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Phoebe W. Brown, Secretary
Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

1 February 2023

PCAOB Proposal on a Firm's System of Quality Control and Other Proposed Amendments to PCAOB Standards, Rules, and Forms (PCAOB Release No. 2022-006; Rulemaking Docket No. 046)

Dear Ms. Brown:

Ernst & Young LLP is pleased to submit these comments to the Public Company Accounting Oversight Board (PCAOB or Board) on Release 2022-006: *Proposal on a Firm's System of Quality Control and Other Proposed Amendments to PCAOB Standards, Rules, and Forms* (the Proposal).

We believe a firm's system of quality control (QC) is foundational to audit quality. We agree that revising the PCAOB QC standards is necessary because the auditing environment has changed significantly since the PCAOB adopted the American Institute of Certified Public Accountants (AICPA) QC standard on an interim basis in 2003.

We appreciate the PCAOB's efforts to consider the views of stakeholders on its December 2019 QC Concept Release and to analyze and leverage the approaches other standard setters have taken to update their QC standards. We generally support the Proposal, but we have several recommendations that we believe would benefit audit committees and other stakeholders and would improve the final standard. The appendix to this letter contains our responses to most of the questions included in the Proposal.

General support of the proposed risk-based QC standard

We support establishing a risk-based approach to a firm's QC system that is based on the same eight components that the International Auditing and Assurance Standards Board (IAASB) identified in its International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*. We believe this approach is consistent with the top-down, risk-based approach that the Securities and Exchange Commission (SEC) describes in SEC Release No. 33-8810, *Commission Guidance Regarding Management's Report on Internal Control Over Financial Reporting Under Section 13(a) or 15(d) of the Securities Exchange Act of 1934,* relating to a registrant's assessment of its internal control over financial reporting (ICFR) and is inherently scalable.

We agree that a principles-based standard built on a risk-based framework would enable firms to appropriately tailor their system of quality control to their size and complexity, the nature of the engagements they perform and the risks to quality.

We also support many of the provisions that would be incremental to ISQM 1. However, we believe that further alignment with ISQM 1 and the AICPA's Statement on Quality Management Standards No. 1 (SQMS 1) in certain areas would serve the public interest by preventing confusion and complexity that could result if these provisions of the final PCAOB standard differ from those of ISQM 1 and SQMS 1. Global network firms have made substantial investments in people, processes and technology to support global consistency in their implementation of ISQM 1, and we believe that aligning further on the ISQM 1 reporting framework would enhance the understandability and usability of the QC annual evaluation for audit committees and other users.

Minimizing the annual evaluation and reporting date differences with ISQM 1

We strongly believe that the Board should minimize any differences between the two standards regarding the definitions of deficiencies, the annual evaluation conclusions and the annual evaluation date. We believe that minimizing these differences would enhance the understandability and useability of firms' annual conclusions.

As the Board acknowledged in the Proposal, many audit firms are subject to the standards of both the PCAOB and the IAASB, and audit committees of listed companies that receive information from their auditors about the audit firm's system of quality management will be familiar with the ISQM 1 annual evaluation by the time a final PCAOB standard goes into effect.

Deficiency definitions and the annual evaluation conclusions

We support the proposed requirement for firms to evaluate the effectiveness of their system of quality control annually. However, we are concerned that a firm that is subject to both the PCAOB standard and ISQM 1 could reach different conclusions under the two standards when evaluating the same set of facts, potentially undermining the credibility of the reports.

We recommend the definition of a QC deficiency in the final PCAOB standard be consistent with the definition of a deficiency in ISQM 1 to prevent audit firms from reaching different conclusions about when a deficiency exists under the two standards. We also recommend the PCAOB's defined term "major QC deficiency," which results in a not effective (or qualified) annual evaluation conclusion, align with an unremediated severe and pervasive deficiency as described in ISQM1. We believe the QC 1000 definition of a major QC deficiency should be a severe and pervasive unremediated QC deficiency or combination of unremediated QC deficiencies that, based on the evaluation under paragraph .78, prevent the firm from concluding that the firm has achieved the reasonable assurance objective or one or more quality objectives. This alignment with ISQM 1 regarding both severity and pervasiveness would result in more consistent qualified annual evaluation conclusions between QC 1000 and ISQM 1.

Further on the annual evaluation conclusion, under ISQM 1 (and its First Time Implementation Guide dated September 2021), a firm would conclude that there is reasonable assurance that the objectives of the system of quality management have been achieved, even if there are unremediated deficiencies that are "neither severe nor pervasive" or "pervasive but not severe." However, under proposed QC 1000, the existence of any unremediated QC deficiency would require a firm to conclude that its system of quality control "is effective except for one or more unremediated QC deficiencies that are

not major QC deficiencies."[1] We strongly recommend that the Board revise the annual evaluation conclusion of QC 1000 so that deficiencies that are not severe result in an effective annual evaluation conclusion, consistent with ISQM 1. We believe that this annual evaluation conclusion is also consistent with the reporting requirements of Auditing Standard (AS) 2201 on integrated audits of issuers where the auditor would issue an unqualified report when unremediated deficiencies exist that are neither significant nor material.

Finally, if the Board doesn't align its annual evaluation conclusions with ISQM 1, we believe that communication of the audit firm's annual conclusion about the effectiveness of its system of QC to audit committees should be required only when one or more unremediated major QC deficiencies exist and the annual evaluation conclusion is "not effective." We believe this approach would provide audit committees with the most relevant information to help them fulfill their responsibilities.

Revising the proposed requirements in this manner would also more closely align them with the existing requirements for auditor communications to audit committees about an issuer's internal control deficiencies identified during an audit.[2] That is, auditors would report to audit committees only those matters that are more severe than a deficiency so that the audit committee communications focus on major QC deficiencies that would be most relevant to audit committees in fulfilling their responsibilities.

Annual evaluation date

We observe that the annual evaluation date of November 30 in the Proposal is based on the Board's "understanding that many firms perform their internal inspections process during the second and third quarters, which allows them time to design and implement remediation efforts ahead of 'busy season.'" While we appreciate that is one factor to be considered in establishing an annual evaluation date, we have concerns that a November 30 annual evaluation date could have the unintended consequence of being detrimental to audit quality and create unnecessary costs and complexity for both audit committees and audit firms.

A November 30 evaluation date could create challenges for audit committees of issuers with December 31 year-ends. Firms would have to report on their annual evaluation conclusions on Form QC by January 15, which would often be in close proximity to the conclusion of the registrant's annual audit. If there are matters to be reported to the audit committee during this critical phase of the audit, such communications could detract from, rather than enhance, the completion of a quality audit and leave the audit committee with little time to consider and respond to the information before the due date of the issuer's Form 10-K. In addition, we believe a November 30 annual evaluation date could create challenges for lead auditors because they would have little time to consider and respond to any information about other auditors before the issuer's annual audit filing date. Finally, for firms subject to both ISQM 1 and QC 1000, we believe having different reporting dates would also create unnecessary complexity for audit committees receiving reports under the different standards at different points in time.

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1 Proposed QC 1000 .77(b)

2 AS 2201: An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements .78-.80; AS 1305: Communications About Control Deficiencies in an Audit of Financial Statements .04

We note that a firm's QC system operates continuously throughout the year. Therefore, we recommend that the PCAOB allow firms to select their annual evaluation date, consistent with ISQM 1. Such a provision would allow firms to select the most relevant date based on their business processes and to avoid their busy season. Importantly, this would allow firms subject to ISQM 1 and QC 1000 to avoid the cost and complexity of completing two separate annual evaluations at different times of the year. We have already selected our fiscal year-end date (i.e., end of June) as our annual evaluation date under ISQM 1 because it aligns the evaluation with our existing business processes, including performance management, and avoids our busiest time of year. That date also aligns with transparency reporting requirements in certain non-U.S. jurisdictions. Further, the member firms of the global EY network have selected a globally consistent ISQM 1 annual evaluation date to enhance global consistency in our application of ISQM 1 and, ultimately, enhance audit quality.

Reporting to the PCAOB and documentation timeline

We recommend that the Board provide firms more than 46 days[3] to complete their annual evaluation conclusion and report to the PCAOB. Consistent with the time that would be allowed under the alternative reporting model on a non-public portion of Form 2 discussed on p. 214 of the Proposal, we recommend that the Board provide firms up to 90 days after the annual evaluation date to report to the PCAOB. We believe that more than 46 days is needed to appropriately monitor the QC controls that operate on or near the annual evaluation date, assess the nature, severity and pervasiveness of any unremediated QC deficiencies, assess the effectiveness of remedial actions, and comply with the documentation requirements proposed in .83.

Consistent with the requirement under PCAOB standards[4] to assemble and retain a complete and final set of audit documentation, we also recommend that firms be provided no more than 45 days after filing their Form QC to assemble their QC documentation for retention.

Quality risk definition

We support the Board's efforts to address the risks of intentional acts to deceive or violate applicable professional and legal requirements. However, we recommend that the term "quality risk" in all circumstances apply only to risks that have a "reasonable possibility of occurring." Such a threshold would be consistent with auditing standards that require firms to consider the magnitude of a risk of material misstatement and the likelihood that the risk will result in a material misstatement to the financial statements in identifying fraud risks.

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[3] Proposed QC 1000 .79 says: "The firm must report annually to the PCAOB on Form QC, in accordance with the instructions to that form, the results of the evaluation of its QC system not later than January 15 of the year following the evaluation date." That would be 46 days after the November 30 evaluation date in QC 1000 .77.

[4] AS 1215: Audit Documentation; .15 "A complete and final set of audit documentation should be assembled for retention as of a date not more than 45 days after the report release date (documentation completion date)."

Oversight function

We believe that it is appropriate to promote the adoption by the largest firms of formal structures that provide independent perspectives into firm leadership; however, to avoid confusion over the use of the terms "governance structure" and "oversight function," we recommend that the standard expressly acknowledge that independent advisory boards are a permissible approach.

Additional scalability consideration

We appreciate the Board's focus of the scalability of the proposed standard and suggest that the Board consider more limited QC obligations for PCAOB registered firms that are not currently performing engagements under PCAOB standards.

We recommend that the PCAOB consider these firms to be compliant with its standard if they fully comply with the design, implementation and operation requirements of another recognized QC framework, such as ISQM 1 or SQMS 1. We agree with the Board's preliminary view on p. 6 of the Proposal "that the risk to investor protection is minimal if the firm is not performing or playing a substantial role in such engagements." Therefore, we believe this alternative would address the investor protection risk while also scaling implementation costs for firms that fully comply with the design, implementation and operation requirements of another recognized QC standard and are not currently performing engagements in accordance with PCAOB standards.

Effective date

We believe that an extended implementation period is necessary. We learned from our implementation of ISQM 1 that having the opportunity to perform field testing is critical.

Therefore, we encourage the Board to consider an effective date of 15 December 2025 so firms have sufficient time to design, implement and operate the new or incremental requirements of QC 1000 and also align with the effective date of the AICPA's suite of new and revised quality management standards.

Other considerations

We encourage the Board to continue its engagement with stakeholders as proposed QC 1000 is finalized. We believe that as adoption challenges arise, the PCAOB or its staff should also provide guidance that promotes consistent interpretation and application of the requirements.

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We want to again thank the Board and its staff for its consideration of this letter and the comments we previously submitted on this topic. We would be please to discuss our comments with the Board or its staff at your convenience.

Very truly yours,

Ernst & Young LLP

Copy to:

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Appendix

Our responses to the questions in the Proposal are set out below.

PROPOSED QC 1000: BASIC STRUCTURE, TERMINOLOGY, AND SCALABILITY

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?

Because the Board would be updating and superseding its quality control standards with QC 1000, we recommend that the reference to "quality control policies and procedures" in the definition of Professional Standards, as defined in PCAOB Rule 1001(p)(vi), be revised to say "quality control standards" to more closely align with the scope, approach and terminology of QC 1000.

We are not aware of any other requirements that should be included.

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?

We support the proposal to define "engagement" to include both (1) engagements in which a firm serves as lead auditor or as the "practitioner" in an attestation engagement and (2) engagements in which a firm "play[s] a substantial role in the preparation or furnishing of an audit report," as defined in PCAOB Rule 1001(p)(ii). We agree that the definition of "engagement" should include engagements performed under PCAOB standards, regardless of whether PCAOB standards are applied due to rules, regulations, contracts or voluntarily. We also agree that the definition of "engagement" should not include referred work that is less significant than when a firm "play[s] 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.

Paragraph 5 of proposed QC 1000 states "an effective QC system provides a firm with reasonable assurance that the firm, *firm personnel*, and *other participants* 1) conduct engagements in accordance with applicable professional and legal requirements; and 2) fulfill their other responsibilities that are part of or subject to the firm's QC system in accordance with applicable professional and legal requirements." We are concerned that the proposed definition of other participants and applicability of that definition creates differences from ISQM 1 and raises a number of implementation and operational challenges that we believe are unnecessary. As defined, other participants would include, among others, specialists engaged by a firm, other auditors, and internal auditors of the client providing direct assistance to the auditor. We believe that other PCAOB standards (e.g., AS 1201, AS 1210, AS 2101 and AS 2605) sufficiently address the auditor's responsibilities, including supervision and review, when using the work of these groups.

We are concerned that, because these individuals would be included in the definition of other participants:

- Paragraphs 5 and 55 of the proposed QC 1000 could be read to imply that aspects of a firm's QC system could be outsourced to other participants outside of that firm's network, who would be made responsible for these aspects of the firm's QC system. We believe that a firm and its personnel are responsible for the firm's QC system.

- Paragraph 5 could be read too broadly to imply that all components of a firm's QC system would have to cover other participants. We believe the Board's intent is properly addressed in the component-by-component references to other participants without incorporating other participants in paragraph 5.

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

As stated in our response to question 53, the Proposal states that a QC finding that results in a "reduced likelihood of achieving the reasonable assurance objective or one or more quality objectives" would rise to the level of a QC deficiency. To promote consistency in the application of QC 1000 and ISQM 1, we recommend the Board revise the definition of a QC deficiency to better align with the definition in ISQM 1.

5. Is it appropriate for the proposed standard to require firms that have not and do not plan to perform engagements pursuant to PCAOB standards to design a QC system in accordance with QC 1000? Why or why not? Would this requirement impose disproportionate costs on small firms? Please provide data or estimates, if available, on such costs.

We support the view of the Board to require all PCAOB registered firms that have not and do not plan to perform engagements pursuant to PCAOB standards to design a quality control system because we recognize the importance of quality controls. However, as stated in our cover letter, we recommend that the QC requirements for those firms that have not and do not plan to perform engagements pursuant to PCAOB standards could also be satisfied by full compliance, including design, implementation and operation, with another recognized QC framework, such as ISQM 1 or SQMS 1. We believe such an alternative would address the investor protection risk while also scaling implementation costs for firms that are otherwise subject to the design, implementation and operation requirements of another recognized QC standard and have a low likelihood of performing engagements under PCAOB standards in the near term.

In addition, we recommend that the Board give firms that are transitioning to performing engagements under PCAOB standards during the one-year period preceding their annual evaluation date, and therefore subject to the implementation and operation requirements of QC 1000, an additional six months to one year from their annual evaluation date to file their Form QC for the transition period. We note that it is not unusual for firms to transition from not playing a substantial role to playing a substantial role in a short period of time (e.g., due to an increase in the relative size of a subsidiary or component of an issuer or an increase in the relative work effort required with respect to a subsidiary or component of the issuer). Even if such a firm has complied with the design requirements of QC 1000, implementing and operating a QC system that complies with the standard would involve a significant effort.

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?

No. We believe the proposed obligation to design a QC system is not appropriate. To enhance scalability of the proposed standard, we recommend that the Board consider more limited QC obligations for PCAOB-registered firms that are not currently performing engagements under PCAOB standards. We believe the greater risk resides with firms that are currently performing engagements under PCAOB standards. Therefore, consistent with our response to question 5, if a firm is subject to the design, implementation and operation requirements of another recognized QC standard, we recommend that compliance with those standards should be a suitable alternative to complying with QC 1000 for firms that are not currently performing engagements pursuant to PCAOB standards.

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 that the proposed standard is sufficiently clear about 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. However, as discussed in our response to question 6, if a firm is subject to the design, implementation and operation requirements of another recognized QC standard, we recommend that compliance with those standards should be a suitable alternative to QC 1000 for those firms that are not currently performing engagements pursuant to PCAOB standards. In addition, to enhance scalability of the proposed standard, we recommend that the Board only require the filing of a Form QC if a firm performed engagements in accordance with PCAOB standards during the one-year period ending on the annual evaluation date.

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

No, there are no other provisions of QC 1000 that should apply to all firms.

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?

We agree with the Board's intent that the standard be scalable for all firms based on their nature and circumstances. Refer to our response to questions 5, 6 and 7 for our recommendation to enhance scalability for firms that are not currently performing engagements pursuant to PCAOB standards and comply with another recognized QC standard.

Additionally, in instances where scalability provisions would apply, we recommend that the Board specify a cut-off date for firms to evaluate whether they are above the stated scalable thresholds. We also suggest that the Board provide a transition period for firms that have crossed the threshold to apply the incremental requirements, similar to our recommendation in our response to question 5. We note that this approach would be similar to the SEC rules for issuers to determine their filer status.

PROPOSED QC 1000: A FIRM'S SYSTEM OF QUALITY CONTROL

The Firm's QC System

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 that a reasonable assurance objective as described in the proposed standard is appropriate and would be consistent with existing PCAOB QC, auditing, and attestation standards, as well as ISQM 1 and SQMS 1. We do not believe that there are additional objectives that a quality control system should achieve.

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 that the proposed requirements regarding the design of the QC system are appropriate.

We do not believe there are other aspects of QC 1000 that should be required as part of the design of the QC system.

Roles and responsibilities

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?

The proposed requirements related to roles and responsibilities described in the proposed standard are clear, but we recommend that they be modified as follows:

Paragraph .12 requires that firms assign the specified roles to *firm personnel*, as defined. For firms that are part of larger network, it is common for such responsibilities to be assigned to individuals outside of the specific member firm, such as personnel having responsibility for those same matters at multiple member firms within a specific country, geographic region or other management unit of the network organization. Personnel in such situations may not meet the definition of *firm personnel*. However, such assignments are often implemented to enhance the experience, competence and authority of the individual and/or to give the individual the time to carry out the assigned responsibility. Consistent with paragraph A34 of ISQM 1, we recommend that the final standard permit the assignment of the roles in paragraph 12 to personnel outside the member firm (i.e., part of the larger network)

when such personnel have the experience, competence, authority and time to enable the person to carry out the assigned responsibility and such assignment is supported by a formal arrangement made by the firm or the firm's network.

We recommend that the final standard state that more than one individual can have responsibility for each of the roles in paragraph .12 if the responsibility is clearly defined. While we agree that responsibility for a specified role may not be delegated, there may be situations where responsibility for a specified role may be shared among more than one person. For example, in current practice firms may assign responsibility for compliance with certain ethical requirements to a different person than the person responsible for compliance with independence requirements to better align with relevant expertise on the subject matter.

We recommend that firms be provided sufficient flexibility to supervise the annual evaluation of the QC system based on their organizational structure. Based on our experience in adopting ISQM 1, we believe that responsibility for the annual evaluation of a firm's system of quality management (SQM) is best shared between the individual with operational responsibility for the SQM and the individual with operational responsibility for monitoring and remediating the SQM. That is, we believe the individual with operational responsibility is best suited to recommend the annual evaluation conclusion to the individual assigned ultimate responsibility and accountability for the SQM, and the individual with operational responsibility for monitoring and remediation is best suited to concur with, or recommend changes to, that conclusion based on the results of the monitoring and remediation process. We believe this approach would be consistent with ISQM 1.

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

We are optimistic that we would be able to fill the specified roles in light of the proposed requirements.

The Firm's Risk Assessment Process

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

Yes, the proposed definitions of "quality risks," "quality objectives" and "quality responses" are sufficiently clear and comprehensive. Refer to our response to question 16 and 17.

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?

The threshold of "adversely affecting" set out in the proposed definition of "quality risk" is sufficiently clear.

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?

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 support the Board's efforts to address the risks of intentional acts to deceive or violate applicable professional and legal requirements. However, we recommend that the definition of "quality risks" include a threshold of "reasonable possibility of occurring" that would apply to all risks, including risks of intentional misconduct. Such a threshold would be consistent with auditing standards that require firms to consider the magnitude of a risk of material misstatement and the likelihood that the risk will result in a material misstatement to the financial statements in identifying fraud risks. In addition, page 79 of the Proposal indicates that "the "reasonable possibility" term in the proposed definition of quality risks is aligned with the use of the term in PCAOB standards: there is a reasonable possibility of an event when the likelihood of the event is either "reasonably possible" or "probable," as those terms are used in the FASB Accounting Standards Codification ("FASB ASC") Topic 450, *Contingencies*."

We are concerned that, if the "reasonable possibility of occurring" threshold is not applied to all quality risks, including risks of intentional misconduct, firms would have a duty to identify quality risks relating to intentional misconduct that have a "remote" likelihood of occurring. This requirement would cause firms to expend effort identifying quality risks with a "remote" likelihood of occurring, which appears inconsistent with the Board's stated intent on Page 84 of the Proposal that a firm "concentrate[e] its effort on more pervasive and larger risks and not on every conceivable act of misconduct."

Further, as we discuss in our response to question 3, we recommend that the Board exclude specialists engaged by the firm, other auditors and internal auditors of the client providing direct assistance to the auditor from the definition of "other participants" because, including them in the definition of quality risks would impose quality control requirements on firms to assess the actions of these participants that are more appropriately addressed by engagement teams applying existing auditing standards.

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?

Yes, the proposed requirements for the firm's risk assessment process are appropriate. We appreciate the flexibility that the guidance appears to provide rather than rigid assessment categories. However, if the Board expects firms to designate quality risks as lower, higher or significant (or some other categorization) based on the risk assessment process, we request that the final standard clarify such a requirement.

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?

Yes, the proposed requirements are sufficient to prompt firms to appropriately 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?

Yes, the examples included in Appendix B are helpful.

Governance and Leadership

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?

Yes, the proposed quality objectives for governance and leadership are appropriate. We do not believe any changes are necessary.

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?

Yes, the threshold appears reasonable and appropriate.

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 believe that it is appropriate to promote the adoption by the largest firms of formal structures that provide independent perspectives into firm leadership. However, to avoid confusion over the use of the terms "governance structure" and "oversight function," we recommend that the standard expressly acknowledge that independent advisory boards are a permissible approach.

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?

Yes, the proposed specified quality response related to the firm's policies and procedures on receiving and investigating complaints and allegations is appropriate.

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

No, there are no other specified quality responses for the governance and leadership component that we believe should be considered.

Ethics and Independence

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?

We believe the Board should clarify the ethical requirements that are subject to the responsibility of the individual assigned operational responsibility for the firm's compliance with ethics and independence requirements. For example, competence and due care are characteristics required both by ethical standards (i.e., AICPA Code of Professional Conduct) and QC standards. As a result, there could be confusion over whether such requirements are ethical requirements or quality control requirements when determining the responsibility of the individual assigned operational responsibility for the firm's compliance with ethical and independence requirements. Therefore, clarification of the responsibility of the individual in that role as it pertains to requirements also addressed in standards other than ethical standards would improve understandability of the final standard. Also, see our response to question 12 regarding more than one individual having responsibility for compliance with independence and ethical requirements.

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?

Yes, the proposed specified quality responses for ethics and independence requirements are generally appropriate. However, requiring that, as part of its QC system, a firm obtain certifications from firm personnel upon any changes in personal circumstances may not be practicable (for example, in the case of marital status change). Therefore, we recommend that paragraph 34(e) be revised as follows:

e. Obtaining certifications from firm personnel regarding familiarity and compliance with SEC and PCAOB independence requirements and the firm's independence policies and procedures (1) upon employment, (2) at least annually thereafter, and (3) upon any change in ~~personal circumstances, such as~~ firm role and geographic location~~, or marital status, that is relevant to independence~~; and

We believe a firm should have the flexibility to determine its own policies and procedures for certifications beyond requiring them at employment, annually thereafter, and upon any change in firm role and geographic location. For example, quarterly certification accompanied by training on the impact of life events may be more effective and practicable than event-driven review and certification.

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?

Yes, the proposed specified quality response to have an automated process for identifying direct or material indirect financial interests is appropriate.

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?

While we support the objective of the specified quality response, we believe the standard should be more flexible. Specifically, the proposed requirements regarding communicating changes to the list of Restricted Entities may not be appropriate for firms that use technology to continuously update and make available their Restricted Entity list to all firm personnel and others performing work on behalf of the firm who are subject to independence requirements. In addition, we have IT systems that continuously perform automated comparisons of all engagements, business relationships and financial relationships with our Restricted Entity list, allowing us to make targeted communications to affected personnel how changes to our Restricted Entity list apply to them. We believe this targeted approach to communications is more effective than communicating a list of all changes to the Restricted Entity list to all firm personnel. Accordingly, we recommend that the specified quality response be worded in a manner that explicitly allows these targeted communications.

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?

Yes, we believe the proposed standard should require an annual written certification regarding familiarity and compliance with ethics requirements and the firm's ethics policies and procedures.

We support a requirement that firms should adopt firm-wide codes of ethics. We believe that this sets the appropriate tone for the organization and supports compliance with all applicable standards.

Acceptance and Continuance of Client Relationships and Specific Engagements

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?

Yes, the proposed quality objectives for acceptance and continuance of client relationships and specific engagements are appropriate.

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?

Yes, the proposed specified quality responses for acceptance and continuance of client relationships and specific engagements are appropriate.

Engagement Performance

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

Yes, the proposed quality objectives for engagement performance are appropriate and no changes are necessary.

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

We do not believe that specified quality responses for the engagement performance component are necessary since they should be based on a firm's risk assessment.

35. We are proposing to eliminate the current Appendix K requirement and rely exclusively on a risk-based approach. Should the standard include specified quality responses explicitly directed to non-U.S. firms that audit issuers? If so, what are they?

We support the Board's proposal to eliminate the current Appendix K requirement and rely exclusively on a risk-based approach. We also believe that QC 1000 should not include specified quality responses for non-U.S. firms because each firms' quality control system should consider the objectives in Appendix K when developing their quality responses to their specific facts and circumstances.

Under the proposal's risk-based approach, the Board suggested that some firms might add another member to the engagement team who possesses the necessary experience to bridge a gap in experience with engagements under the legal and professional requirements that apply to audits of U.S. public companies. We agree that, as part of an effective quality control system, firms may need to

identify and allocate additional resources to support engagement teams that lack experience on professional or legal requirements. However, it may not be necessary in each instance to have such a resource be a member of the engagement team, and we recommend that the Board clarify this point. It may be appropriate for a firm to utilize the input and expertise of personnel who are not part of the engagement team, which would be consistent with the proposal's reference to the possible use of engagement quality reviewers to address risks in this area, as well as the fact that engagement quality reviewers are not considered members of an engagement team under the existing definition.

Resources

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

The quality objectives related to the firm's personnel are appropriate. However, because paragraph 44c also applies to other participants, as defined, please see our response to question 3. We believe that the responsibilities related to the use of specialists engaged by the firm, other auditors, and internal auditors of the client providing direct assistance to the auditor are appropriately addressed in existing auditing standards as engagement team responsibilities.

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?

Yes, the proposed quality objective and specified quality response is sufficient to address the use of emerging technologies. The proposed principles-based approach can be applied to emerging technologies because the principles are aligned with common IT general controls, including common system development lifecycle controls over the development of technology applications.

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

The proposed specified quality responses for resources are appropriate. No changes from that proposed are necessary.

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?

No. We support the proposed principles-based approach of including a risk factor to prompt consideration of technology as part of the firm's risk assessment process, including the assessment of the technology risk profile of the firm's clients. We do not believe the proposed standard should include a specific quality response in this area.

Information and Communication

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?

Yes, the proposed quality objectives for information and communication are appropriate except as noted in our responses to questions 41 and 42.

Further, we encourage the Board to consider how its Firm and Engagement Performance Metrics research project may inform policy decisions being made in QC 1000.

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?

Yes, but we recommend that the requirements in paragraphs 53(d) and (e) pertaining to the firm's external communications be limited to information or communications regarding a firm's audit practice and engagements performed in accordance with PCAOB standards. We believe information and communications on such topics are most appropriate for inclusion in a firm's system of quality controls, and requirements on such topics would most directly relate to, and promote, audit quality.

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?

As discussed in our response to question 3, we recommend that specialists engaged by the firm, other auditors, and internal auditors of the client providing direct assistance to the auditor be excluded from the definition of other participants, including this reference. Further, if an other participant is a firm that is not registered with the PCAOB and not subject to QC 1000, firms may be unable to cause the other auditor to communicate its most recent evaluation of its QC system and a brief overview of the remedial actions taken or to be taken because the other auditor would not be obligated to do so. Provided that the firm can otherwise comply with the applicable auditing standards, we do not believe that its inability to obtain the most recent evaluation of the other auditor's QC system and a brief overview of the remedial actions taken or to be taken should result in noncompliance with QC 1000. Accordingly, we do not believe such a requirement should be part of the specified quality response.

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.

While we are not aware of legal or regulatory concerns, we believe the PCAOB should state that firms wouldn't violate this requirement if laws or regulations exist in the jurisdiction(s) of the other participant that prevent compliance with this requirement.

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?

Yes, the proposed specified quality responses for information and communication are appropriate.

Monitoring and Remediation Process

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?

Yes, the proposed requirements for the monitoring and remediation process are appropriate and we do not believe changes are required.

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

Yes, the proposed requirement for inspecting each 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?

Yes, it is appropriate to require monitoring of in-process engagement by firms that issue audit reports with respect to more than 100 issuers during a calendar year. Given that there are various options for in-process monitoring, the requirement appears to be sufficiently scalable for smaller firms.

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?

Yes, the purposes of in-process monitoring are clear and appropriate.

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

Yes, it is appropriate to require firms to consider performing monitoring activities on work they perform on other firms' engagements.

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?

Paragraph 64 of the proposal states that a firm cannot rely solely on monitoring activities performed by others, including network activities, in lieu of performing its own inspections of completed engagements. We recommend that the Board permit networks to perform monitoring activities on behalf of a member firm, including in certain circumstances as the sole source, of a firm's QC engagement monitoring under the standard. We also believe network monitoring activities performed on a member firm's engagements should be considered in determining whether the member firm needs to perform additional monitoring activities.

We believe monitoring of completed and in-process engagements by the network may provide member firms in the network with more objective and experienced monitoring resources. Smaller member firms may not have the resources to perform objective monitoring on completed and/or in-process engagements without leveraging the global network.

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?

See our response to question 50. Otherwise the proposed factors for firms to take into account when determining the nature, timing, and extent of QC system-level monitoring activities appear appropriate.

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

Yes, the proposed requirements for firms that belong to a network that performs monitoring activities are appropriate.

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?

The proposal states that a QC finding that results in a "reduced likelihood of achieving the reasonable assurance objective or one or more quality objectives" would rise to the level of a QC deficiency. To promote consistency in the application of QC 1000 and ISQM 1, we recommend the Board revise the definition of a QC deficiency to better align the definition with ISQM 1.

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?

No additional direction is needed.

55. Should firm personnel be allowed to inspect engagements or QC activities in which they are involved? If so, please explain why and provide examples of mechanisms that could reduce to an appropriate level the risk that noncompliance with PCAOB standards or the firm's policies and procedures would not be detected.

Consistent with ISQM 1, engagement team members and the engagement quality reviewer for an engagement should not be allowed to perform an inspection of an engagement in which they are involved. However, with respect to QC activities, we believe that self-assessments are an important element in driving accountability at the control operator and owner levels. While self-assessment should not be the sole QC monitoring activity, firms that use self-assessments should be allowed to consider them in determining the overall nature, timing, and extent of their QC monitoring activities.

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 proposed requirements related to monitoring and remediation are sufficiently scalable for smaller firms.

Evaluating and Reporting on the QC System

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?

No, we do not believe November 30 is an appropriate evaluation date. We observe that the annual evaluation date of November 30 in the Proposal is based on the Board's "understanding that many firms perform their internal inspections process during the second and third quarters, which allows them time to design and implement remediation efforts ahead of 'busy season.'" While we appreciate that is one factor to be considered, we have concerns that a November 30 annual evaluation date could have unintended consequence of being detrimental to audit quality and create unnecessary costs and complexity for both audit committees and audit firms.

A November 30 evaluation date could create challenges for audit committees of issuers with December 31 year-ends. Firms would have to report on their annual evaluation conclusions on Form QC by January 15, which would often be in close proximity to the conclusion of the registrant's annual audit. If there are matters to be reported to the audit committee during this critical phase of the audit, such communications could detract from, rather than enhance, the completion of a quality audit and leave the audit committee with little time to consider and respond to the information before the due date of the issuer's Form 10-K. In addition, we believe a November 30 annual evaluation date could create challenges for lead auditors because they would have little time to consider and respond to any information about other auditors before the issuer's annual audit filing date. Finally, for firms subject to both ISQM 1 and QC 1000, we believe having different reporting dates would also create unnecessary complexity for audit committees receiving reports under the different standards at different points in time.

We note that a firm's QC system operates continuously throughout the year. Therefore, we recommend that the PCAOB allow firms to select their annual evaluation date, consistent with ISQM 1. Such a provision would allow firms to select the most relevant date based on their business processes and to avoid their busy season. Importantly, this would allow firms subject to ISQM 1 and QC 1000 to avoid the cost and complexity of completing two separate annual evaluations at different times of the year. We have already selected our fiscal year-end date (i.e., end of June) as our annual evaluation date under ISQM 1 because it aligns the evaluation with our existing business processes, including performance management, and avoids our busiest time of year. That date also aligns with transparency reporting requirements in certain non-U.S. jurisdictions. Further, the member firms of the global EY network have selected a globally consistent ISQM 1 annual evaluation date to enhance global consistency in our application of ISQM 1 and, ultimately, enhance audit quality.

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

No, the definition is not clear. We recommend the definition of "major QC deficiency" incorporate the concept of pervasiveness to better align with the pervasiveness determination factor included in paragraph 78 of QC 1000 and ISQM 1 as follows:

> Major QC deficiency: **A severe and pervasive** ~~An~~ unremediated QC deficiency or combination of unremediated QC deficiencies **that**, based on the evaluation under paragraph .78, ~~that~~ **prevents the firm from concluding that** ~~both severely reduces the likelihood of~~ the firm **has achieved** ~~achieving~~ the reasonable assurance objective or one or more quality objectives.

This revised definition would better align a major QC deficiency resulting in a no reasonable assurance conclusion with the ISQM 1 conclusion when a deficiency is both pervasive and severe.

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?

No, we do not believe it is appropriate to include in the proposed definition circumstances when a major QC deficiency is presumed to exist. We believe that the factors provided in .78 are sufficient to make the evaluation of whether a QC deficiency is a major QC deficiency.

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?

Yes, the proposed factors for determining whether an unremediated QC deficiency is a major QC deficiency are appropriate.

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

We understand the Board's objective in proposing a requirement that firms report on their evaluation of their QC system to the PCAOB.

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?

While we believe the language is appropriate for individual certifications, we recommend that the certification of the report on the annual evaluation in Appendix 2 say "to the best of my knowledge" rather than "based on my knowledge."

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?

As stated in our cover letter, we recommend that the Board provide firms with more than 46 days to complete their annual evaluation conclusion and report to the PCAOB. Consistent with the time that would be allowed under the alternative reporting model on a non-public portion of Form 2 discussed on p. 214 of the Proposal, we recommend that the Board provide firms with up to 90 days after the annual evaluation date to report to the PCAOB. This timing would allow firms to appropriately monitor the QC controls that operate on or near the annual evaluation date, assess the nature, severity and pervasiveness of any potentially unremediated QC deficiencies, assess the effectiveness of remedial actions, and comply with the documentation requirements in .83[5] on a more thoughtful basis than if reporting were required in 45 days.

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[5] We do not take exception to the documentation requirements in QC 1000.83, however, it would be a timing challenge when considering the timetable as currently proposed.

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?

As stated above in response to question 57, we believe the evaluation date should not be prescribed by the PCAOB but should instead be determined by each individual firm, based on its business cycle (as is allowed under ISQM 1 and SQMS 1). As discussed in our response to question 63, we believe that a 90-day reporting period after the annual evaluation date is appropriate.

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

No, consistent with our response in question 59, we do not believe that there should be circumstances when a major QC deficiency is presumed to exist because we believe the guidance in paragraph 78 is sufficient and, therefore obviates the need to make the disclosure under paragraph 80C on Form QC Items 2.5.

Additionally, within Item 4.1 of Form QC is a yes/no inquiry on whether the Board should inform a party of a subpoena for information on Form QC. We believe it is appropriate for the Board to make such notifications, and therefore we support the inclusion of this question in Form QC.

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?

As we say in our cover letter, we support the proposed requirement for firms to evaluate the effectiveness of their system of quality control annually. However, we are concerned that a firm that is subject to both the PCAOB standard and ISQM 1 could reach different conclusions under the two standards when evaluating the same set of facts.

We recommend the PCAOB's defined term "major QC deficiency," which results in a not effective (or qualified) annual evaluation conclusion, align with the unremediated severe and pervasive deficiency as described in ISQM1. We believe the QC 1000 definition of a major QC deficiency should be a severe and pervasive unremediated QC deficiency or combination of unremediated QC deficiencies that, based on the evaluation under paragraph .78, prevents the firm from concluding that the firm has achieved the reasonable assurance objective of one or more quality objectives. This alignment with ISQM1 regarding both severity and pervasiveness would result in more consistent qualified annual evaluation conclusions between QC 1000 and ISQM1.

Further on the annual evaluation conclusion, under ISQM 1 (and its First Time Implementation Guide dated September 2021), a firm would conclude that there is reasonable assurance that the objectives of the system of quality management have been achieved, even if there are unremediated deficiencies that are "neither severe nor pervasive" or "pervasive but not severe." However, under proposed QC 1000, the existence of any unremediated QC deficiency would require a firm to conclude that its system of quality control "is effective except for one or more unremediated QC deficiencies that are not major QC deficiencies." We recommend that the Board revise the annual evaluation conclusion of

QC 1000 so that deficiencies that are not severe result in an effective annual evaluation conclusion, consistent with ISQM 1. We believe that this annual evaluation conclusion is also consistent with the reporting requirements of AS 2201 on integrated audits of issuers where the auditor would issue an unqualified report when unremediated deficiencies exist that are neither significant nor material.

Finally, we recommend that the Board state in the General Instructions to Form QC Section 4. "Amendments to this Report" that firms would not be required to amend Form QC to correct clearly inconsequential information or to provide clearly inconsequential information that was omitted.

67. Are there any non-U.S. laws that would prohibit reporting the information required about the firm's QC system to the PCAOB on Form QC?

While we are not aware of non-U.S. laws that would prohibit reporting the information required about the firm's QC system to the PCAOB on Form QC, we believe the PCAOB should state that firms wouldn't violate this requirement if laws or regulations exist in the jurisdiction(s) of the firm that prevent compliance with this requirement.

68. Some of the PCAOB's reporting forms are permitted to be filed in XML format. Should we permit proposed Form QC to be filed in XML or another machine-readable format? Why or why not?

We support the PCAOB permitting widely accepted formats that support usability.

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?

As the Board recognizes, Sarbanes-Oxley contains restrictions relevant to public disclosure of QC deficiencies. Other than our responses to questions 43 and 67, we do not have any comments on whether there are other public reporting alternatives that should be considered.

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?

If our recommendation to align QC 1000's annual conclusion with ISQM 1 is incorporated in the final standard, we would support requiring the auditor to communicate to the audit committee about the firm's most recent annual evaluation conclusion of its QC system. We believe this communication would enhance the dialogue about the firm and its QC system.

However, as we state in our cover letter, if our recommendation to align QC 1000's annual conclusion with ISQM 1 is not incorporated in the final standard, we recommend that communication of the firm's annual evaluation conclusion to the audit committee be required only when one or more unremediated major QC deficiencies exist and the annual evaluation conclusion is "not effective." We believe that this

would provide audit committees with the most relevant information for fulfilling their responsibilities. Under our recommendation, firms' communications to audit committee about QC deficiencies would more closely align with the existing requirements for auditor communications about the issuer's internal control deficiencies identified during an audit.

Further, we believe our recommendation would more closely align with the provisions of the Sarbanes-Oxley Act that require the PCAOB to include its criticisms and observations about potential deficiencies in a firm's QC system in Part II of its inspection reports, which isn't public unless a firm fails to address the issues to the Board's satisfaction within 12 months after the issuance of the report. The proposed timeline for QC communications to the audit committees would accelerate those communications, most likely by years, in a manner that may not comport with the review structure as established by Congress.

Documentation

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

We recommend that the final standard provide no more than 45 days after filing their Form QC to assemble their QC documentation for retention, which would be consistent with the requirement under PCAOB standards to assemble and retain a complete and final set of audit documentation.

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 proposed "experienced auditor QC threshold" is appropriate.

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

There are no other matters that the firm should be required to document about its QC system.

ADDITIONAL PROPOSED AMENDMENTS

Proposed Amendments to AS 2901, Consideration of Omitted Procedures After the Report Date, and Related Proposed Amendments

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

We support the proposal to expand the scope of AS 2901 to include engagement deficiencies on ICFR audits; however, we believe that implementation guidance would be necessary to promote consistent application by firms. For example, guidance might address whether it would be appropriate to conclude that an unqualified auditor's report on ICFR was no longer being relied upon if a subsequent disclosure by management indicated that the conclusion in that report was no longer applicable or when issuance of the following year's auditor's report is imminent.

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?

We believe that it is appropriate for remedial action to be required for all identified engagement deficiencies to promote an effective QC system. However, we encourage the Board to consider clarifying the note included in proposed QC 1000.69 as follows:

> Note: Remedial actions a firm may take **include preventive, corrective, or a combination of these actions, such as** ~~take include~~: (1) corrective actions on in-process engagements to address engagement deficiencies before the issuance of the engagement report; (2) corrective actions to address engagement deficiencies on completed engagements; or (3) preventive actions to deter future engagement deficiencies.

We believe that a firm should be able to evaluate the nature and severity of an engagement deficiency and determine whether preventive actions alone are appropriate. This clarification would resolve a possible unintended consequence of firms diverting resources from activities that drive audit quality and using them to develop corrective actions for engagements deficiencies that are not necessary (e.g., those engagements with deficiencies that have a properly supported audit opinion).

Proposed rescission of ET Section 102; proposed new standard EI 1000; proposed amendments to ET Section 191

76. Is the proposal to rescind ET 102 and replace it with EI 1000 appropriate in light of the changes proposed in QC 1000 and developments since 2003? If not, why not?

The proposed replacement of ET 102 with EI 1000 is appropriate. If the Board's intent is for EI 1000 to focus on Objectivity and Integrity (see our response to question 26), labeling the section as "OI" rather than "EI" may be appropriate.

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

The terms used in EI 1000 are generally clear. However, in two cases, references to other standards may provide greater clarity. Specifically, rather than remove the reference to confidentiality to make it clear that it cannot be used as a shield against noncompliance with laws and regulations, it may be clearer to explicitly state or refer to the noncompliance with laws or regulations standards in the International Ethics Standards Board for Accountants (IESBA) Code Section 260. Similarly, if the Board's intent is for EI 1000.03.c to refer to the AICPA and IESBA concepts of conflict of interest, it may be clearer to refer explicitly to the relevant Code sections.

78. Is the proposal to amend ET 191, including the proposed rescission of certain paragraphs, appropriate? Should any of the proposed interpretations be retained in our standards?

Yes, the proposal to amend ET 191, including the proposed recission of certain paragraphs, is appropriate.

Other Proposed Amendments

79. Are the proposed amendments to other PCAOB standards and rules appropriate? If not, why not? Are there additional amendments to other PCAOB standards or rules that the Board should consider?

The proposed amendments to other PCAOB standards and rules are appropriate. We are not aware of additional amendments to other PCAOB standards or rules that the Board should consider.

80. Are the proposed amendments to **Form 1 and Form 2 in Appendix 5 appropriate? If not, why not?**

Yes, the proposed amendments to Form 1 and Form 2 in Appendix 5 are appropriate.

ECONOMIC ANALYSIS

Baseline

81. Are there additional academic studies or data related to the baseline for measuring the potential impacts of the proposed requirements? If so, what are they?

82. Are there additional academic studies or data available related to the resources employed by NAFs or foreign affiliates of GNFs in the design, implementation, and operation of their QC systems? If so, what are they?

83. Are there additional academic studies or data available that could help us approximate the number of firms that will be implementing ISQM 1 or SQMS 1? If so, what are they?

Need

84. Should we consider any additional academic studies or data related to the need for standard setting?

Economic Impact

85. Does our analysis appropriately capture the potential benefits of the proposal? If not, please explain.

86. Are there additional potential benefits that should be considered? If so, what are they?

87. Does our analysis appropriately capture the potential costs of the proposal? If not, please explain.

88. Are there additional potential costs that should be considered? If so, what are they?

89. Are there additional academic studies or data related to the potential benefits and costs of the proposed requirements? If so, what are they?

90. Are there other potential unintended consequences of the proposal that we have not identified? If so, what are they?

We are not aware of additional information or potential costs other than those previously provided to the Board by certain firms.

Alternative Considerations

91. Are any alternative approaches to addressing the need for standard setting preferable to the proposed approach? If so, why?

We agree that standard setting is the preferable approach and have included in our other responses our views for consideration related to key policy choices.

SPECIAL CONSIDERATIONS FOR EMERGING GROWTH COMPANIES

92. The Board requests comment generally on the analysis of the impacts of the proposal on EGCs. Are there reasons why the proposal should not apply to audits of EGCs? If so, what changes should be made so that the proposal would be appropriate for audits of EGCs? What impact would the proposal likely have on EGCs, and how would this affect efficiency, competition, and capital formation?

We believe the proposal should apply to the audits of both emerging growth companies (EGCs) and non-EGC issuers. As the Board said in the Proposal, virtually all EGCs are audited by firms that also audit other clients, either non-EGC issuers or registered broker-dealers, under the PCAOB standards. Additionally, separate quality control systems for EGC and non-EGC clients would create unnecessary complexities for engagement teams, especially when an issuer loses EGC status during the year.

EFFECTIVE DATE

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

We believe an extended implementation period is necessary to give firms, and especially smaller firms, the time to design, implement and execute the requirements that go beyond those in other QC standards (e.g., ISQM 1). We learned from our implementation of ISQM 1 that having the opportunity to perform field testing is critical.

Therefore, we encourage the Board to consider an effective date of 15 December 2025. Such a date would align with the effective date of the AICPA's suite of new and revised quality management standards.