proposed requirement regarding an "automated process", we noted that SEC Rule 2-01(d)(4) already includes a requirement for firms with *greater than 500 issuer audit clients*. Specifically, the rule states that with respect to the firm's partners and managers, the firm's quality control system must include "*an automated system to identify their investments in securities that might impair the accountant's independence*" in order to apply the exception under the rule. We recommend that the PCAOB adopt requirements that are consistent with those of the SEC relative to the threshold so that the requirement for "automated processes" to identify personal investments in securities applies only to firms with greater than 500 issuer audit clients. All firms that audit more than 100 but no more than 500 issuers should instead be *encouraged* to implement such process, where appropriate. We view the application of this requirement to be a potentially significant barrier to entry for firms approaching the 100-issuer audit client threshold and that the cost associated with implementing an automated

system may in fact dissuade them from exceeding that threshold resulting in the unintended consequence of limiting the market of firms available for issuers to choose.

Automated process for financial interests only

The Note to Paragraph .34(a) in the proposed standard suggests that, in addition to financial interests, an automated process would be required for other financial relationships, employment relationships, business relationships, non-audit services, etc. We seek clarity from the Board as to whether our interpretation of the types of financial relationships that would need to be included in an "automated process" is correct.

Depending on how the PCAOB interprets the term "automated process," this requirement could prove extremely challenging and costly for many firms with more than 100 issuer audit clients. More specifically, we believe the requirement for automated processes for such firms should be limited to financial interests only because the risks associated with other types of relationships can be addressed through other controls and processes that have proven effective and with a cost that is commensurate with that risk.

Further, we understand the PCAOB is aware of the SEC's Final Rule: *Revision of the Commission's Auditor Independence Requirements* Release No. 33-7919, dated November 21, 2000, related to Rule 2-01(d), *Quality Controls*, the SEC specifically noted, *"We also have clarified the scope of the required automated system, by changing the words "financial relationships" to "investments in securities." Accordingly, an automated system would not need to track covered persons' "other financial interests," such as brokerage and credit card accounts, to qualify for this limited exception."* We believe the PCAOB should be consistent with the SEC requirement and not extend the automated process to other financial relationships, as proposed, because of the costly and significant undertaking for these firms.

Clarity needed on an "automated process" for financial interests

Notwithstanding our view above that the requirement for automated processes should apply only to firms with greater than 500 issuer audit clients, we do recognize the benefit gained from having an "automated" process for financial interests, including automated broker feeds, for firm professionals and have had an investment tracking system for managers and partners in place since 2016.

While we believe our system should qualify as an "automated" system, we seek further clarity on the PCAOB's expectations regarding the nature and extent of the term "automated" as discussed in paragraph .34 of the proposed standard. For example, our investment tracking system has certain limitations which prevent full, 100 percent automation of all financial interests. Due to the unique numbering schematic associated with 401(k) accounts, most brokers are not capable of providing an automated broker feed mechanism for 401(k) accounts. Accordingly, 401(k) accounts from a previous employer held by our professionals or current 401(k) accounts held by our professionals' spouses and spousal equivalents, are not capable of being automatically (real-time) updated in our investment tracking system. Instead, professionals are required to manually update their (or their spouses and spousal equivalents) holdings associated with 401(k) accounts in the investment tracking system within a specified time period. Once manually entered into the system, the investment is automatically compared (real-time) to BDO's restricted entity list for prohibited financial relationships. In addition, all accounts and investments in the BDO investment tracking system, regardless of whether they are manually entered or incorporated through an automated broker feed, are monitored by the firm and allow for the timely identification of any investments in restricted entities.

There may also be other reasons for an account to not be set up with an automated broker feed. For example, there may be circumstances where an existing broker does not offer an automated feed and moving the account to another broker will result in a significant financial hardship for the individual. In addition, there are certain investment types such as digital currency assets that many brokers currently do not allow to be held in traditional accounts, and companies that do facilitate such investments may not be willing to establish automated broker feeds with CPA firms. This could have an unintended consequence of rendering such classes of investments impermissible by our professionals for reasons other than an associated risk of threatening the firm's independence. In such limited circumstances, a waiver to the automated broker feed policy may be provided to the individual. Again, in those cases, professionals are required to manually update their holdings. In addition, we conduct audits of the financial interests of partners and managers to ensure compliance with the requirement to record timely updates to such interests.

As noted above, we are uncertain as to whether such an automated process would require automated broker feeds for *all* accounts within a firm's investment tracking system, without exception and we therefore believe further clarity of the PCAOB's expectations behind its use of the term "automated process" is warranted. We recommend that the PCAOB clarify that any requirement for an "automated process" provide for an exception where accounts (and their underlying investments) are not eligible for automated broker feeds and also allow firms to use their judgment in determining when a waiver from the requirement may be appropriate.

Material indirect financial interests

The language in paragraph .34 of the release suggests that an automated process would also need to incorporate *material indirect* financial interests as well as the direct financial interests of firm professionals. While our automated financial interest system may be used to report direct financial interests, it is not equipped for reporting indirect financial interests. Specifically, the BDO investment tracking system does not have the ability to distinguish between direct and indirect financial interests and we do not require our professionals (nor does the system have the functionality) to report the dollar amount of each investment or the professional's net worth for purposes of determining if a particular investment might become material. We rely on our professionals, and our periodic audits of their holdings, for compliance with this aspect of the SEC's independence rules. For example, if a professional serves as a limited partner in a limited partnership (outside of BDO) and cannot control the partnership nor participate in any investment decisions, the professional would not be required to report the investments made by the limited partnership into the BDO investment tracking system. Our policies require that any such professional who participates in a limited partnership ensures that safeguards are put in place so that either the partnership does not invest in BDO restricted entities or the professional monitors the partnership's investments if there is the possibility that the partnership could invest in a restricted entity that might become material to the professional. For the reasons expressed, we do not believe the PCAOB should require firms to automate the process to include material indirect financial interests but should allow firms flexibility to implement controls to prevent their professionals from having material indirect financial interests in restricted entities.

Q29. Is the proposed specified quality response related to communication of changes to the list of restricted entities at least monthly (and more frequently, if appropriate) to firm personnel and others performing work on behalf of the firm who are subject to independence requirements appropriate? Could communication to a more limited group accomplish the goal of alerting all individuals whose actions and relationships are relevant to independence? If so, to whom should changes be communicated?

No, a specified quality response related to communication of changes to the list of restricted entities at least monthly to others performing work on behalf of the firm who are subject to independence requirements is not appropriate as currently proposed. We do not think that this communication should be required for "others performing work on behalf of the firm" as these individuals would likely not be considered covered persons for engagements other than the engagement they are working on and even then, only be subject to independence for the short period of time they work on an issuer audit engagement. We believe that our current process of obtaining confirmation of independence from individuals (whether they are from a firm in the BDO network or not) participating on one of our issuer audits provides the appropriate level of assurance related to compliance with independence rules.

Information and Communication:

Q. 42. Are the proposed quality objective and specified quality response addressing information and communication related to other participants appropriate? If not, why not, and what changes are necessary?

We agree that use of other participants in support of an issuer audit raises quality risks that are addressed through compliance with relevant PCAOB standards but that should also be specifically addressed by responses within a firm's system of quality control. However, we have concerns that we would not be able to practically apply the quality objective stated in paragraph .53(g) and others in the proposed standard to all "other participants" as defined in Appendix .A7 of the proposed standard.

For example, in considering paragraphs .05 and .29 of the proposed standard, the firm would be required to design, implement, and maintain policies and procedures for addressing and resolving potential noncompliance – by other participants in the firm's audit engagements - with professional and legal requirements and with firm's policies and procedures. Notwithstanding our obligation to comply with the requirements in AS 1201 and the soon to be effective new requirements in AS 1201, AS 2101 and AS 1206, including the requirement for appropriate communications between the firm and other participants, we believe the application of the proposed standard in this area would present challenges when we consider how we could practically extend all requirements throughout BDO's system of quality control to all "other participants" over which we naturally have limited insight and access to information. In practice, it would not be possible for us to apply the same policies and procedures to non-employees as we do for firm personnel.

We seek clarification from the PCAOB as to its expectation regarding the extent to which firms design policies and procedures to ensure other participants comply with applicable professional and legal requirements, including bifurcation of participants that are part of the engagement team as compared to participants in the firm's system of quality control.

Q. 43. Are there legal or regulatory concerns regarding other participant firms sharing the most recent evaluation of their QC system and a brief overview of remedial actions taken and to be taken? If so, please specify.

We have concerns about the impact of having other participant firms share the most recent evaluation of their QC system on the confidentiality protections set out in Sarbanes-Oxley. The definition of other participants is broad, and thus a firm is likely to serve as an other participant in connection with many

other firms' audit activities. As a result, under the proposed standard, a firm would be required to broadly share the results of its most recent evaluation, including remedial measures.

The Board recognizes that "[d]epending on how a QC deficiency has come to light, certain information contained within a Form QC might be confidential pursuant to Section 105(b)(5)(A) of Sarbanes-Oxley which addresses documents and information prepared or received by or specifically for the Board in connection with an inspection or investigation." The privilege described in Section 105(b)(5)(A) protects information and documents prepared in connection with an inspection or investigation from public disclosure, including disclosure for use by private litigants in civil litigation. The confidentiality of this information is important to effective oversight and the protections described in Sarbanes-Oxley allow firms to communicate to the Board with greater candor without the threat of disclosure. Sections 105(b)(5)(B) and 105(b)(5)(C) permit the Board to share information received in connection with an inspection to a defined list of other regulators on the express condition that the regulator must preserve the privilege. There are no similar protections in Sarbanes-Oxley that would maintain privilege over information shared with other participants. As a result, we believe that the serious concerns of having the results of the evaluations and remedial measures shared greatly outweigh any potential benefits of exchanging such information with other participants.

Monitoring and Remediation Process:

Q. 53. Are the proposed definitions for "engagement deficiency," "QC finding," and "QC deficiency" sufficiently clear and appropriate? If not, what changes should be made and why?

Reduced Likelihood Threshold

The proposed definition of a QC finding states that all "engagement deficiencies are QC findings." The proposed definition of a QC deficiency in turn is a QC finding that results in "a reduced likelihood of the firm achieving the reasonable assurance objective of one or more quality objectives." We interpret the term "reduced likelihood" literally and that, absent any guidance from the Board to the contrary, a QC finding should be treated as a QC deficiency even if it results in a negligible movement away from the reasonable assurance provided by the firm's existing quality responses. We therefore understand it to likely be typical for a single engagement deficiency to consequently result in a QC deficiency.

In this regard, we struggle to reconcile the disparity between this model and the model that we understand is taken by Board staff when evaluating whether inspection results are indicative of a systemic deficiency in a firm's system of quality control (in which case, experience suggests it is unlikely that a single engagement deficiency would result in such a conclusion) and when reaching that conclusion, reporting those concerns in Part II of a PCAOB inspection report and therefore obligating a firm to develop and deploy remedial actions for the Board to evaluate under PCAOB Rule 4009.

As a result, we are seeking any guidance the Board may be able to provide relative to the application of the "reduced likelihood" model, or a confirmation that our understanding described above is correct.

COSO Framework Parallel

We understand that the Board has referenced several parallels of the proposed standard to similar requirements that public companies comply with under the COSO framework. However, in certain parts of the proposed standard, the parallel is not clear and causes some confusion. As it relates to QC

deficiencies, we request that the PCAOB provide more clarity in their comparison of deficiencies to that under the COSO framework.

Regarding proposed paragraph .72 (on page 186), the PCAOB states that the proposed definition of a QC deficiency is similar to the definition of an internal control deficiency as defined by the COSO in its integrated framework. However, other terms in the proposed standard would indicate that a QC deficiency is more analogous to a significant deficiency under the COSO framework. Specifically, under the proposed standard all QC deficiencies are required to be reported to the audit committee whereas under COSO, only significant deficiencies are required to be communicated. The fact that a QC deficiency is determined based on severity and pervasiveness and the fact that all QC deficiencies must be reported to the audit committee would indicate that a QC deficiency is more equivalent to a significant deficiency under COSO.

We believe that the differences in the proposed definition of a QC deficiency from ISQM 1 and the proposed requirement to communicate all QC deficiencies as currently defined to audit committees could result in unintended consequences. We believe that the PCAOB's proposed definition of a QC deficiency should be aligned with the definition under ISQM 1 for various reasons:

1) The determination of whether a QC finding represents a QC deficiency as proposed is based on nature, severity and pervasiveness considerations. This is a major difference from ISQM 1 in that severity and pervasiveness are not considered when determining whether a finding (analogous to a QC finding under the proposed standard) represents a QC deficiency resulting in the incremental time and effort to perform two different assessments for the same finding / QC finding.

2) Another result of the difference noted in 1 above is that firms will likely report different conclusions on the evaluation of their QC system for example, in their transparency reports and to audit committees under ISQM 1 and the proposed standard. This would cause confusion to investors, audit committees, regulators, and other stakeholders.

3) Finally, if a QC deficiency is similar to an internal control deficiency under COSO, then communication of all QC deficiencies to audit committees without communication of corresponding severity or pervasiveness would have other unintended consequences (e.g., dilute the importance of the more severe and pervasive deficiencies, create challenges for engagement teams when communicating with the audit committee, firms would have to provide proprietary information publicly that would not otherwise be communicated under part II.)

Evaluating and Reporting on the QC System:

Q. 57. Is November 30 an appropriate evaluation date for firms to conclude on the effectiveness of the QC system? Is there another specific date that would be more appropriate and if so, what date? Should firms be permitted to choose their own evaluation date?

We appreciate the Board's desire to have a uniform and consistent date for reporting on the results of annual QC evaluation by all registered firms. However, we would like to identify for the Board's consideration the following factors, including reiterating ones that were identified for the Board by commenters in connection with its concept release.

a. We believe that the relevance and importance of the firm's fiscal year-end to the annual evaluation "as of" date cannot be overstated. Specifically, the fact that many important controls within a firm's system of quality control and elements of the firm's policies and procedures operate in unison with the firm's fiscal year-end (i.e., partner evaluation and compensation decisions) as well as the fact that the conclusion and analysis of both the firm's internal inspections and the PCAOB's external inspections – at least of the global network firms (including both engagement reviews and quality control inspection procedures) typically extend beyond the suggested November 30 date.

b. We also note that other regulatory oversight bodies (SEC, IRS, etc.) do not mandate a uniform reporting cycle, but rather leave it to the discretion of the reporting entity. We are not suggesting that the PCAOB should simply conform to other pre-existing regulatory dynamics, but we do believe that the flexibility afforded by those other bodies suggest that it is possible to execute their oversight authorities without having a uniform reporting date.

The Nov 30 date would also create significant challenges in complying with the audit committee reporting requirements for the firm's calendar year-end issuer audit clients. Year-end audit committee communications for calendar year-end audit clients typically occur in early to mid-February. The effort involved in preparing, with the necessary review and approval by firm leadership, communications for engagement teams to present to their respective audit committees, will depend in part on the nature and extent of the results of the annual evaluation. Even with relatively few matters to communicate, the incremental effort on the firm's resources (including those dedicated to supporting engagement teams), including the need to educate engagement teams every year on the relevant details behind the incremental communication in order to incorporate this new reporting requirement could be potentially disruptive to engagement teams at the most critical phase of their audits.

In addition, while we are generally supportive of the incremental reporting requirements to the audit committee, we believe comingling these new communications at the year-end reporting phase could detract from the other very important communications already required by AS 1301. Allowing for flexibility in the "as-of" date would provide firms with ability to time the incremental reporting requirements to the audit committee to not overlap with these other very important communications.

Finally, we request that the PCAOB consider providing clarity on the timing of the required communications to audit committees relative to the timing of the firm's conclusion of its annual evaluation. More specifically, not communicating control deficiencies known at a January 15 reporting date could potentially introduce legal considerations that could place tension on the engagement team and firm's obligation to comply with other existing required communications under AS 1301. For those reasons, we recommend that the Board allow firms the flexibility to choose their own "as-of" date, which would then allow for real-time communications to audit committees about the firm's evaluation, but at a point in the year where those communications would be more relevant; i.e., in connection with the audit committees re-appointment deliberations.

Q. 63. Is the proposed date for reporting on the evaluation of the QC system (January 15) appropriate? Is there another specific date that would be more appropriate and if so, what date? Is 45 days after the evaluation date an appropriate reporting date?

We respectfully request the PCAOB consider extending the proposed requirement in paragraph .84 regarding the 45-day reporting and documentation assembly period. Under the proposed standard, firms will not only need to perform their testing of many controls that operate at or near the "as-of" date, but

then conduct evaluations of the results of that testing and analyze QC findings to determine their proper classification under the proposed standard. In addition, firms will need to complete all of these activities within 45-days of the "as of" date in order to file Form QC with the PCAOB and simultaneously complete its documentation assembly (i.e., archive its system of quality control documentation).

By contrast, in an audit engagement context, an auditor tests the design and operating effectiveness of an issuer's internal control over financial reporting at its fiscal year-end (i.e., the as of date under AS 2201 and Section 404(b) of Sarbanes-Oxley requirements) and then has, depending on the issuer's classification under the SEC's issuer classification hierarchy, up to 90 days to conduct its evaluation of its testing and determine classifications of identified control deficiencies prior to issuing its audit report. Only then does the 45-day audit documentation assembly period set out in AS 1215 commence. We believe a similar model for the archiving documentation requirement would be appropriate under the proposed standard. At a minimum, we believe a 90-day reporting period to file Form QC (after the "as of date") would provide firms a more realistic opportunity for a firm to conduct its testing of controls that operate at the as of date, evaluate those results and properly classify deficiencies identified. Similar to the approach taken by AS 1215, we would suggest that the 45-day documentation assembly period then commence on the day a firm files its Form QC with the PCAOB.

Q70. Are the proposed amendments to AS 1301 that require the auditor to communicate to the audit committee about the firm's most recent annual evaluation of its QC system appropriate? If not, why not?

Yes, we agree with the amendments to AS 1301 requiring the auditor to communicate with the audit committee regarding the firm's conclusion on its most recent annual evaluation of its QC system and agree that these communications could enhance the audit committee's execution of its governance responsibilities related to auditor appointment.

However, we believe that the requirement to communicate a "brief overview of remedial actions taken and to be taken" should be specifically limited to remedial actions related to *major QC deficiencies*. We believe that *major QC deficiencies* are the appropriate level to communicate to the audit committee (i.e., those that the firm has concluded are severe and pervasive to its system of quality control). We analogize this to the SOX requirement for issuers to communicate material weaknesses in their system of internal control to their shareholders. In our view, the relationship between the audit firm and the audit committee under proposed QC 1000 parallels the relationship between the issuer and shareholders under SOX. Consequently, we believe the audit firm should be required to communicate to the audit committee deficiencies in the system of quality control that are of a comparable significance to a material weakness (which, based in the definitions in proposed QC 1000, would be a major QC deficiency). In our view, communication of major QC deficiencies would appropriately place the audit committee's focus on significant issues that could impact the auditor's performance and provide decision-useful information for effective oversight of the auditor. We encourage the Board to consider the amount of information (and its utility) that audit committees would be faced with if the threshold for communication remains at the QC deficiency level and the potential effect the amount of information presented to dilute the effectiveness of other required communications.

Documentation

Q. 71. Are the proposed documentation requirements appropriate? If not, what changes should be made?

We note the requirement in paragraph .83(b) to retain documentation in sufficient detail to "enable an experienced auditor that understands QC systems, but has not experience with the design, implementation, and operation of the firm's QC system, to understand how the firm has designed, implemented, and operated the QC system to achieve the reasonable assurance objective." More specifically, we reference the phrase "and operation of the firm's QC system." Our interpretation of those words is that the firm would be required to retain all documentation related to the execution of quality responses (i.e., for the firm to retain documentation to demonstrate the execution of controls throughout its system of quality control). If our interpretation is correct, we ask for the PCAOB to provide clarity on this point due to the significant costs that would be associated with the immense volume of documentation that would be required to be retained to demonstrate the operation of controls (manual, automated, as well as information technology general controls) throughout our system of quality control for seven years.

Alternatively, we recommend the Board consider modifying this aspect of the proposed standard to require firms to retain documentation of the operation of its system of quality control until the inspection for a particular period has been completed (i.e., issuance of an inspection report).

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