

Office of the Secretary

January 3, 2020

Public Company Accounting Oversight Board

1666 K Street, N.W., Washington, D.C. 20006-2803

Dear PCAOB Secretary :

Commenter hereby responds to the Concept Release (PCAOB Release 2019 – 03) questions and with data or practical experience narrative that informs the views of the commenter. This one and one only commenter appreciates the opportunity to respond to the well – thought – out questions below and to thereby provide feedback to the Board.

Introduction

1. Should PCAOB QC standards be revised to address developments in audit practices and provide more definitive direction regarding firm QC systems? Are there other reasons for changes to the QC standards that we should take into account?

This commenter believes that direction regarding audit firm quality control systems begins with allowing for the proper criteria and requirements for the audit approach and planning in order to achieve audits with an appropriate level of quality. This commenter believes the “international” approach to audit firm quality control is not necessary at this time and thereby some of the related IAASB rules, while redeeming on the face of things, do not specifically call for necessary understanding and comprehension of balance sheet accounting and the related accounting and auditing judgments one makes thereby in the audit process. Perhaps this needs to be taken into account in any establishment of concordance between IAASB standards and U.S. auditing standards through regulators and standard setting boards such as the FASB, PCAOB, SEC and the like.

2. Is it appropriate to use ISQM 1 as the basis for a future PCAOB QC standard? Are there alternative approaches we should consider?

This commenter knows that a basis for every quality control document that informs rules, guidelines and then practices, should have a reference document itself or reference documents. This Concept Release appears to be a response to the changes in technology and its uses that appear to govern many financial statement audits at present. With this in mind and despite the inviting and dovetailed provisions of the IAASB audit quality control documentation, the PCAOB needs to choose a quality control model that establishes a standard or standards that encompass further integrations of technology into the production of financial statements, and then the audits of these same financial statements. Why not follow an audit framework based on consultation with the IT Governance Institute that would include rules to govern assessments, evaluations and judgments of auditors and reviewers that are more readily risk – based, that comprehend information and data security, that better equate the productivity goals of technology with human capital and resources, and so on.

3. Are the reasons provided for differences between ISQM 1 and a future PCAOB QC standard appropriate? Are there other potential reasons for differences that we should consider?

Differences between the IAASB ISQM1 and a PCAOB QC standard should remain at least for the immediate future pending the recognition of governing emphasis of the ISQM1 on more activities – based economic criteria and its related accounting and auditing treatments. Balance sheet accounting and the recordation of capital formation in financial accounting in the U.S. is extremely important in the economics of the nation and financial statement audits in the U.S., again, continue to differentiate this from those abroad by the foreign emphasis on income, income smoothing, the putting aside of necessary working capital criteria for the business in the U.S., and other considerations. A future PCAOB QC standard should also be tied to future economic developments and technologies through an economic emphasis on income producing assets, capital formation and stakeholder management with specific respect to business debt – holders and equity holders.

Background and Considerations for Potential Revisions to QC Standards

4. Are there other developments affecting audit practices we should consider addressing in a future PCAOB QC standard?

Firms need to hire personnel that are aware of and practice proper GAAP accounting and GAAS when conducting an audit. This perhaps means creating a more rules – based training for accountants examining the financial statements of public companies, and with an emphasis on criteria referred to above.

5. To the extent that audit firms are already updating or making enhancements to their QC systems to align with international developments, can you characterize the nature and extent of those changes and related efforts? What benefits do you anticipate from updates to QC systems?

Given the number of foreign entities traded on equity exchanges in the U.S. at this time, and the overall financial girth of these, which is important to consider at present and for the future, this commenter does consider the "international" approach to audit quality control, with its peripheral emphasis when compared with U.S. standards of audit quality control, to be secondary to actual and appropriate U.S. criteria for U.S. audit quality even in view of possible updates needed to U.S. QC systems.

6. Please provide references to any academic studies or data we should consider, including academic studies or data that might address costs and benefits relevant to an economic analysis of potential revisions to PCAOB QC standards.

The commenter cannot cite any recent studies nor data outside the PCAOB in these matters.

Potential Standard-Setting Approach Based on Proposed ISQM 1

7. Would the approach to quality control standards described in this concept release be preferable to the current PCAOB quality control standards?

This commenter is entirely satisfied with the current PCAOB quality control standards that encompass the present General Standards, the Standards of Fieldwork, and the Standards of Reporting while

agreeing there need to be provisions for governance and leadership, risk assessment process(es,) and ethics language and requirements established for the applicable standards.

8. Would the objective of a quality management system provided in Proposed ISQM 1 be an appropriate objective for a QC system under PCAOB standards? Are there additional objectives that a quality control system should achieve?

This commenter does not believe a QC system under PCAOB standards in the U.S. needs to depend upon a Proposed ISQM 1. Additional objectives a non – ISQM 1 audit quality standard could achieve on its own might include considerations for audit automation and additional and future technology and office automation and productivity concerning the financial statement work product.

9. Would the potential revisions to PCAOB QC standards described in this concept release improve QC systems and audit quality? This commenter does not believe hereby that audit quality would improve by integrating ISQM 1 into a PCAOB audit quality standard or standards.

10. Would the potential revisions to PCAOB QC standards described in this concept release enhance firms' ability to prevent audit deficiencies? Are there additional revisions to PCAOB QC standards that we should consider as supporting a preventive approach to managing quality? The governance and leadership provisions of the IAASB standard audit quality standard or standards and related risk – assessment processes possibly and probably could improve audit quality administratively, though this is a topic that invites speculation and should be studied and evaluated.

11. Should a future PCAOB QC standard have additional or alternative requirements for firms that audit brokers and dealers? If so, what? A future PCAOB QC standard for audits of brokers and dealers should emphasize proper and rigorous governance given the public trust of broker dealers and enhanced scalability that allows proper and appropriate audit rules to apply to the complete range of these unique sorts of businesses.

Specific Aspects of a QC System and Potential Changes to PCAOB Standards

12. What would be the costs and benefits of implementing and maintaining an integrated QC system as described in this concept release? Are there particular costs and benefits associated with specific components that we should consider? What, if any, unintended consequences would there be?

This commenter leaves the study of the costs and benefits of this integrated QC system in this concept release up to the PCAOB apart from the additional and significant professional expertise and human resources management implementation of this standard could possibly require. The costs of audits could increase noticeably and markedly as would the insurance costs for various contingencies involving audits and their various risks to audit firms.

Firm Governance and Leadership

13. Is the approach to firm governance and leadership appropriate (i.e., use of ISQM 1 requirements as a starting point, with incremental or alternative requirements)? Are changes to the approach necessary for this component? This commenter believes the consideration of alternatives given the content of this

proposed Concepts Statement are appropriate and necessary, though these do not encompass an integration with FASB Concept Releases (such as an understanding by auditors of the details of FASB Concept Release Number 6.)

14. Would more clarity in the assignment of firm supervisory responsibilities enhance supervision and positively affect QC systems and audit quality? This commenter believes that apart from enhanced supervision, and audit governance and leadership considerations, that separation of duties responsibilities and considerations as enumerated will affect QC systems and audit quality.

15. Should a future PCAOB QC standard address quality considerations in the appointment of a firm's senior leadership? If so, how?

Consideration of the appointment of audit firm's leadership personnel should be left to the proper stakeholders within the various audit firms. Additional considerations such as partner and firm rotation and continuing education for audit supervisors should be addressed additionally by future PCAOB standards.

16. Allocation of financial resources is one aspect of firm governance and leadership under Proposed ISQM 1. Should this be given greater emphasis in a future PCAOB QC standard than it is given in Proposed ISQM 1? For example, should a future PCAOB QC standard emphasize the importance of counterbalancing commercial interests that may lead to underinvestment in the audit and assurance practice, particularly in firms that also provide non-audit services? This commenter overall does not have an editorial view on this question though the sufficiency of current rules on audit and non – audit services and their allowability for audit firms under the circumstances appears to be appropriate.

17. Should a future PCAOB QC standard incorporate mechanisms for independent oversight over firms' QC systems (e.g., boards with independent directors or equivalent)? If so, what criteria should be used to determine whether and which firms should have such independent oversight (e.g., firm size or structure)? What requirements should we consider regarding the qualifications and duties of those providing independent oversight? This commenter believes these questions are better answered by the leading audit firm stakeholders on a proper governance – centered and risk – adjusted basis, and the question itself should be reviewed thoughtfully by these stakeholders.

The Firm's Risk Assessment Process

18. Is the approach to the firm's risk assessment process appropriate (i.e., use of ISQM 1 requirements as a starting point, with incremental or alternative requirements)? Are changes to the approach necessary for this component? This commenter does believe under the circumstances the firm's QC requirements should begin with a risk assessment as a starting point under the proposed rules; and this commenter would like to add that audit firms should complete a self – assessment or control self – assessment for audit quality before the risk assessment.

19. Are principles-based requirements sufficient to prompt firms to appropriately identify, assess, and respond to risks, or is supplemental direction needed? If supplemental direction is needed, what requirements would assist firms in identifying, assessing, and responding to risks? This commenter does

not necessarily believe in the proper utility or utilities of principles – based requirements alone under the circumstances.

20. Should a future PCAOB QC standard specify certain quality risks that must be assessed and responded to by all firms? If so, what should those risks be? All firms should respond to quality implementation and integration, practice and effectiveness and efficiencies of their General Standards, Standards of Fieldwork and Standards of Reporting.

21. Should firms be required to establish quantifiable performance measures for the achievement of quality objectives? The requirements for quantifiable performance measures need not always control for the achievement of quality objectives.

If so, how should such measures be determined and quantified (see also Question 46)? N / A.

Relevant Ethical Requirements

22. Is the approach to relevant ethical requirements appropriate (i.e., use of ISQM 1 requirements as a starting point, with incremental or alternative requirements)? Are changes to the approach necessary for this component? Though overall this commenter believes many aspects of the audit are controlled by ethics and ethics at times are relegated by utilities and expediencies, the current approach of this Concepts Statement appears to be appropriate with the emphasis of key ethics concepts clarified for the auditor and the audit firm.

23. Should a future PCAOB QC standard extend detailed requirements for independence quality controls (formerly SECPS member requirements) to all firms? How would this affect the costs and benefits of a QC system? This commenter does not believe the standards for auditors of hundreds of issuers, for instance, should have the same framework for oversight nor requirements for independence quality controls as much smaller audit firms.

Acceptance and Continuance of Clients and Engagements

24. Is the approach to acceptance and continuance of clients and engagements appropriate (i.e., use of ISQM 1 requirements as a starting point, with incremental or alternative requirements)? Are changes to the approach necessary for this component? This commenter believes the changes to the approach to acceptance and continuance of clients, client relationships and specific engagements are not necessary for the time being.

Engagement Performance

25. Is the approach to engagement performance appropriate (i.e., use of ISQM 1 requirements as a starting point, with incremental or alternative requirements)? Are changes to the approach necessary for this component? This commenter believes the changes to align audit quality control requirements with PCAOB standards is extremely important for this Concepts Statement.

26. Should a future PCAOB QC standard expressly address firm responsibilities and actions to support and monitor the appropriate application of professional skepticism and significant judgments made by engagement teams? If so, how?

Audit firm personnel and partners are required to be skeptical in the judgments they make especially concerning possible detection of deficiencies, fraud, illegal acts and going concern considerations. This professional skepticism should be risk – based and should control significant judgments made by engagement teams, though this commenter believes determining the application of skepticism and significant judgments should remain unique to the audit firm and dependent upon the number and character of the audit process by the same audit firms.

27. Should a future PCAOB QC standard expressly address the use of other audit participants? If so, should the scope of the requirements include affiliated and non-affiliated entities and individuals, including specialists and service delivery centers? Should we consider any changes to the scope of the potential requirements described? If so, what changes would be necessary? A future PCAOB quality control standard might address the use of other audit participants by audit firms, though the standard should be rules – based and prescriptive and need not leave room for the separate audit participants to disintegrate their affiliation nor association in view of the audit in the event of errors and omissions.

28. Should the Appendix K requirements be retained? Should the scope or application of the Appendix K requirements be changed, for example to extend the requirements to all audits in which a non-U.S. firm issues an audit report on the financial statements of an issuer, or to exempt certain audits from one or more requirements? This commenter is not with a foreign audit firm and does not favor foreign audits of businesses present on U.S. soil – no opinion at this time.

Should the individual requirements in Appendix K for filing reviews, inspection procedures, or disagreements be revised or updated? If so, how? Is it clear how the responsibilities of an Appendix K reviewer differ from the role of the engagement quality reviewer? Foreign auditors work product concerning businesses in the U.S. should be reviewed by an independent legal party who is familiar with PCAOB rules and provisions for financial statement audits.

29. Should a future PCAOB QC standard require firms to adopt engagement monitoring activities (e.g., performance measures, engagement tracking tools, or reviews of in-process engagements) that would prompt them to proactively prevent or detect engagement deficiencies? What are examples of less formal, but effective, engagement monitoring activities that could be adopted by smaller firms? This possible requirement for the auditors of large public issuers or numerous issuers, in its design and implementation, should be left to the audit firm. Provisions that could be adopted by smaller firms concerning the detection of deficiencies would have to do with the audit approach and objectives in possible comprehensive audits.

30. How should a future PCAOB QC standard expressly address firms' actions to support the fulfillment of the auditor's responsibilities under Section 10A of the Exchange Act, including:

- a. With respect to fraud?
- b. With respect to other illegal acts?
- c. With respect to going concern consideration?

This commenter believes that the PCAOB and GAAS already are providing, possibly and probably, the best guidance on these items that has so far been documented or innovated. The PCAOB QC standard might further address firms' actions concerning auditor's responsibilities above by allowing an increase of the priority of the topics above for businesses given various risk – assessed evaluations and supervisory judgments including even in an audit firm control self - assessment.

Resources

31. Is the approach to resources appropriate (i.e., use of ISQM 1 requirements as a starting point, with incremental or alternative requirements)? Are changes to the approach necessary for this component? The approach to resources is appropriate, with an emphasis on technology and integrity and for the design and implementation of controls for each audit firm with these and related items in mind.

32. Should a future PCAOB QC standard continue to expressly address technical training on professional standards and SEC requirements? Are there other subjects for which training should be expressly required? Which firm personnel should be covered by the training requirements? Should the standards set minimum requirements for the extent of training? If so, what should those requirements be based on? Yes to all of the above for management and audit supervisors in the registered audit firms.

33. Should a future PCAOB QC standard continue to expressly address required competencies of engagement partners? Are the competencies discussed in this concept release appropriate? Are there other competencies that should be added? A future PCAOB QC standard should address the requirements for competencies of engagement partners and those discussed in this concept release are appropriate in the event they facilitate and catalyze audit work and the proper and appropriate completion of the audit.

34. Should the competencies of individuals in engagement or QC roles, in addition to the engagement partner and engagement quality reviewer, be addressed in a future PCAOB QC standard? This depends upon the demands of the audit firm and the audit work product itself. Such requirements should be a matter of internal audit firm policy.

35. Should a future PCAOB QC standard expressly address the use of emerging technology in QC systems or engagements? Should a future PCAOB QC standard expressly require firms to design and implement controls to prevent unauthorized access to technology and data? Are there any other requirements we should consider related to the use of technology on engagements? A future PCAOB standard on audit quality should address responsibilities, safeguards and monitoring regarding information systems and computers storing and processing financial and audit data; and the same for different forms of communications of the audit firm as related to security, availability and integrity of computing, computing systems and communications including telecommunications.

36. Ensuring that firm personnel in QC and engagement roles have sufficient time to properly carry out their responsibilities is one aspect of firm resources under Proposed ISQM 1. Should a future PCAOB QC standard place greater emphasis on this requirement than Proposed ISQM 1 does? If so, how? No opinion. Though time is an important factor in successfully producing an audit work product, different projects by different personnel take a range of times overall and this might not be determinable.

37. Should a future PCAOB QC standard expressly address how the firm's incentive system, including compensation, incorporates quality considerations? If so, how?

A firm's incentive system should incorporate, in addition to compensation considerations, proper qualifications, career development efforts and work history. This includes a history of the quality of one's work as incorporated into the audit firm's work product(s.)

Information and Communication

38. Is the approach to information and communication appropriate (i.e., use of ISQM 1 requirements as a starting point, with incremental or alternative requirements)? Are changes to the approach necessary for this component? This commenter believes the current PCAOB provisions on information and communication are proper and additional dressing – up of the requirements is not needed, though guidelines should be available from the PCAOB for audit firms to enhance their approach to this topic if desired and if stakeholders require it.

39. Should a future PCAOB QC standard require public disclosure by firms about their QC systems? If so, what should be the nature and timing of such disclosures (e.g., information about the firm's governance structure)? (see also Question 46) A firm's governance structure should be confidential to the audit firm.

The Monitoring and Remediation Process

40. Is the approach to the monitoring and remediation process appropriate (i.e., use of ISQM 1 requirements as a starting point, with incremental or alternative requirements)? Are changes to the approach necessary for this component? The approach to the monitoring and remediation process is appropriate, especially given its provision for root – cause analysis.

41. Would the requirements related to monitoring and remediation discussed in this concept release prompt firms to develop an appropriate mix of ongoing and periodic monitoring activities? Would the requirements create an appropriate feedback loop to prevent future engagement deficiencies? This commenter does not believe that, e.g., continuous monitoring in an audit is of greater value than benchmarking and ex post meetings and post mortem while there is a possibility that with more frequent monitoring there are better chances to prevent and deter deficiencies.

42. Should a future PCAOB QC standard provide additional direction regarding determining appropriate monitoring procedures, appropriate root cause analysis, and remediation of QC and engagement deficiencies? If so, what type of direction is needed? Yes, the model for determining procedures, root cause analysis, and remediation of QC engagement deficiencies should be risk – based on a governance model that is the choice of the Board.

43. Should all firms, as part of their monitoring procedures, be required to have internal inspections of their completed engagements? If not, which firms should not be required to have inspections of their completed engagements, and what alternative measures should be required for those firms? All firms should have an internal EQR process.

44. Should a future PCAOB QC standard establish requirements for internal inspection selection criteria? Should a future PCAOB QC standard specify minimum or cyclical thresholds for inspections of completed engagements by the firm? If so, what should the threshold(s) be (e.g., one engagement for each engagement partner, and/or the audit of each issuer, broker, and dealer on a specified basis)? Should we require selection of engagements for internal inspection to include either random selection or an element of unpredictability? EQR standard requirements should have a risk – adjusted model as established severally by individual audit firms.

45. Should firms be required to perform an annual evaluation of their QC system’s effectiveness? If so, should the required evaluation be as of a specified date or for a specified period? How should the date or period be determined? In the view of this commenter, firms should have an annual review of audit deficiencies to evaluate their QC system’s effectiveness and the review should be ex post the fourth month of the year.

46. Should firms be required to report to the Board on their annual evaluations of QC system effectiveness? If so, what should be included in the report? Should firms be required to disclose any performance measures that were important to their conclusion about their QC system’s effectiveness? Should firm reports be publicly available (see also Question 39)?

The report referred to in this question stem should be confidential to the firm and to the Board. With confidentiality in mind, the Board and the firm or network of firms may determine themselves the different performance measures important to an evaluation of the firms’ QC system’s effectiveness.

47. Should we require the firm’s top leadership to certify as to their QC system’s effectiveness, either as part of or in addition to the firm’s report on their QC system’s effectiveness?

The effectiveness of the firm’s QC system or of the firm network’s QC system must have to do with comparative metrics in the sector or industrial segment proper of the firm(s.) The firm’s stakeholders in this matter - managers, officers and partners - should be able to certify in that the QC system is working and maintains its integrity and effectiveness.

Documentation

48. Is the approach to documentation appropriate (i.e., use of ISQM 1 requirements as a starting point, with incremental or alternative requirements)? Are changes to the approach necessary for this component? The approach to the nature and extent of documentation by this Concept Release are appropriate without alternative requirements nor changes.

49. Are the potential sufficiency and retention period requirements described in this concept release appropriate for a QC system? Why or why not? If not, what alternatives should we consider? The retention period requirements as described are appropriate.

50. Should we require firms to document their understanding of network or third party provided methodology and tools, including how such methodology and tools are responsive to the requirements of the professional standards and applicable legal and regulatory requirements?

This commenter was not aware this was not already in the PCAOB standards. Firms should document their understanding of network or third party provided methodology and tools, including how such methodology and tools are responsive to the professional standards and applicable legal and regulatory requirements.

Roles and Responsibilities of Individuals

51. Should a future PCAOB QC standard specify roles and responsibilities of firm personnel in relation to the firm's QC system? The firm's human capital or human resources system should specify roles and responsibilities of firm and stakeholder personnel affiliated with the firm, and this should be integrated into the specific fulfillment of requirements of a future PCAOB QC standard.

52. Are the roles and responsibilities described in this concept release appropriate? Are there other roles that should be added (e.g., chief ethics officer, chief technology officer)? Are there further responsibilities that should be added?

The roles and responsibilities across firms will tend to be homogenous given the functions of the firm and the related organizational hierarchy. To the extent specifics on this are determinable by implementation of PCAOB QC standards, also determinable, and identifiable by name and title are the responsibilities and other requirements of executive, management, supervisory and other stakeholder titles and positions.

Related Potential Changes to Other PCAOB Standards

53. Are the potential amendments to AS 2901 appropriate? Are there other approaches we should consider to prompt firms to appropriately respond when there are indications calling into question the sufficiency of audit procedures performed and/or audit evidence obtained? The changes to AS 2901 are appropriate insofar as they clarify evaluation criteria by citing "sufficient appropriate evidence" and the application of procedures to provide "sufficient appropriate evidence" given persons are relying or will rely on the financial statement report. Perhaps also a thoroughgoing EQR checklist to integrate a section on AS 2901 topics would be of addition assistance for audit firms.

54. Does AS 1110 provide helpful direction to auditors, or should it be rescinded? Please provide explanation for your answer. A common – sense reading of the provisions of AS 1110 presented in the Concepts Statement allows for the interpretation that due diligence, due professional care, and other duties can be carried out and a deficiency or deficiencies can still occur. The view of this commenter is to continue inclusion of AS 1110 in PCAOB documentation.

55. Are there other PCAOB standards for which substantive changes might be needed to align with a future PCAOB QC standard? No, in the view of this commenter, not at this time.

Scalability

56. We intend that a future PCAOB QC standard developed using this approach would be applicable to all firms and scalable based on their size and complexity and the nature of their engagements. What factors should we consider when developing a future PCAOB QC standard to ensure that its

requirements are appropriately scalable? This commenter believes a list of items on this topic can be quite lengthy, but one might consider the overall size of the firm in revenue and in the size of the employee or affiliate – associate human resources. The number of offices of the firm and number of partners, executives, supervisors, the firm has is important at the same time as is the regional, national or international network of the firm. Does the firm audit multi – national entities and sole proprietorships, or either or a combination of both? Does the firm only audit small or medium – sized businesses or large enterprises, typically? There are other considerations as well that include the story of the firm and where it is in the chain or scale of audit firms overall.

57. Are there aspects of the approach described in this concept release that would disproportionately affect smaller firms? If so, which areas, and what steps could the PCAOB consider to mitigate those effects? Smaller firms might be faced proportionately with more audit compliance work than comparatively larger firms, though this is speculation. Additional costs of compliance by firms with fewer personnel and less segregation of duties functions might only be marginal considering the effects of past rule changes and the ways small firms behave and adapt to compliance changes.

58. Should we have additional, more specific requirements regarding certain components or areas (e.g., governance and leadership) for larger, more complex firms or based on the nature of engagements performed by the firm (e.g., broker and dealer engagements or engagements for issuers in specialized industries)? If so, what should those be?

More should be said about the value and redeeming qualities of educating oneself in, and understanding as completely as possible the details of U.S. GAAP balance sheet accounting and the ways this relates not only to the quality of earnings as certified in an audit, but the quality and elegance of audit work and the work product of the audit firm. There is also the notion that capital formation is like a flow of water over a bucket brim, and one sometimes never knows what one ends up with : This might be true for fiscal purposes, but for financial purposes the amount and scope of capital formation are calculable and exact in many cases. Measures of audit quality control are precise and exact as well, and should not be subject to gray areas – thus this Concept Release allows for further determination and measurement of successful auditing objectives and assertions given the various metrics, scale and scope involved.

By,

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