



**Crowe LLP**  
Independent Member Crowe Global  
225 West Wacker Drive, Suite 2600  
Chicago, Illinois 60606-1224  
Tel +1 312 899 7000  
Fax +1 312 899 5300  
www.crowe.com

March 16, 2020

By email: [comments@pcaobus.org](mailto:comments@pcaobus.org)

Office of the Secretary  
Public Company Accounting Oversight Board  
1666 K Street, N.W.  
Washington, D.C. 20006-2803

RE: PCAOB Rulemaking Docket Matter No. 046, Concept Release: *Potential Approach to Revisions to PCAOB Quality Control Standards*, PCAOB Release No. 2019-003

Office of the Secretary:

Crowe LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB" or "Board") concept release, *Potential Approach to Revisions to PCAOB Quality Control Standards* ("Concept Release").

We strongly support the PCAOB's efforts to improve audit quality by evaluating existing quality control ("QC") standards to determine whether improvements are necessary. A firm's system of quality control is the cornerstone on which the performance of high-quality audits and assurance engagements are built. Consideration by the PCAOB of extant quality control standards is an appropriate next step in the evolution of PCAOB standard setting activities, which to date have generally been engagement performance based. In addition, the timing of such consideration is critical given the recognition of global activities regarding systems of quality control.

We agree with PCAOB Board Member Brown's statement during the PCAOB's December 17, 2019 meeting, that "corporate governance has undergone significant changes since the adoption of the first QC standard in the United States in the 1970s." There have been significant changes to the auditing environment since that time, including an intensifying focus on audit quality and increasing expectations of firm stakeholders, and QC standards have not kept pace. While some firms have made some enhancements to their QC processes, we believe such modifications are directly in response to the changing audit environment rather than a complete overhaul of their quality management system.

We are providing our general observations followed by responses to the major categories described in sections IV., V. and VI. of the Concept Release.

### **General Observations**

Due to significant changes to corporate governance as well as the audit environment since the initial adoption of QC standards, we recognize the need to update QC standards. We support the PCAOB using the International Auditing and Assurance Standards Board's ("IAASB") proposed International Standard on Quality Management 1 ("ISQM 1") as a quality control standard. ISQM 1 includes many improvements to extant QC standards that reflect changes made in the audit environment. Additionally, ISQM 1 is risk-based and designed to proactively address quality control for changing environments on an ongoing basis.

### *ISQM 1, with Minimal Additional Requirements*

We support the risk-based approach to quality control outlined in ISQM 1 as the basis for a future PCAOB QC standard. The Board's consideration of current and proposed standards in other jurisdictions is important to promote consistency. We agree with the statement in the Concept Release, "it would not be practicable to require firms to comply with fundamentally different QC standards. Unnecessary differences in QC standards could even detract from audit quality by diverting firms' efforts from focusing on matters of fundamental importance to effective QC systems." Harmonization with other standard setters is important to promote consistent quality control standards and minimizes unnecessary differences or incremental effort that do not benefit audit quality. To be consistent with the ISQM 1 framework, we strongly recommend minimal additional requirements and believe it would be helpful that any additional requirements proposed by the Board be principles based and not prescriptive.

### *Public Reporting*

The changes required by ISQM 1 are extensive and will require a significant investment by many if not all firms. ISQM 1 requires the firm to make an annual evaluation of their quality, however, no public reporting of that evaluation. We believe publicly reporting a firm's effectiveness of quality control could result in unintended consequences. For example, it is unclear how such reporting will impact litigation risk to firms. As a result, we do not believe a future PCAOB QC standard should require public reporting.

We recognize ISQM 1 allows firms to determine the best manner to provide external communication, and at this time we believe flexibility is preferred to allow firms to tailor their external communication, in part, based on the needs of audit committees. Likewise, transparency and audit quality reports issued by a number of firms voluntarily today could continue to be a mechanism for public communication related to quality controls and firm governance, however, we do not believe prescriptive requirements are needed at this time.

### *Documentation*

ISQM 1 documentation requirements appear sufficient to enable an experienced auditor, that has no experience with the design and implementation of the firm's QC system, to understand the firm's QC system. We believe there is a distinction between audit performance standards and quality control standards to such an extent that the level of documentation retained should not necessarily be the same and therefore do not believe additional requirements are needed.

### *Other Potential Standard Setting*

We also believe the PCAOB should provide additional clarity regarding how the Board is viewing the other two standards proposed by the IAASB related to audit quality, specifically related to: engagement quality reviewer requirements (ISQM 2); and engagement-level requirements (ISA 220). As the PCAOB develops new QC standards, it would be helpful to understand the Board's intentions related to the other two proposed standards. This process may also result in the need to review other extant PCAOB standards.

### *Scalability*

As the PCAOB considers incremental or alternative requirements to ISQM 1, scalability is one of the most important factors to consider as the QC standards will be implemented by firms of all sizes. The flexibility provided in ISQM 1 is critically important to its scalability, as a prescriptive uniform approach for all firms does not recognize the diversity in registered public accounting firms. The risk-based approach proposed by ISQM 1 includes quality objectives requiring firms to assess risks specific to each firm's circumstances, which allows firms to tailor appropriate responses. Adding additional requirements that are prescriptive in nature could negatively impact scalability and audit quality. For example, setting prescriptive requirements based on a firm's size, complexity or nature may result in QC processes that do not align with the quality risks of a firm.

### *Reasonable Assurance*

We believe further clarity is needed regarding how to evaluate findings and deficiencies, specific to determining whether the QC system provides reasonable assurance that the objective of the standard has been achieved, as ISQM 1 does not provide sufficient clarity on this point. If not addressed in the final ISQM 1 standard, additional guidance specific to this area would be beneficial and promote consistency in application. We also believe the annual evaluation should be as of a point in time.

Current QC standards are designed such that the objective is to provide a firm with reasonable assurance that the firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and that reports issued are appropriate in the circumstances. Accordingly, we believe it continues to be an appropriate and necessary objective to require the system of quality control to provide reasonable assurance as even the best system of quality control will identify some deficiencies.

### **Major Categories in Sections IV., V. and VI. of the Concept Release**

#### *Potential Standard Setting Approach Based on Proposed ISQM 1*

We agree the evaluation of QC standards should include an assessment of incremental or alternative requirements that may be necessary to make the future PCAOB QC standard align with U.S. federal securities law, Securities and Exchange Commission (“SEC”) rules, and other PCAOB standards and rules. Further, it might be necessary to retain important topics or specific requirements in the current PCAOB QC standards that may not be addressed in ISQM 1. However, we believe differences from ISQM 1 should be minimized, at least initially, and to the extent possible, avoided in order to maintain an appropriate risk-based approach. As stated by Board Member DesParte, in the PCAOB’s December 17, 2019 meeting, “Regional and Global Firms are increasingly managing audit quality on a centralized, network-wide basis. Unnecessary differences between our standards and international standards could detract from audit quality by diverting firm focus and increasing execution risk.”

As previously stated, the current PCAOB QC standards have been in existence for quite some time and should be evaluated to address changes in the audit environment and how firms have modified engagement performance and QC activities in response to such changes. ISQM 1, a risk-based framework, with minimal variations, is a reasonable starting basis for revising the QC standards. ISQM 1 retains the elements of extant ISQC 1 and includes three new components, firm risk assessment process and information communication, and a component for governance and leadership. ISQM 1 includes notable enhancements that should improve audit quality by promoting more consistency and application of the firm’s system of quality management.

We agree that establishing effective systems of quality control is foundational to promoting consistent performance of high-quality audits as it serves to prevent, detect and remediate audit quality deficiencies. The new requirements included in ISQM 1, for example investigating the root cause of deficiencies and positive quality events, are effective enhancements to existing PCAOB QC standards and may already exist in practice in many regional and global firms. The new requirements will continue to only enhance a firm’s ability to detect and assist in preventing audit deficiencies.

ISQM 1, as a quality control standard, sits in the hierarchy above engagement driven audit standards, consistent with today’s structure. We believe it is important to maintain separation between specific engagement level requirements and QC standards. We note throughout our comments and observations where a requirement seems better placed as part of an engagement performance standard instead of a QC standard.

As noted in the Concept Release, there has been widespread support for the risk-based framework in ISQM 1, however, the IAASB has still not finalized the standard, therefore the final requirements are not known. As discussed above, we support using ISQM 1 as an appropriate quality control standard, however, we recognize that until the final standard is issued and evaluated, our views could change and some incremental requirements beyond the final version of ISQM 1 may still be necessary.

ISQM 1 includes application material to complement the risk-based framework of the proposed standard and many have noted the benefits of such additional guidance. It is important for the PCAOB to specify its intent to incorporate such application material in its standard and if not, its views on the use of that material given firms may rely on it as part of their adoption of ISQM 1.

Understanding effective dates is also critical. ISQM 1 initially proposed an effective date of 18 months after approval of the standard. Stakeholders were consistent in generally requesting more time for an effective and thorough implementation, given the significant changes contained within ISQM 1. While we understand the IAASB is still evaluating an appropriate effective date, we believe coordination between a PCAOB QC standard and ISQM 1 would be beneficial to an effective implementation and recommend PCAOB specific requirements be required no earlier than the ISQM 1 effective date.

The Concept Release requests feedback related to QC standards specific to broker dealers. While there are specific nuances to broker dealer engagements, we believe ISQM 1 is an appropriate risk-based framework that all firms, regardless of firm size, complexity or nature of engagements (e.g. broker and dealer engagements or engagements for issuers in specialized industries), should be able to assess the risks within their practice, and design appropriate actions to respond to those risks. Therefore, we do not believe it is necessary for alternative or additional requirements to be implemented as part of a future PCAOB QC standard for firms that audit broker dealers. As discussed further below under Scalability, this assumes the final standard is appropriately designed to be scalable to firms of all sizes, complexity and varying nature of engagements.

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

Implementation of ISQM 1 will be a significant undertaking for all impacted firms. For example, firms will be required to complete a comprehensive risk assessment, implement a continuous quality monitoring loop concept, and adopt documentation requirements, which will represent significant changes for many firms. While the risk-based approach will allow firms to tailor their processes to the complexity and size of the firm, it will still be a costly but appropriate endeavor. Additional implementation of prescriptive requirements and other differences in QC standards will only serve to increase the effort required which may not be cost effective nor beneficial to all firms. Further, prescriptive requirements will likely negatively impact the ability to apply the standard using a scalable approach.

#### *Firm Governance and Leadership*

We support governance and leadership as a foundational component of a future PCAOB QC standard and believe ISQM 1 provides a suitable framework for quality management. Firm management should foster an environment where the seriousness and importance of compliance with QC standards can be evidenced in many forms, such as the firm's commitment to training of professionals and action taken in the case of non-compliance with QC policies. The importance of compliance with quality control standards promulgated by the PCAOB must be reinforced by firm management, thereby setting the appropriate "tone at the top" and instilling its importance into the professional values and culture of the firm.

However, as the structure of firms can vary significantly as well as have some personnel who may only perform audits of private entities, it does not seem practical for firms to make explicit assignments of supervisory responsibilities at successive levels within the firm up to a firm's chief executive officer or equivalent. Rather, we believe the standard should allow appropriate implementation by firms of all sizes and complexity by maintaining flexibility in assignment of responsibilities and documentation of those assignments.

Allocation of sufficient financial resources is critical to investing in, implementation of, and monitoring audit quality. ISQM 1 appropriately addresses the need for firms to allocate sufficient financial resources to support the firm's commitment to quality as well as enable the design, implementation, and operation of the firm's QC system and a greater emphasis is not necessary. Due to the variation in size and complexity of firms as well as their QC systems, sufficiency will vary and a future PCAOB QC standard with more emphasis on resources may impact scalability.

Independent oversight over a firm's QC systems is a relatively new concept for most firms, and while it is clearly an option a firm might take, firms do not have public investors who have the same level of need for independent oversight as that of a public company. We believe that with a risk-based approach, a firm may determine that independent oversight or independent advisors is an appropriate response to their risk assessment process, however, it should be part of a firm's overall response to its risk assessment not a prescriptive requirement. Requiring independent oversight may also limit the scalability of a future PCAOB QC standard.

#### *Firm's Risk Assessment Process*

ISQM 1 provides a comprehensive approach that is sufficient to address firm specific considerations based on the nature of its practice; including organization structure, client base, laws and regulations, and global reach. A risk-based approach, void of unnecessary incremental or alternative requirements, should sufficiently allow firms of all sizes and complexity to identify, assess and respond to risks in an appropriate manner.

Due to variations in QC tracking, terminology, systems and processes, we believe establishing or standardizing quantifiable performance measures for achievement of audit quality objectives in a future PCAOB QC standard could be challenging, very costly to implement, and with uncertain benefit. Allowing firms to determine appropriate measures, as provided in the ISQM 1 framework, is an appropriate next step before evaluating whether further, more prescriptive requirements are necessary.

#### *Relevant Ethical Requirements*

A future PCAOB QC standard with incremental alternative requirements necessary to tailor to the U.S. regulatory environment should extend detailed requirements for independence quality controls to all firms, however, focus should be placed on maintaining the scalability in ISQM 1. Without scalability for firms of varying size and complexity, the cost of a QC system may exceed the benefits. We agree with the proposed clarification to require the responsible person to lead the independence area to be a qualified individual with appropriate knowledge versus a senior-level partner.

#### *Acceptance and Continuance of Client Relationships and Specific Engagements*

The ISQM 1 approach to acceptance and continuance of clients and engagements appears appropriate, with many aspects of the proposed approach already in practice today by firms. We do not believe engagement level QC requirements are necessary as quality objectives at the firm level sufficiently address the risks associated with accepting and continuing client relationships. We also note that the requirement to communicate with predecessor auditors already exists today in audit standards (AS 2610) and does not seem to warrant inclusion in a QC standard.

### *Engagement Performance*

ISQM 1 addresses exercising appropriate professional skepticism as part of the engagement performance component such that we do not believe incremental or alternative requirements to ISQM 1 are needed that would expressly address firm responsibilities and actions to support and monitor the appropriate application of professional judgments made by engagement teams.

We believe ISQM 1 is appropriate as it relates to other audit participants. The PCAOB project regarding use of other auditors, already addresses potential changes discussed in the Concept Release. As it relates to Appendix K requirements, we believe those requirements have some benefit on audit quality; however, the principles in ISQM 1 are sufficient for firms to appropriately assess the risks and design appropriate responses, and as a result retention of Appendix K does not appear necessary.

We believe requiring engagement monitoring activities that rely on specific quantifiable performance measures will be difficult to implement because quality control systems, processes and information tracking varies among firms. In addition, it is unclear if there are quantifiable performance measures that would be suitable indicators of audit quality that could be standardized among all firms, accordingly we believe the approach in ISQM 1 is appropriate.

Firms also employ a number of quality control processes such as monitoring in-process engagements using a variety of approaches based on their risk assessments. We believe firms should be able to determine, based on their risk assessments, the types of monitoring and other quality control processes that are appropriate. We do not believe requiring specific monitoring activities for all firms is consistent with a risk-based, scalable framework.

### *Resources (Human, Technological, and Intellectual)*

Professional standards contain significant and extensive requirements that reflect the complex environment of the audit profession. As a result, we agree with the need for technical training, tailored appropriately based on an individual's role and responsibilities. We also agree that PCAOB QC standards should include requirements that address training on professional standards, including SEC requirements. Training requirements should be flexible to address firm personnel who perform engagements subject to PCAOB standards. We also believe it is appropriate to consider technical training requirements for those individuals involved in QC roles, however, we believe flexibility is also needed in this area given the significant variation in how firms structure their QC departments (national offices).

We do not believe it is necessary to design prescriptive requirements related to industry training, especially since not all issuers fit into a specific industry and rather would benefit from broader training. If properly implemented, a firm's QC system should identify industry-specific considerations as a quality risk and appropriately address the quality risk which may include specific training given the nature of a firm's issuer audit practice. Additionally, ISQM 1 sufficiently addresses the required competencies of those individuals in engagement or QC roles, including the engagement partners and engagement quality reviewers, such that we do not believe a more prescriptive requirement is necessary.

In regards to technology in QC systems, we believe the approach in ISQM 1 is appropriate. As it relates to engagement specific technology, clarity as to who and to what extent individuals would be required to have a sufficient understanding of relevant technology is necessary as a firm may have a centralized process and/or firm-level individuals designated with responsibility for the relevant technology. We believe in these circumstances that engagement team members should have a general awareness of the technology but otherwise be able to rely on a centralized firm process and/or firm-level experts for implementation and monitoring of the technology. We believe this can be addressed by identifying a quality risk, if necessary, that is scalable to the firm's usage of technology and do not believe prescriptive requirements are necessary.

Additionally, we agree data security and detection of unauthorized access to technology and data is an important firm consideration. We believe the reference to the requirement to “prevent unauthorized access” should be reconsidered, as the current state of cybersecurity makes it very challenging to prevent all breaches. Instead we believe the identification of controls to mitigate such risks of unauthorized access is a more pragmatic approach. We also note that data security and detection of unauthorized access is a firm-level matter that is not limited to audit engagements and is therefore part of many firms’ overall risk mitigation efforts.

ISQM 1 adequately addresses the importance of a firm’s incentive system, including compensation so that personnel should demonstrate a commitment to quality through actions and behaviors and be held accountable through timely evaluations, compensation, promotion and other incentives.

#### *Information and Communication*

Due to diversity in practice and the variety of performance measures and metrics, including how they are defined, we do not believe a requirement to report a firm’s quality control effectiveness publicly or to the Board is necessary. The Board is able to obtain a firm’s annual evaluation through the inspection process; therefore, such a reporting process seems duplicative and not needed. We also note that some firms voluntarily provide more information to audit committees regarding audit quality. We believe allowing firms to determine the best manner to provide this information is appropriate and will be driven in part by the needs of audit committees. Likewise, some firms use transparency and audit quality reports to provide communication publicly related to quality controls and firm governance. We do not believe prescriptive requirements are needed at this time.

#### *Monitoring and Remediation*

Many firms have made significant efforts to improve their systems for monitoring and remediation as a result of PCAOB oversight. Increased efforts have been made to improve or expand internal file inspections, root cause analyses and other ongoing monitoring activities. We are supportive of the ISQM 1 risk-based approach related to internal inspections and believe criteria should be developed based upon risks identified by the firm as opposed to a standard driven approach. There are valid arguments to require or not require internal inspections of completed engagements. We believe most firms inspect a sample of completed engagements today based on a risk-based approach, performed on a cyclical basis. Alternatively, as firms continue to develop more sophisticated monitoring techniques and/or perform monitoring for engagements in process, a risk-based approach could allow for judgment as it relates to inspecting completed engagements. We agree that monitoring and remediation are crucial aspects of an effective QC system and that continual improvements can be made consistent with the requirements of ISQM 1.

#### *Documentation*

ISQM 1 documentation requirements appear sufficient to enable an experienced auditor, that has no experience with the design and implementation of the firm’s QC system, to understand the firm’s QC system. We believe there is a distinction between audit performance standards and quality control standards and therefore the level of documentation should not necessarily be the same. We understand the need for retention requirements, however, further clarification is needed in terms of the specific nature of documentation that should be retained. Given the robust nature of ISQM 1 and the continuous monitoring and improvement processes that will result, retention of documentation for each and every process, actions and results seem overly burdensome.

We also do not believe documentation related to a QC system needs to be retained for seven years and are concerned about potential unintended consequences. Alternatively, in light of PCAOB inspections of firms annually or every three years, one approach could align documentation requirements with the inspection and remediation cycle. For example, once an inspection has been completed, any findings remediated and reviewed by the PCAOB, documentation would no longer be required to be retained.

#### *Roles and Responsibilities of Individuals*

Due to the varying organizational structures of firms, as well as that many firm personnel may not participate in PCAOB audits, it seems appropriate to allow firms the flexibility to determine appropriate roles and responsibilities. We also believe the scope should be limited to audit professionals. A principles-based QC standard would allow firms to tailor appropriate positions and responsibilities based on their unique risks and practice.

#### *Related Potential Changes to Other PCAOB Standards*

As stated earlier, ISQM 1 is one of three proposed standards by the IAASB that focuses on three critical areas impacting quality. We believe it would be helpful for the PCAOB to provide clarity related to the other proposed IAASB standards as the PCAOB evaluates the need for standard setting in this broad area. As the PCAOB considers QC standards, it is important to assess whether certain aspects are better suited as engagement level versus firm-level. Other than those areas noted throughout our comments, we are not aware of other PCAOB standards that require revision, though that need may become more apparent as the development of QC and related standards move forward.

We believe AS 1110, “*Relationship of Auditing Standards to Quality Control Standards*” is helpful in providing that clarity between audit and quality control standards and recommend that the concepts be retained within the PCAOB standards.

#### *Scalability*

The principles-based approach of ISQM 1 provides sufficient flexibility to allow scalability by firms of all sizes. We concur that any revisions to the QC standards in which the PCAOB may adopt should be appropriately scalable and flexible, so a firm can tailor its QC system appropriately, based on the firm’s size and complexity, the nature of engagements performed, and commensurate with applicable quality risk. Our comments throughout the letter refer to areas where we have concerns about proposed changes impacting scalability.

We appreciate the opportunity to share our views on the Board’s potential revisions to its QC standards as described in the Concept Release. We believe a firm’s system of quality control is foundational to audit quality and commend the PCAOB’s effort to evolve existing QC standards.

We would be pleased to respond to any questions regarding our comments. Should you have any questions, please contact James A. Dolinar at (630) 574-1649 or Lisa Roney at (954) 202-2927.

Respectfully Submitted,

A handwritten signature in black ink that reads "Crowe LLP". The signature is written in a cursive, flowing style.

Crowe LLP