February 1, 2023

Barbara Vanich, PCAOB Chief Auditor
Office of the Chief Auditor
PCAOB
1666 K Street
Washington, DC
20006

PCAOB Rulemaking Docket Matter No. 046

Dear Ms. Vanich,

Congratulations to the entire PCAOB team on the proposal to update, modernize and conform the quality control standards with global developments in quality management.

In general, we support the approach taken in the proposal — i.e., to align with other standards on quality management to the extent possible and include alternative or incremental provisions when necessary to address PCAOB's statutory mandate and environment.

Specifically, we support the following,

- Integrating the related PCAOB rules and standards in one standard which will allow for a more cohesive proactive approach to quality management.
- The risk-based approach, as we believe it will allow for scalability of the requirements and help embed audit quality management in firms' strategies and cultures, as opposed to a separate compliance exercise.
- Structuring the proposed standard similarly to ISQM 1.1 This will help firms that have already implemented that standard to specifically identify the additional or modified provisions applicable to their engagements performed under PCAOB standards.

The following are areas we believe require further clarification or suggestions for improvements to the standards.

1. Applicability of QC 1000 to non-US firms that have implemented ISQM 1 and other requirements

In addition to adoption of ISQM1, non-US firms may also have adopted local quality management requirements. In Canada, this would include the Quality Management System framework promulgated by the Canadian Public Accountability Board (CPAB). In this scenario, QC1000 would be a third quality management framework required to be adopted within a very narrow window and applicable to largely the same practice area. Such a requirement would impose undue costs to design similar but different quality management systems and may have unintended negative impacts on engagement quality and the ability to efficiently design quality management systems themselves. Moreover, with multiple regulators, there are likely to be variations in interpretations of standards and professional judgment in complex operational areas of a firm's systems. Since the principal objective of these separate quality management systems is largely consistent, the PCAOB should permit non-US firms to comply with ISQM1 (as well as other

[1] International Standard on Quality Management (ISQM), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or related Services Engagements.*

national requirements) rather than adopting QC1000. This would be consistent with SEC and PCAOB requirements permitting the use of IFRS and ISAs in applicable scenarios.

Alternatively, the cost-benefit of multiple, potentially conflicting requirements may require further consideration by the PCAOB as well as the potential impact on non-US audit firms' capacity to support US listings.

2. Linkage between firms' systems designed to be responsive to QC 1000 and the requirements of other quality management standards

We believe clarity is needed on whether QC 1000 requirements operate separately or in concert with other QM standards. Aspects of interaction with other QM standards are non-trivial in practice. Firms may have different standards applicable to different parts of their practice and some parts subject to multiple standards.

For example, when performing the firm's risk assessment under QC 1000, is the risk assessment meant to apply only to engagements performed under PCAOB standards or to the firm's overall risk assessment of all its engagements, including those performed under PCAOB standards? This would affect, for example, the selection of items for tests of operating effectiveness in evaluating the firm's QC system. We note that the former case would essentially require a carve-out of an established firm-wide process for a separate evaluation and would impose additional costs on firms and potentially limited resources within either part of the operational separation. Ultimately these may have negative consequences for capacity and investment in audit quality.

The Board should evaluate these factors, including any unintended consequences on audit quality. The Board should also provide guidance regarding the practical aspects of design and operational assessment where a practice area is subject to QC 1000 requirements alongside other quality management standards. It may also be helpful in the future, to provide examples of best practice for how firms have addressed the requirements of QC 1000 in conjunction with their quality management system under ISQM 1.

3. Annual evaluation

We do not support the proposal to have all firms complete their annual assessment of their QC systems on a single date (November 30, and January 15 for Form QC) because:

- This requirement does not allow firms to tailor their QC systems to their year-ends, client reporting periods or other specific needs and thus seems to run counter to scalability and promote a "one size fits all" approach.
- By the time QC 1000 becomes effective, firms will have already implemented ISQM 1 (or its equivalent) for a few years and will have already selected a suitable assessment date that meets their specific business cycle. It would not be cost-effective for firms to have their quality management system assessment at a date different from the QC assessment for the portion of their operations to which QC 1000 would apply. This could impose significant and unnecessary financial and operational costs on firms.
- While we recognize that the proposed January 15 filing date for Form QC is linked to the PCAOB's inspection process, this should not be a key consideration for firms in determining the most appropriate timing for their annual assessment.

4. Roles and responsibilities

Operationally, a firm will assign specific roles and responsibilities within the firm, including for ultimate responsibility for the QC system. However, we strongly disagree with the need to include specific requirements related to those roles and responsibilities such that enforcement action could be brought against them individually. Operational matters are substantially more complex than internal controls over financial reporting and subject to innumerable factors and variations. Such requirements may make it

difficult to recruit or retain individuals to assume those roles, which could have the unintended consequences of reducing quality and/or increasing costs to firms. Further, quality management standards are relatively new. The development of a mature quality management system, and consistent global regulatory expectations around quality management systems may take a lengthy period of time. That period will be impacted by the rate of changes to other assurance standards, dynamic operational work environments including hybrid work, changes in accounting standards, the development of new assurance services including ESG and many other areas.

5. QC deficiencies

We agree with the rationale of identifying when a QC deficiency or QC major deficiency may exist within the QC system. The proposed standard also makes mention that the proposed definition of QC deficiency is similar to the definition of an internal control deficiency as defined by COSO in its integrated framework. The Board should include specific guidance in the standard to explain in sufficient detail what would constitute a QC deficiency or QC major deficiency and where possible, to provide additional examples. This will assist in driving consistency in the way deficiencies are reported by firms, especially given that the definition used is not the same as described in ISQM 1 (and potential other standards prescribed in other countries) which may make it challenging for firms to find a consistent way on how to report on deficiencies identified.

This additional guidance may also assist firms that report on multiple quality standards to not have to maintain various definitions of deficiencies, various approaches on how to respond to deficiencies and ways to report on deficiencies.

6. Audit committee disclosure

We disagree with the requirement to disclosure a firm's QC deficiencies to audit committees. These QM standards are all immature, extremely complex and subject to significant internal judgment and external inspection judgment. Each of these could result in different conclusions. Moreover, QC deficiencies may have little to no impact on a given reporting issuer's audit, or that area of the firm's practice.

7. Ethics and independence specified quality responses

Under Part IV of the proposal document, there is explanatory material which describes the expectations of firms related to monitoring compliance with applicable ethics and independence requirements (refer to paragraph .33.e. on page 108 of the document). Within this material, there is reference to the current SECPS requirements which require specific activities for the monitoring system (i.e., auditing, on a sample basis, selected information such as brokerage statements. We request clarification whether this specific activity will be mandatory under proposed QC 1000 or if firms can implement alternative procedures to meet the requirements of paragraph .33.e.

Further, we do not agree with the requirement specified in paragraph .34 relating to firms issuing audit reports with respect to more than 100 issuers during the prior calendar year, to identify firm and personal relationships and arrangements with restricted entities and that such process should be automated. Our concern is similar with respect to sub-paragraph a.2 that if the firm issued audit reports with respect to 100 or fewer issuers during the prior calendar year, the firm should consider automating such process.

The requirement or suggestion to automate this process could be cost-prohibitive to a large number of firms. As the standard is meant to be scalable, firms should have the opportunity to design processes that reflect their respective size, complexities and risks identified.

8. Examples of quality risks in Appendix B

We find the examples provided useful, but as noted in point 2. above, more clarity is needed in relation to whether the risk assessment for PCAOB engagements is intended to be done on a stand-alone basis, or as part of the risk assessment for a firm's engagements in totality, and how the approach affects the

nature and extent of testing required to support the annual evaluation of the risk assessment component of a firm's QC system.

9. Continued use of the term "quality control"

There was no discussion in the proposal of the rationale for retaining the quality control terminology. In light of the objective of the proposed standard to modernize and strengthen the system that forms the foundation of managing and achieving engagement quality, the Board should conform terminology and use "quality management" to clarify for stakeholders the change in paradigm and enable education of audit committees and others.

10. Effective date

The standard is currently not clear on the effective date of the standard as it relates to design and implementation and operating effectiveness. We recommend that the PCAOB allow firms significant time between release of the final standard and its effective date, or separate stages of operational effectiveness to allow firms sufficient time to design, implement, test and remediate controls. Further the window between the final standard and the operational effectiveness date should be sufficient for firms to evaluate their business models and costs, and where appropriate, provide clients with sufficient notice to seek other auditors.

We thank the PCAOB for the opportunity to respond to the proposed QC 1000 standard and we hope that our comments enable further dialogue. We would welcome future opportunities to respond to amended or new standards.

Yours truly,

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