RSM US LLP

30 South Wacker Drive
Suite 3300
Chicago, IL 60606

www.rsmus.com

February 1, 2023

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street NW
Washington, DC 20006

By e-mail: comments@pcaobus.org

Re: Public Company Accounting Oversight Board (PCAOB) Proposals on A Firm's System of Quality Control

Dear Office of the Secretary:

RSM US LLP (RSM) values the opportunity to offer our comments on the Public Company Accounting Oversight Board's (PCAOB or Board) proposed new quality control standard, *A Firm's System of Quality Control and Other Proposed Amendments to PCAOB Standards, Rules, and Forms* (the 'proposed standard' or 'QC 1000'). RSM is a registered public accounting firm serving middle-market issuers, brokers and dealers.

We appreciate the opportunity to comment on the proposed standard developed by the PCAOB. Overall, we are supportive of an updated standard for quality control (QC) and see many of the proposals in the proposed standard as a key step in the continuous improvement of a firm's QC system, and ultimately in higher-quality engagements.

Overall Comments on the Proposed Standard

While we support the revision of the QC standard by the PCAOB, we would like to encourage that additional consideration be given to further aligning the proposed standard with similar standards recently issued by jurisdictional or global standard setting bodies (including International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Review of Financial Statements, or Other Assurance or Related Services Engagements* (ISQM 1) and Statement on Quality Management Standards (SQMS) No. 1*, A Firm's System of Quality Management* (SQMS 1), adopted by the American Institute of Certified Public Accountants (AICPA)) (hereafter also referred together as 'other jurisdictional and international quality control/management standards'). RSM US LLP has recently implemented ISQM 1 and SQMS 1, which has taken dedicated effort and time to change the QC mechanisms by which we proactively manage our QC system. We support the notion that the QC standard should be sufficiently principles-based and scalable, with an objective of enhancing engagement quality (in particular for audits), however there are some specific aspects in QC 1000 we believe should be aligned to other jurisdictional and international quality control/management standards to enhance the effectiveness and efficiency of the firm's QC systems overall, and have detailed these areas in the responses to specific questions within this letter.

We strongly support a QC standard that has a quality management approach that is focused on the firm's quality objectives, quality risks and responses, as this allows firms to uniquely tailor their QC system to

their own circumstances. Such a risk-based approach is fundamental to the scalability and ultimately the effectiveness of the proposed standard. We believe that there are some aspects of the proposed standard that need to be reconsidered to accomplish this result:

- **Principles-based requirements** – Not all of the specified responses are presented as objective-driven and risk-based. This contradicts the firm's risk assessment process component, resulting in some components or aspects of some components being compliance-driven rather than driven by the firm's response to its unique circumstances.
- **Scalability** – Principles-based requirements allow for the scalability of the standard based on size, complexity and the unique circumstances of each firm. In addition to the concerns about principles-based requirements (or deficiency thereof) for scalability of the standard, there are other areas where we believe scalability is also impacted, including:
  - Definition of 'quality control deficiency' – as this includes all engagement deficiencies by default. We do not believe scalability is achieved as there may be engagement deficiencies that are not necessarily QC deficiencies.
- **Quality Risks Definition** – The inclusion of intentional acts within the definition of 'quality risks' fundamentally changes the scope of what would be included in a quality risk as compared to other jurisdictional and international quality control/management standards. This would require a firm to identify different quality risks and thus different responses in relation to QC 1000 than other jurisdictional and international quality control/management standards, which would be incredibly challenging and confusing. In addition to the lack of comparability across standards, the inclusion of the consideration of all intentional acts may lead to an effort that is not commensurate with the benefit to audit quality.
- **Evaluation date** – We also have significant concerns about the specific evaluation date of November 30 as set out in the proposed standard.

We provide further detail on these broader points and other comments related to the specific questions in our comments to the specific questions as set out below. We have responded to questions in the context of the circumstances of our firm. We have not responded to questions we believe do not apply to our firm.

Comments on Specific Aspects of the Proposals

1. Is the proposed definition of "applicable professional and legal requirements" appropriate? Are there elements that should be excluded, or other requirements that we should include? If so, what are they?

While we agree with the definition generally, it appears to be overly broad and may inadvertently scope into the QC system professional and legal requirements or other matters that are beyond the remit of the PCAOB. We recommend that the scope of the standard is more clearly ring-fenced, for example, by providing descriptions of what is intended to be covered by the firm's system of quality control.

2. Is the proposed definition of "engagement" clear and appropriate? If not, why not? Should the definition be narrower (e.g., limited to engagements required to be performed under PCAOB standards) or broader? If so, how?

In our view, the proposed definition of 'engagement' is clear, and appropriate. We agree that a firm's system of quality control should apply to any audit, attestation or review or other engagement performed under PCAOB standards or when the firm is playing a substantial role in the preparation or furnishing of an audit report.

3. Are the proposed definitions of “firm personnel,” “other participants,” and “third-party providers” sufficiently clear and comprehensive, or is additional direction necessary? Please explain what additional direction may be necessary.

We agree that the definitions of “firm personnel” and “third-party providers” are clear and comprehensive.

However, we believe that the definition of “other participants” is too broad as it includes groups that are by nature different and may be subject to more distinguishable elements of the firm’s system of quality control. By including these all together as “other participants” the standard may not sufficiently distinguish the requirements that are appropriately applicable to each group. We recommend that further consideration be given to how this definition can be more explicit between those that would be directly involved in the engagement versus those that may only be involved in quality control.

4. Is the other terminology used in QC 1000 clear and appropriate? Are there other terms that should be defined?

With the exception of “reasonable assurance” as detailed in our comments in this letter, the other terminology used in the proposed standard is clear and appropriate.

The objective of the firm’s QC system is to provide reasonable assurance as to compliance with the professional and legal requirements that apply to the firm’s engagements. In paragraph .10 of the proposed standard, it is acknowledged that reasonable assurance is a high, but not absolute, level of assurance. While we agree that this is consistent with current QC standards, as well as ISQM 1 and SQMS 1, we believe certain aspects of the proposed standard do not support a risk-based approach and would therefore result in an expectation of an ‘absolute assurance’ level rather than ‘reasonable assurance.’ We, therefore, encourage that the PCAOB further consider those specific areas that are more prescriptive in nature (and that would therefore drive activities or expectations towards absolute assurance) as set out in our comments in this letter.

6. Is the proposed distinction between the obligation to design a QC system and the obligation to implement and operate a QC system appropriate? Is the proposed threshold for full applicability of QC 1000—having obligations under applicable professional and legal requirements with respect to a firm engagement—appropriate?

We agree that it is appropriate to limit the application of the requirements of QC 1000 for firms that have no obligations under applicable professional and legal requirements with respect to the firm’s engagements.

7. Is it clear how a firm’s responsibilities under QC 1000 may change depending on the extent of “applicable professional and legal requirements” to which the firm is subject at a particular time? Please explain what additional direction may be necessary.

We believe it is clear how a firm’s responsibilities under QC 1000 may change depending on the extent of “applicable professional and legal requirements” to which the firm is subject at a particular time. It is our view that the example provided helps explain this and encourage that this example is included in the final standard.

8. Are there other provisions of QC 1000 that should apply to all firms? If so, which other provisions should we consider?

We do not believe that there are any other provisions that should apply to all firms except as detailed in the proposed standard.

9. We intend the proposed standard to be scalable for all firms based on their nature and circumstances. Are there additional factors we should consider so that the proposed standard is scalable for all firms? If so, what are those factors? Should the standard be revised to make it more scalable? If so, how?

Scalability is broadly achieved through the ability to apply the requirements of a proposed standard to a wide variety of firms with differing natures and circumstances. In our view, this scalability in the proposed standard is achieved (in most instances) for firms below the 100-audit threshold through principles-based requirements that allow flexibility in how the requirement is applied for different circumstances. In addition, the risk-based approach also supports the scalability of the standard. However, there are instances within the proposed standard where the requirements are more prescriptive in nature and would, therefore not be scalable – we have detailed these within our responses in this letter. As noted in our response to question 16, we do not believe that including risks of intentional misconduct within the definition of quality risks as currently drafted in the proposed standard results in a standard that is scalable and risk-based.

10. Is the reasonable assurance objective described in the proposed standard appropriate? If not, why not? Are there additional objectives that a QC system should achieve? If so, what are they?

We agree with the reasonable assurance objective as this is consistent with other jurisdictional and international systems of quality control/management. However, we do have significant concerns with the interaction of deficiencies (i.e., how they have been defined in the proposed standard) and the objective of reasonable assurance (see our comment to question 4).

We do not believe any other objectives are needed for a QC system.

11. Are the proposed requirements regarding design of the QC system appropriate? Are there other aspects of QC 1000 that should be required as part of the design of the QC system? If so, what are they?

We agree with the aspects of the design of the QC system in paragraph .06 of QC 1000, and do not believe that there is anything further to add with regard to the design of a QC system.

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?

We believe the requirements setting out the roles and responsibilities described in the proposed standard are clear. As noted in our response to question 53, we believe the definition of QC findings should be modified. As currently drafted, we believe the roles and responsibilities related to the individuals assigned operational responsibilities are overly expansive based on the inclusion of the inappropriate definition of QC findings and QC deficiencies and inclusion of engagement deficiencies.

13. Would firms have difficulty filling the specified roles in light of the proposed requirements?

We have concerns related to the ability to fill the role of the oversight function (see our response to question 23).

14. Are the proposed definitions of "quality risks," "quality objectives," and "quality responses" sufficiently clear and comprehensive? If not, why not?

We agree with the proposed definitions of "quality objectives" and "quality responses." However, we have concerns about the extensive impact of including 'intentional acts' within the definition of quality risks (See response to question 16).

15. Is the threshold of "adversely affecting" set out in the proposed definition of quality risk clear, or would more guidance and examples be helpful?

As this is consistent with other jurisdictional and international quality control/management standards, we believe it is clear and have no more specific requests for more guidance on this.

16. Should the proposed definition of "quality risks" explicitly address risks of intentional misconduct by firm personnel and other participants? If not, please explain why. Should the definition explicitly address other risks? If so, what are the other risks?

We have significant concerns about the inclusion of intentional acts within the definition of "quality risks," particularly without giving consideration to the reasonable possibility of occurrence or impact on the firm's achievement of quality objectives of such acts. The risk of intentional acts by individuals is always present, and requiring consideration of all possible illegal acts would contradict a risk-based approach, which is foundational to the scalability of the standard. Identifying quality risks for all possible intentional acts would result in an unrealistic increase in the number of quality risks identified and, therefore, the required responses for those identified risks even where the likelihood of the risk occurring or adversely affecting the achievement of quality objectives is low. This would result in different quality risks and responses to what is required under other jurisdictional and international quality control/management standards, which have been widely adopted by firms in the US and globally. Therefore, we believe the definition of 'quality risks' should be aligned with other jurisdictional and international quality control/management standards.

In further considering the definition of 'quality risks,' our highest preference would be to fully align the definition of quality risks with the definition included in both ISQM 1 and SQMS 1, which is:

> "*Quality risk – A risk that has a reasonable possibility of:*
>
> *(i) Occurring; and*
>
> *(ii) Individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives*."

A direct alignment of the words in the standards would omit any confusion, whether or not they were intended to be applied in the same way.

Alternatively, the following edits could be made to modify the existing style of the definition as included in the proposed standard, resulting in a definition that conforms to the same principles as the other jurisdictional and international quality control/management standards (deletions in ~~strikethrough~~, additions in **bold**), such as:

> Quality risks – Risks **that have a reasonable possibility of occurring and** that, individually or in combination with other risks, have a reasonable possibility of adversely affecting the firm's achievement of one or more quality objectives if the risks were to occur**.**~~, and are either:~~
>
> ~~(1) Risks that have a reasonable possibility of occurring; or~~

~~(2) Risks of intentional acts by firm personnel and other participants to deceive or to violate applicable professional and legal requirements.~~

With either of these alternatives, the focus on risks of intentional acts could be retained within the standard in the performance requirements in paragraph .20, rather than within the definition of 'quality risks.' This could further heighten the firm's focus on consideration of such risks, while doing so within the appropriate overall framework. We believe this could retain the concept of reminding firms to consider intentional acts without requiring a fundamentally different approach to the determination of quality risks and responses and would also result in a system of quality control that complies with the concepts of reasonable, not absolute assurance. This could be accomplished with the following edits to paragraph .20 (deletions in ~~strikethrough~~, additions in **bold):**

20. Annually, the firm must identify and assess *quality risks* to achieving each of the *quality objectives* established by the firm. The firm should:

    a. Obtain an understanding of the conditions, events, and activities that may adversely affect the achievement of its *quality objectives*, which includes an understanding of the following:

        (1) The nature and circumstances of the firm, including:

            (a) The complexity and operating characteristics of the firm;

            (b) The firm's business processes and strategic and operational decisions and actions;

            (c) The characteristics and management style of leadership;

            (d) The resources of the firm;

            (e) The environment in which the firm operates, including *applicable professional and legal requirements*;

            (f) If the firm belongs to a network, the characteristics of the network and the network's resources and services and the nature and extent of such resources and services used by the firm;

            (g) If the firm uses *other participants*, the nature and extent of their involvement;

            (h) If the firm participates in other firms' *engagements*, the nature and extent of the firm's participation; and

            (i) If the firm uses resources or services obtained from *third-party providers*, the nature and extent of those resources or services.
            (*See* Appendix B for specific examples.)

        (2) The nature and circumstances of the firm's *engagements* (*see* Appendix B for specific examples).

        (3) Other relevant information, including information from the firm's monitoring and remediation activities, external inspections or reviews, and other oversight activities by regulators.

        Note: The firm might identify conditions, events, and activities that may adversely affect the achievement of its *quality objectives* by asking "what could go wrong?" in relation to the achievement of a given *quality objective*.

b. Identify and assess *quality risks* based on the understanding obtained pursuant to paragraph .20a. and taking into account whether, how, and the degree to which the achievement of the *quality objectives* may be adversely affected.

Note: The assessment of *quality risks* is based on inherent risk (i.e., without regard to the effect of any related *quality responses*). **The assessment of quality risks includes the consideration of risks of intentional acts by firm personnel and other participants to deceive or to violate applicable professional and legal requirements.**

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 believe the threshold of "reasonable possibility of occurring" should apply to all quality risks. As explained in question 16 above, if there is no threshold for intentional misconduct, this will impact the scalability of the standard and may impact the achievement of quality objectives because the threshold for quality risk identification is too low and requires consideration of risks that would have no reasonable possibility of occurring or adversely impacting the achievement of quality objectives. This would result in deviations from other jurisdictional and international quality control/ management standards that are administrative burdens and not true enhancements to the system of quality control. It could detract from the firm's ability to do a proper risk assessment and tailor quality responses to truly heightened risks. If the PCAOB decides to maintain intentional acts explicitly within the final standard, they should be included with all risks and subject to the "reasonable possibility" clause.

18. Are the proposed requirements for the firm's risk assessment process appropriate? Are changes to the requirements necessary for this process? If so, what changes?

Subject to our concerns about the inclusion of intentional acts with no threshold and the impact on the risk assessment process, as explained in questions 16 and 17 above, we believe that the proposed risk assessment process is appropriate as set out in the proposed standard because the risk assessment process is consistent with other jurisdictional and international quality control/management standards that have recently been implemented.

19. Are the proposed requirements sufficient to prompt firms to appropriately identify, assess, and respond to quality risks, or is supplemental direction needed? If supplemental direction is needed, what would assist firms in identifying, assessing, and responding to quality risks?

Subject to our concerns about the inclusion of intentional acts with no threshold and the impact on the risk assessment process, as explained in questions 16 and 17 above, because the proposed requirements are consistent with other jurisdictional and international quality control/management standards, we believe they would sufficiently prompt firms to identify, assess, and respond to quality risks.

20. Are the specific examples included in Appendix B helpful in assisting the firm in identifying and assessing quality risks? Should additional examples or guidance be provided? If so, what additional examples or guidance would be helpful?

We agree that the examples provided in Appendix B are helpful.

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?

As the proposed quality objectives for governance and leadership are broadly consistent with other jurisdictional and international quality control/management standards, we believe they are appropriate. Consistency between different sets of standards, where appropriate, and the elimination of unnecessary differences, will help firms focus their resources on those areas of higher risk.

22. For the proposed specified quality response related to the firm's governance structure, is the threshold (firms that issued audit reports with respect to more than 100 issuers during the prior calendar year) appropriate? If not, what is an appropriate threshold?

No, please see our response to question 23.

23. Is the proposed specified quality response to incorporate an oversight function for the audit practice for firms that issue auditor reports with respect to more than 100 issuers appropriate? If not, why not?

We are concerned that there is a lack of linkage between the specified response of having an oversight function with the required quality objectives. It is not explained in the proposed standard or background materials, which quality objective or objectives this oversight function is intended to be a quality response to. As such we find it difficult to conclude that this quality response is appropriate.

Additionally, we encourage the PCAOB to further clarify the role of this individual with respect to the oversight function. We acknowledge that pages 97-98 of the Release state that the role was intentionally undefined; however, we are concerned that the lack of definition of what is expected by this "oversight function," coupled with the lack of clarity of what quality objectives are intended to be addressed by the "oversight function" will require significant guessing by firms on how to incorporate this required response effectively into their system of quality control. We are also concerned that the lack of clarity will make this role challenging for firms to attract suitably qualified individuals to fulfill the role.

If a specific threshold of 100 audit reports is retained, we encourage the PCAOB to consider the requirement for determining whether the threshold of 100 audit reports has been benchmarked to a more specific date and linking that date to the date of evaluation of the QC system. In determining a specific date, sufficient time for firms to hire an individual and for that individual to commence the oversight function should be allowed. All timings for the appointment of the individual and the commencement of their related activities should be explicit and sufficiently clear within the final standard.

24. Is the proposed specified quality response related to the firm's policies and procedures on receiving and investigating complaints and allegations appropriate? Are there any other specified quality responses in this area that we should consider, and if so, what are they?

While the specified quality responses in QC 1000 related to the firm's policies and procedures on receiving and investigating complaints and allegations are more specific to this component than other jurisdictional and international quality control/management standards, we believe that they are appropriate for the firm's engagements. However, we are concerned that they are overly prescriptive for 'other participants,' which may not all be individually subject to QC 1000.

25. Are there any other specified quality responses for the governance and leadership component that we should consider? If so, what are they?

We do not believe other specified quality responses should be added.

26. Are the proposed quality objectives for ethics and independence requirements appropriate? Are changes to the quality objectives necessary for this component? If so, what changes?

As the proposed quality objectives for ethics and independence requirements are broadly consistent with other jurisdictional and international quality control/management standards, we believe that they are appropriate, and that no further changes are needed.

27. Are the proposed specified quality responses for ethics and independence requirements appropriate? If not, what changes to the specified quality responses are necessary for this component?

Please see our responses to questions 28, 29 and 30.

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?

We have such a system in place and therefore do not have further concerns with regard to the proposed specified quality response to have an automated process for identifying direct or material indirect financial interests in regards to our firm.

However, we do recognize that for those without such a system that the implementation of such a system within the timeframe set out in the proposed standard may be challenging, and such implementation is costly. We would recommend that the requirement in paragraph 34(a)(1) and the threshold of 100 issuers be removed, and the consideration in paragraph 34(a)(2) be applied to all firms. As is noted in the Release, all firms that audit more than 500 SEC registrants currently have such a system in place. It is highly unlikely that any audit firms that currently have an automated system in place would determine such process is not needed taking into account the quality risks and nature and circumstances of the firm. In contrast, requiring such a system for all firms that audit 100 issuers obviates a firm's risk assessment process and ignores the reality that firms may have a very different risk profile related to direct or material indirect financial interests based on the ownership structures of the issuers they audit. We believe requiring all firms to consider automating this process will result in the appropriate application of automation to meet the individual firms' quality objectives within the application of the risk assessment process without the introduction of an artificial numerical threshold.

29. 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?

We are unsure why a required communication is relevant for a firm that has an automated process for identifying direct and material indirect financial interests. While we agree that ongoing and timely maintenance of the firm's list of restricted entities is a prerequisite for such an automated system, we are unclear whether the requirement of communication is aligned with an automated system. We are also unclear whether communication is intended to mean a distributed communication (e.g., e-mail of the updated list) or communication can be simply made available (e.g., a website that hosts such list and is readily available to access).

Additionally, we encourage that further consideration be given to how this requirement for a quality response is applied for 'other participants' (also see response to question 3) to make the quality response more relevant to those individuals. For example, as 2101, *Audit Planning (amended for fiscal year ends on or after December 15, 2024)*, paragraph .06D ('other auditor's compliance with independence and ethics requirements') already contains specific requirements for 'other participants' that are appropriate to the circumstances, including requiring a "written description of all relationships between the other auditor and the audit client or persons in financial oversight roles at the audit client that may reasonably be thought to bear on independence pursuant to the requirements of…" We, therefore, do not believe that the proposed QC standard needs to specifically address certain communications to 'other participants' where this is required more specifically by another standard and is aligned to the nature of the engagement (and would thus be appropriate to the 'other participant' in those circumstances).

30. In addition to the annual written independence certification, should the proposed standard require an annual written certification regarding familiarity and compliance with ethics requirements and the firm's ethics policies and procedures? Why or why not? Should firms be required or encouraged to adopt firm-wide codes of ethics or similar protocols? Why or why not? Are there other specific policies that QC 1000 should require or encourage to promote ethical behavior?

We support the requirement to obtain an annual written certification regarding familiarity and compliance with ethics requirements and the firm's ethics policies and procedures.

31. Are the proposed quality objectives for acceptance and continuance of client relationships and specific engagements appropriate? Are changes to the quality objectives necessary for this component? If so, what changes?

We agree with the proposed quality objectives for acceptance and continuance of client relationships and specific engagements as they are broadly consistent with other jurisdictional and international quality control/management standards.

32. Are the proposed specified quality responses for acceptance and continuance of client relationships and specific engagements appropriate? If not, what changes to the specified quality responses are necessary for this component?

While the specified quality responses in QC 1000 for acceptance and continuance of client relationships and specific engagements are more specific to this component than other jurisdictional and international quality control/management standards we believe that they are appropriate, and that no further changes are needed.

However, we recommend clarifying the timing of when the firm becomes aware of information subsequent to accepting or continuing a client relationship, or specific engagement that could have caused the firm to decline such relationship or engagement had that information been known prior to acceptance or continuance' as set out in paragraph .40 of the proposed standard. In the Release, it is noted that "for purposes of the proposed standard, the firm is 'aware' of information if any partner, shareholder, member, or other principal of the firm is aware of such information" and that this is consistent with Form 3 (footnote 202). The note in Form 3 refers to the deemed date that the firm becomes aware (i.e., the deemed date that the 'firm' becomes aware is the date "any partner, shareholder, principal, owner, or member of the Firm first becomes aware of the facts." In our view we believe that this timing should be clarified within the standard so that it is consistent. The following changes could be made to footnote 27 of the standard for consistency (deletions in ~~strikethrough~~, additions in **bold**):

Footnote 27 - For purposes of this standard, the firm is **deemed** "aware" of information ~~if~~ **when** any partner, shareholder, member, or other principal of the firm ~~is~~ **first becomes** aware of such information.

33. Are the proposed quality objectives for engagement performance appropriate? Are changes to the quality objectives necessary for this component? If so, what changes?

We agree with the quality objectives for engagement performance as they are broadly consistent with other jurisdictional and international quality control/management standards, with noted exceptions already existing in PCAOB standards (i.e., responsibilities for reporting and other communications). However, it is not clear why some of the concepts from the PCAOB standards have been included as an objective while others have not (for example, with respect to dividing responsibility for the audit with another accounting firm or using the work of an auditor engagement specialist).

34. Should we include specified quality responses for the engagement performance component? If so, what should they be?

No. We support the proposal to not include specific quality responses for the engagement performance component within the proposed standard as any quality responses would be firm-specific based on the identified risks of their clients and the nature and circumstances of their engagements.

36. Are the proposed quality objectives for resources appropriate? Are changes to the quality objectives necessary for this component? If so, what changes?

As the proposed quality objectives for resources are broadly consistent with other jurisdictional and international quality control/management standards we believe that they are appropriate, and that no further changes are needed.

37. Does the proposed quality objective and specified quality response related to technological resources provide sufficient direction to enable the appropriate use of emerging technologies? If not, what additional direction is necessary?

While the specified quality responses in QC 1000 related to technological resources are more specific to this component than other jurisdictional and international quality control/management standards, we believe that they are appropriate, and that no further direction is needed.

38. Are the proposed specified quality responses for resources appropriate? If not, what changes to the specified quality responses are necessary for this component?

While the specified quality responses in QC 1000 for resources are more specific to this component than other jurisdictional and international quality control/management standards, we believe they are appropriate, and that no further changes are needed.

39. Should the proposed standard include a specified quality response that would require the use of technological resources by the firm to respond to the risks related to the use of certain technology by the firm's clients? If yes, what should the requirement be?

We do not believe that the standard should include a specified quality response that would require the use of technological resources by the firm to respond to the risks related to the use of certain technology by the firm's clients because this may not always be relevant. If it is relevant and is a risk in terms of QC 1000, it should be identified as a risk by firms as part of their risk assessment process.

40. Are the proposed quality objectives for information and communication appropriate? Are changes to the quality objectives necessary for this component? If so, what changes?

As the proposed specified quality objectives for information and communication are broadly consistent with other jurisdictional and international quality control/management standards, we believe that they are appropriate and no further changes are needed.

41. Is the proposed quality objective addressing the firm's external communications about firm-level and engagement-level information appropriate? If not, what changes to the quality objective are necessary?

We broadly support the quality objectives addressing the firm's external communications about firm-level and engagement-level information. However, we believe that further clarity is needed with regard to the scope of external communications – these should be limited to communications externally about audit quality, but not extend to other external information issued by the firm that is not specifically related to audit quality such as marketing communications or recruiting information. This limitation on scope to only audit quality related external communications should also be applied to the communication of how metrics are determined and explanations of year-on-year changes.

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?

The proposed quality objective and specified quality response addressing information and communication related to other participants are appropriate, and subject to our response above in question 41, we believe that no further changes are needed.

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.

If information is required to be shared at the deficiency level, we do believe this would violate the confidentiality provision in Sarbanes-Oxley Section 105(b)(5)(A). However, if the information were not reported at that level but rather the system level (see our response regarding deficiencies at question 53) we would not have concerns.

44. Are the proposed specified quality responses for information and communication appropriate? If not, what changes to the specified quality responses are necessary for this component?

While the specified quality responses in QC 1000 related to information and communication are more specific to this component than other jurisdictional and international quality control/management standards, we believe they are appropriate with the exception of the requirements regarding "other participants" as addressed in our response to Question 3.

45. Are the proposed requirements for the monitoring and remediation process appropriate? Are changes to the requirements necessary for this process? If so, what changes should be made and why?

We believe that the elements of the monitoring and remediation process set out in paragraph .60 of QC 1000 are appropriate, with the exception of the individual elements that are explained below.

46. Is the proposed requirement to inspect engagements for each engagement partner on a cyclical basis appropriate? If not, why not?

We believe that the proposed requirement to inspect engagements for each engagement partner on a cyclical basis is appropriate.

47. Is it appropriate to require monitoring of in-process engagements by firms that issue audit reports with respect to more than 100 issuers during a calendar year? If not, is there a more appropriate threshold?

While we support the notion of monitoring in-process engagements as a highly effective quality response. However, as outlined in our response to question 28, we would recommend all firms be required to consider monitoring in-process engagements as outlined in paragraph .63(b) without a requirement based on the 100 issuer threshold. We believe that more clarity is needed about what such monitoring entails. More specificity and clear guidance about the nature, timing and extent of the required monitoring are needed to determine whether the proposed monitoring requirements are appropriate (or not).

48. Are the purposes of in-process monitoring (as proposed within this standard) clear and appropriate, including how in-process monitoring differs from the requirements of engagement quality reviews under AS 1220? If not, what additional direction is needed?

Subject to our answer about more specificity about the nature and scope of the in-process monitoring in the final standard, as explained in question 47 above, we believe that the purposes of in-process monitoring are clear and appropriate. Such specificity will also help distinguish such monitoring from the engagement quality review under AS 1220.

49. Is it appropriate to require firms to consider performing monitoring activities on work they perform on other firms' engagements? If not, why not?

Subject to our answer about more specificity about the nature and scope of the in-process monitoring in the final standard, as explained in question 47 above, we believe that the purposes of in-process monitoring are clear and appropriate.

50. Are the proposed factors for firms to take into account when determining the nature, timing, and extent of engagement monitoring activities, including which engagements to select, appropriate? If not, what other factors should be specified?

As the factors are similar to other jurisdictional and international quality control/management standards we believe that they are appropriate, and that there are no other factors that should be considered.

51. Are the proposed factors for firms to take into account when determining the nature, timing, and extent of QC system-level monitoring activities appropriate? If not, what other factors should be specified?

As the factors are similar to other jurisdictional and international quality control/management standards we believe that they are appropriate, and that there are no other factors that should be considered.

52. Are the proposed requirements for firms that belong to a network that performs monitoring activities appropriate? If not, what changes should be made?

As the proposed requirements are broadly consistent with other jurisdictional and international quality control/management standards, we believe that they are appropriate, and that there are no other changes that are needed.

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?

Engagement deficiency – we agree with the definition as proposed.

QC finding – we generally agree with the definition as proposed except where it states that "all engagement deficiencies would be a QC finding." We have the view that all engagement deficiencies should be considered before determining that it is a QC finding, as there may be some engagement deficiencies that are not a QC finding (for example, where an engagement deficiency is unique to that engagement and not indicative of a finding that could be applicable to the whole population). We, therefore, recommend that this part of the definition be removed.

QC deficiency – as this definition is different from how other jurisdictional and international quality control/management standards have defined a 'QC deficiency,' we do not agree with this definition. A different definition of QC deficiency would result in different deficiencies being identified, relating to the same (or broadly similar) quality objectives, quality risks and quality responses, which may result in unnecessary confusion where firms are applying QC 1000 and other jurisdictional and international quality control/ management standards. In addition, it is unclear what the threshold for identifying deficiencies is – the definition states that it is "the reduced likelihood of achieving reasonable assurance objectives or one or more quality objectives." If the definition is not made consistent with ISQM 1 and SQMS 1, we encourage the PCAOB to clarify the threshold more appropriately by providing more specificity than "reduced likelihood."

54. What, if any, additional direction is needed regarding: a. Evaluating information to determine whether QC findings exist; b. Evaluating QC findings to determine whether QC deficiencies exist; or c. Responding to engagement and QC deficiencies?

It is not clear how the definition of 'QC deficiencies' interacts with how it is determined when a QC finding is a QC deficiency (as illustrated in the diagram on page 190 of the Release). Using the 'nature, severity and pervasiveness/likelihood of a QC finding to determine whether that finding is a QC deficiency is clear, however when considering the definition of a QC deficiency, it is unclear how the former (which is a judgment) is taken into account. We encourage the PCAOB to be clear on how a QC deficiency is determined.

56. Are the proposed requirements related to monitoring and remediation sufficiently scalable for smaller firms? Are there aspects of the proposed requirements that could be further scaled?

The requirements within the monitoring and remediation section are written in a more prescriptive way which reduces the scalability of the requirements. While we acknowledge the importance of this component of a firm's QC system, we do believe that quality objectives should be included and that the firm should assess their own quality risks, with mandated responses only for those areas where the PCAOB believes specific responses are required.

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?

While we support an annual evaluation of the effectiveness of the firm's QC system, we do not agree with a prescribed date within the standard. Rather, we believe that each firm should be allowed to determine their own date for their own circumstances. The date of November 30 is not necessarily ideal for all firms because:

- Many firms have already adopted ISQM 1 and SQMS 1 and have selected an evaluation date for their QC system that may be different from November 30 (for example firms may have selected a date that coincides with its fiscal year-end). In such circumstances, and if the November 30 date is maintained for the evaluation, firms would be required to undertake two evaluations in the year. This difference could lead to unnecessary work without a commensurate benefit to audit quality.
- November 30 is not the fiscal year-end for many firms. A firm's business cycle, with corresponding structures and processes, are often aligned to its fiscal year-end. Using a date that is different from the firm's fiscal year-end may create unnecessary complexities that may impact the effective operation of the firm's QC system. For example, firms may evaluate employees and adjust compensation to align with the firm's fiscal year-end. Part of the evaluation would relate to the quality of the individual's engagements, and therefore it seems nonsensical to evaluate similar quality-related information at two different dates where the firm's fiscal year-end is not November 30 (as this would not have a commensurate benefit to engagement quality).
- The reporting date would fall over a very busy period for firms – see our comments regarding the reporting date in question 63 below.

We, therefore, strongly encourage the PCAOB to allow a flexible date to be selected for the evaluation.

58. Is the proposed definition of "major QC deficiency" clear and appropriate? If not, what changes should be made and why?

While we agree with the concept of a 'major deficiency' to help a firm determine whether its QC system is operating effectively, we have concerns regarding the definition of 'a major QC deficiency.' In particular, the phrase that describes the likelihood of not achieving the objective of the QC system (i.e., a QC deficiency or combination of unremediated deficiencies '*severely reduces the likelihood*' of the firm achieving the reasonable assurance objective or one or more quality objectives) is indistinct and should be more clearly described within the definition.

We also have concerns about a 'presumed' major deficiency relating to deficiencies identified in the firm's governance and leadership, as explained in question 59 below.

59. Is it appropriate to include in the proposed definition circumstances when a major QC deficiency is presumed to exist? Are the circumstances described in the proposed definition appropriate? Should there be other circumstances that give rise to such a presumption? If so, what are they?

We do not agree that there should be any presumed risks that automatically result in a major QC deficiency as such a presumed risk would not align with a risk-based approach. While we recognize the importance of the firm's governance and leadership and the overarching nature of the component, we believe that not every deficiency within this component would necessarily rise to the level of a major

deficiency, and that any deficiencies identified in this component, like the other components, should be judged on its pervasiveness and severity.

60. Are the proposed factors for determining whether an unremediated QC deficiency is a major QC deficiency appropriate? If not, what other factors should be specified?

Although we agree with the factors for determining whether an unremediated QC deficiency is a major QC deficiency set out in the proposed standard, we have concerns about how some of the factors could be considered if a root cause had not yet been undertaken, for example the impact of the deficiency on other components.

61. Should firms be required to report on the evaluation of the QC system to the PCAOB? If not, why not?

We support reporting on the evaluation of the QC system to the PCAOB and that it is non-public. However, we encourage the PCAOB to further consider the deficiencies that are reported that are engagement deficiencies. Currently, the proposal would require all deficiencies that are not remediated to be reported, however we had significant concerns about the definition of 'deficiency' (see our answer to question 53 above). If the definition of deficiency is not changed, we recommend with respect to engagement deficiencies that are reported, that they are constrained to a delimiter. For example, in AS 1220, *Engagement Quality Review*, the standard sets out a definition for when a deficiency is determined to be a 'significant engagement deficiency,' and such a concept could be used to describe the deficiencies that are reported. We believe that such an approach would be consistent with the underlying premise of a risk-based approach and would not result in the reporting of individual engagement deficiencies that may be of much lower risk.

62. Should we require individual certifications of the evaluation of the QC system? Is the language in Appendix 2 regarding the certifications appropriate? If not, why not?

Subject to our answer to what the evaluation details in question 61 above, we support the individual certifications of the evaluation of the QC system.

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?

Although we support reporting within a specific time after the firm's evaluation date, we do not agree with:

- A reporting date of January 15 – we believe that the evaluation date should not be fixed by the proposed standard but rather left to the firm's determination (see our response to question 57 above). Accordingly, although the reporting date should correspond to the evaluation date, we also believe that this should not be fixed but should rather be a set number of days after the firm-selected evaluation date.
- A time period of 45 days – we believe that this period should be longer to allow sufficient time to undertake the work effort related to the evaluation, and we would recommend 90 days after the evaluation date.

64. Rather than reporting on Form QC, should firms report on the evaluation of the QC system, as of March 31 on a non-public portion of Form 2, which is due on June 30?

Our preference is for firms to determine their own evaluation date, with the reporting date to correspond to that date (see questions 57 and 63 above), thus the fixed reporting date for Form 2 would not coincide with this approach.

65. Is the information required on proposed Form QC in Appendix 2 appropriate? Why or why not?

We do not have issues with the content of the form as set out in Form QC in Appendix 2 other than as related to the specific comments regarding the content as set out in questions 57-62 above. We would like to encourage that the web-based system for submitting the information is navigable and easy to use.

66. Are proposed Rule 2203A, Report on the Evaluation of the Firm's System of Quality Control, and the proposed Form QC instructions included in Appendix 2, clear and appropriate? If not, why not?

Subject to our comments about deficiencies (see question 53) and what should be reported in the Form QC (see question 61 above), we agree that the report and its instructions are clear and appropriate.

69. In light of the legal constraints of Sarbanes-Oxley with respect to public reporting regarding QC matters, are there other public reporting alternatives that should be considered? What would be the potential costs and benefits of such alternatives?

We do not support public reporting on QC matters outside what is required under Sarbanes-Oxley. Firms should retain flexibility to publicly report information on QC matters as they see fit.

70. 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?

We generally believe that 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 is appropriate as this will help to enhance a more robust two-way dialogue between the auditor and the audit committee. However, we are concerned that the communication of unremediated QC deficiencies that are not major QC deficiencies could be confusing to audit committees based on the overly broad definition of QC deficiencies (see our responses to questions 53, 60 and 61 above).

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

While we do not believe that further changes are needed to the documentation requirements, we have concerns about the proposed lockdown period. Analogous to an audit, the completion of the assembly of the documentation to support the QC report issued is an administrative process that does not involve the generation of new information or changing conclusions within the QC report. We, therefore, encourage the PCAOB to change the lockdown period to allow for such document assembly, and we recommend that this lockdown date is 45 days after the date of reporting.

72. Is the "experienced auditor QC threshold" set out in the in the proposed documentation requirement appropriate? If not, what threshold is appropriate?

Yes, the "experienced auditor QC threshold" set out in the proposed documentation requirement appropriate as it is a familiar concept to what is in the auditing standards.

73. Are there additional specific matters that the firm should be required to document about its QC system? If so, what are they?

We do not believe that there are any other specific matters that should be documented.

74. Is the proposal to expand the scope of AS 2901 to include engagement deficiencies on ICFR audits appropriate? If not, why not?

Subject to our comments regarding what constitutes a deficiency in question 53 above, we believe it is appropriate to include engagement deficiencies on ICFR audits.

75. Is it appropriate for remedial action to be required for all identified engagement deficiencies, not just in situations where the auditor's opinion may be unsupported? If not, why not?

Subject to our comments about what constitutes a deficiency in question 53 above, we believe it is appropriate for remedial action to be required for all identified engagement deficiencies, not just in situations where the auditor's opinion may be unsupported as this would contribute to improving audit quality.

77. Are the terms used in EI 1000 clear? Should additional terms be defined or additional guidance provided?

We do not believe the definitions are clear for the terms 'being…. candid' in paragraph.02(a) and 'being intellectually honest' in paragraph .03(b). We recommend that the PCOAB clarify its expectations needed for these behaviors.

93. Would the effective date as described above provide challenges for auditors? If so, what are those challenges, and how should they be addressed?

Challenges with effectively implementing the proposed standard by the effective date as set out in the exposure draft could arise. Notwithstanding many concepts are similar to other quality control /management systems recently implemented by firms, there are significant differences (as detailed in our responses to this letter) that would require time to work through thoroughly and thoughtfully. We, therefore, do not believe that the effective date as proposed is appropriate. We recommend aligning with the effective date of SQMS 1, which is December 15, 2025, as this would allow firms time to effectively implement the requirements of the proposed standard. Experience in implementing ISQM 1 has also shown that firms need time to carefully identify and evaluate their quality risks, and implement appropriate responses to those risks, therefore necessitating a longer time period for implementation.

We would be pleased to respond to any questions the Board or its staff may have about our comments. Please direct any questions to Jamie Klenieski, Audit Quality and Risk Leader, at 215.648.3014 or Sara Lord, Chief Auditor, at 612.376.9572.

Sincerely,

RSM US LLP

RSM US LLP