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February 1, 2023

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street NW
Washington, DC 20006-2803
comments@pcaobus.org

Re: PCAOB Release No. 2022-006, PCAOB Rulemaking Docket Matter No. 046, *A Firm's System of Quality Control*

Secretary Brown and PCAOB Board Members:

Auvana Accountancy Corporation ("Auvana") is writing to share our views on the proposed new quality control standard.

At Auvana, we are committed to transforming how public accounting firms deliver audit and assurance services. We are a licensed accountancy corporation based in the United States and registered with the PCAOB. Through our unique subscription access model, Auvana provides on-demand AICPA and PCAOB audit and assurance support to top 10, regional and local CPA firms throughout the United States and have even garnered interest from abroad. Our solutions include support for audit and assurance, quality management, regulatory matters, training, and transformation.

As a company dedicated to helping other public accounting firms on their quality journey, we are in support of the PCAOB's objective to update the antiquated quality considerations currently in place. In fact, we consider such updates to be long overdue considering the last update was twenty years ago when the PCAOB adopted the AICPA standards. In the sections that follow, we kindly ask you to fully consider our comments on certain areas of the proposed standard.

I. Threshold for Oversight Function

The proposal includes requiring public accounting firms that issue audit reports with respect to more than 100 issuers during the prior calendar year to establish a governance structure that includes at least one external party that would exercise independent judgement regarding matters related to the quality control system. Auvana contends that this requirement should be extended across all public accounting firms who issue audit reports for issuers, or that the metric be updated to include more relevant factors.

As an example, at Auvana, we offer the ability for public accounting firms, of all sizes, to subscribe on a week-to-week basis to our entire team of highly experienced Chief Auditors and talented specialists at a fraction of the cost of a full-time equivalent. Hence, smaller public accounting firms cannot simply make the excuse that such an action is cost prohibitive and not feasible based on size and financial resources. This argument is further weakened by the proposed standard's focus on a firm having the "right

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resources" and recent surveys which have calculated average compensation per partner near $600,000. Such spend should not be seen as a cost, but rather an investment made to improve audit quality for the benefit of the client, investors, the capital markets, and more broadly, the global economy. In theory, such an investment should create a stronger value proposition associated with the audit, and a cost that issuers should bear with the understanding that it is necessary to protect investors.

Another more relevant factor to consider is the market capitalization of an audit firm's issuer clients. The size of a firm does not preclude it from the risk associated with self-governance. Independent judgment is crucial regardless of the size of the firm. We go as far as to say it is even more critical for smaller firms. Larger firms already have the human capital available to identify objective individuals internally. Alternatively, smaller firms would benefit from subscribing all or a portion of their quality management oversight function to an independent party to help drive quality with an objective mindset. These functions could include, for example, engagement quality control reviews, real-time monitoring of in-process audit engagements, coaching programs, involvement in internal inspections, consideration of PCAOB inspection findings, or other quality control activities. In our view, this is a necessary cost when choosing to conduct business within the issuer arena for which the stakes are typically far greater than for private companies.

II. *Performance Metrics*

From an investor perspective, we feel that the proposed standard should mandate basic prescriptive performance metrics (also known as "audit quality indicators" or "AQI") that our profession views as highly correlated to audit quality. Such performance metrics or AQIs could be reported upon within the already required Form AP or the newly introduced Form QC. The results of an implemented quality control system should be turned into a quantifiable and reportable measure for investors to easily access. If results are not quantified and publicly reported, does a public accounting firm not lose its incentive over time to continue effectively operating and maintaining a high-performing system of quality control?

We contend that performance metrics should incentivize a firm to go beyond the minimum required effort to show potential clients and their investors that the firm is a differentiator in the market with their commitment to audit quality. The PCAOB has already conceptualized 8 potential AQIs in its 2015 Audit Quality indicator Concept Release that could easily be integrated into the proposed standard.

III. Time to Fulfill and Time to Perform

Throughout the proposed standard there are various references to the need for resources to have time to fulfill their responsibilities and time to perform activities in accordance with applicable professional and legal requirements and the firm's policies and procedures. Furthermore, the proposed standard cites a study whereby "audit staff report working on average 72 hours per week during busy season" and that "other research finds that a heavier workload in the fieldwork phase of the audit is negatively associated with proxies for audit quality."

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Without question, in the past twenty years, the financial accounting, reporting, and auditing landscape has only become more complex through a myriad of new standards and other requirements. Furthermore, audit quality has undoubtedly been adversely impacted by an extreme shortage of qualified resources. From a decreasing trend in the number of students entering our profession, to an unacceptably high rate of turnover of mid-level professionals within public accounting firms, to the fact that 75% of CPAs met the retirement age in 2020, our profession is facing an unprecedented people problem. Despite the added complexity and resources challenges, the 10-K filing deadlines have been accelerated (e.g., 90 days to 60 days). In short, the SEC, and the PCAOB for failing to challenge the acceleration, has created unnecessary compression to the audit timeframe that inevitably leads to audit quality issues. The PCAOB should advocate for a reconsideration of filing deadlines that helps create more manageable workloads spread throughout the year, especially considering the human capital challenges.

At Auvana, we specifically focus on our human capital experience and want to ensure our personnel operate at their peak level to strongly support our members. To achieve this, we have pivoted to a year-round, 4-day workweek with an average of 32-36 hours per week. Similar practices exist with respect to airline pilots in a clear commitment to passenger safety. We have consciously limited our capacity, but undoubtedly reduced our top-line revenue potential. However, in our view, the quality of our performance is more important than the size of our revenue base. Unfortunately, many public accounting firms continue to focus more on the outputs of engagement economics rather than managing the inputs into the audit process, such as the people and the processes, that can clearly drive and improve engagement audit quality.

Auvana thanks the PCAOB for the opportunity to comment on Matter No. 046, *A Firm's System of Quality Control.* We would be pleased to discuss our comments further with members of the PCAOB should the need arise.

Sincerely,

Christopher Vanover, CPA

Christopher Vanover
President & Chief Auditor
Auvana Accountancy Corporation