



Paris La Defense, March 16, 2020

**Public Company Accounting Oversight Board**  
**Office of the Secretary**  
1666 K Street, NW  
Washington, DC 20006-2803, USA

Re: Comments on PCAOB Rulemaking Docket No.046

Dear Office of the Secretary,

MAZARS is pleased to submit this letter in response to your invitation to comment on the Concept Release Potential Approach to Revisions to PCAOB Quality Control Standards (PCAOB Release No. 2019-0003).

MAZARS is an international, integrated and independent partnership, specialising in audit, accountancy, advisory, tax and legal services. As of 1<sup>st</sup> January 2020, MAZARS has 24,400 professionals serving global clients in 91 countries and territories.

MAZARS appreciates and supports all initiatives taken to enhance audit quality and the future of the profession for the benefit of the public interest and welcome the opportunity to add our views to the debate. The debate on audit quality has been in full flow in a significant number of countries for the past few years, and MAZARS is fully committed in steering change to support this cause.

We believe that the proposed changes to the current quality standards working from ISQM 1 as a basis will help improve quality in both firm-wide procedures and in the way audits and reviews are conducted and documented. However, we want to emphasize on the following aspects of the standards where we consider further guidance or development is required which is included in our detailed responses.

We particularly want to stress that the first implementation of these standards will incur significant costs for firms and require additional resources. Consequently, we believe that a sufficient time should be given for implementation following the issuance date of the standards. We consider this implementation period should not be less than 24 months.

We also believe that more guidance and examples should be given for implementation, especially for implementation in smaller firms or in firms operating in countries where U.S. Generally Accepted Auditing Standards established by the American Institute of Certified Public Accountants and the professional practice standards established by the Public Company Accounting Oversight Board are not applicable. We are convinced that this is a key aspect of the scalability that is fostered by the standards.

You will find in attachment to this letter the detailed comments to your questions raised in the concept release dated December 17, 2019.

We hope our comments will help to illustrate our commitment and our effort for continuous improvement in audit quality.

We would be pleased to discuss our detailed comments with you and remain at your disposal, should you require further clarification or additional information.

Yours sincerely,



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**Attachments:**

- Completed Responses to questions raised in PCAOB Release No 2019-03

## Questions

### 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?

Response: Yes, we believe that the QC standards should be revised to address the developments in audit practices and provide more definitive directions regarding QC systems. Due to the increasing pressure and requirements to meet the standards of audit and increased pressure on fee reductions from clients, quality in performing audits is a top propriety for most firms. Therefore, there needs to be an updated guidance that gives clear standards and direction for the firms.

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

Response: Yes, we believe this is a good starting point as there are many firms who are required to comply with IAASB and the proposed ISQM 1 that are also subject to PCAOB quality standards.

- 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?

Response: Yes, the reasons provided for the differences are appropriate however we require PCAOB to outline which specific federal securities law and SEC rules firms need to consider.

### 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?

Response: Developments that could be considered are the following:

- Potential adoption of joint audit across the world. It already exists in countries such as France and Denmark and PCAOB QC standard should consider how this will impact Foreign Private Issuers and provide specific detailed guidance regarding such instances.
- The increased use of shared service centers by the firms and how this will be impacting the quality of the audits and how they should be monitored.

- 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?

Response: There is more focus on quality by the firms and adopting it as a priority. The firms are investing more money and time by increasing the scope and frequency of their internal inspections and training and by monitoring remediation procedures when needed. We anticipate that updates to the QC system will improve the overall quality of the audit opinions we issue and strengthen the confidence and transparency with our stakeholders.

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.

Response: Please refer to the comment letters that were received by the IAASB in response to the exposure draft. <https://www.iaasb.org/publications-resources/exposure-draft-international-standard-quality-management-1-quality>

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

- 6) Would the approach to quality control standards described in this concept release be preferable to the current PCAOB quality control standards?

Response: Yes, the current PCAOB standards have not been updated since 2003 and could be updated to better address the current audit environment and the increased pressure of Audit Regulators in fostering quality.

- 7) 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?

Response: Yes, we believe they are appropriate.

- 8) Would the potential revisions to PCAOB QC standards described in this concept release improve QC systems and audit quality?

Response: Yes, we believe it will improve QC system and audit quality.

- 9) 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 to support a preventive approach to managing quality?

Response: Yes, as ISQM1 requires the firms to perform a risk assessment and this will help identify areas of weakness before they arise.

- 10) Should a future PCAOB QC standard have additional or alternative requirements for firms that audit brokers and dealers? If so, what?

Response: No incremental or alternative requirements are needed. The objective for audit quality is the common goal across all industries, therefore, uniform scalable requirements are adequate and ideal.

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

- 11) 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?

Response: In order to implement the proposed changes, it will require substantial financial and time commitment by the firms. Although it will improve the quality, this may lead many firms which offer other services aside from audit to move away from their audit practice or reduce the size of the practices over all as they might feel that economic benefit is not worth their time and money invested.

### **Firm Governance and Leadership**

- 12) 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?

Response: Yes, it is appropriate.

- 13) Would more clarity in the assignment of firm supervisory responsibilities enhance supervision and positively affect QC systems and audit quality?

Response: No additional clarity is needed; ISQM 1 includes a sufficient framework allowing firms to exercise professional judgement in best assigning these roles. We continue to stress that the desired outcome will best be achieved with revised PCAOB QC standards that promote flexibility and can be tailored and adaptable to firms of different sizes and natures.

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

Response: Considering the competency of the individual and their ability to dedicate sufficient time as suggested by ISQM1 is important to ensure appropriate tone at the top.

- 15) 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?

Response: Although allocation of financial resources is one aspect of firm governance and leadership under proposed ISQM1, we do not feel that it is necessary to be given greater emphasis in a future PCAOB QC standard than it is currently proposed in the ISQM1. The current audit environment with increased competition which limits audit fee increases, increased amount of documentation and testing to meet the regulatory standards, propensity for stakeholders particularly in US to be litigious, and difficulties many firms are having attracting staff to stay in audit business line can lead to some firms abandoning assurance practice all together if the standard sets out impractical solutions for firms to implement in place.

- 16) 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?

Response: No, we do not believe such a provision should be required as we are concerned this would limit the scalability of a future PCAOB QC standard. The prescribing of such mechanisms may also result in unintentional consequences that would compromise audit quality, as firms may be forced to expend financial resources that would be more effectively used on internal quality initiatives.

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

- 17) 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?

Response: Yes, it is appropriate.

- 18) 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?

Response: Yes, supplemental direction is needed. PCAOB could provide examples of a risk assessment from identification of risks, potential responses and how it should be addressed and monitored.

- 19) 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?

Response: No, while we do not believe specific quality risks should be mandated, it would be advantageous for the PCAOB to facilitate webinars or other forums to educate firms on key factors to enhance implementation and promote greater consistency in the application of the revised PCAOB QC standards.

- 20) Should firms be required to establish quantifiable performance measures for the achievement of quality objectives? If so, how should such measures be determined and quantified (see also Question 46)?

Response: Having quantifiable performance measures will help with the assessment of quality objectives. However, the measures should be flexible and scalable to the size of the firm and types of engagements as each engagement will require different performance measures depending on its risk and nature.

### **Relevant Ethical Requirements**

- 21) 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?

Response: Yes, it is appropriate.

- 22) 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?

Response: We support the PCAOB updating the current independence quality control requirements of Appendix L, to a principle-based approach, within the revised PCAOB QC standards. As noted in other answers to the concept release, we believe the incremental benefits of standards that are flexible and risk-based will outweigh the costs. We do not believe requirements of Appendix L should be prescriptive in nature, and as such should not be extended to all firms.

### **Acceptance and Continuance of Clients and Engagements**

- 23) 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?

Response: Yes, it is appropriate.

## Engagement Performance

- 24) 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?

Response: Yes, it is appropriate.

- 25) 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?

Response: Audit firms are already aware of their responsibility to apply professional skepticism and monitor them. PCAOB could give examples of what is “appropriate” application of professional skepticism and how to monitor significant judgements made by the engagement teams as part of its practical application guide.

- 26) 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?

Response: Yes, it should address the use of other audit participants and include both affiliated and nonaffiliated entities and individuals.

- 27) 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? 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?

Response: Yes, the appendix K requirement should be retained. The scope or application of the Appendix K requirements should be changed to extend to all audits in which a non- US firm issues an audit report on the financial statements of an issuer. The requirements in Appendix K filings for disagreements should be updated to require documentation of any disagreements. Currently, it is not clear how the responsibilities of Appendix K reviewer differ from the role of engagement quality reviewer.



- 28) 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?

Response: No, while we agree that monitoring activities are very important, the design of such monitoring activities should be determined based upon objectives and risk assessment. We do not believe additional monitoring standard would further prevent or detect audit deficiencies.

- 29) 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?

Response: The revision to the PCAOB QC standards should expressly address the firm's action while keeping in line with AS 2401, AS 2405 and AS 2415.

## Resources

- 30) 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?

Response: Yes, it is appropriate.

- 31) 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?

Response: No, we do not believe any incremental requirement is needed. The standard should encourage trainings, and we believe that the requirement to have properly trained people is an essential component of assigning resources. However, we support a principle-based flexible approach and believe firms should set their own standards for academic-professional standard trainings, industry trainings and SEC trainings based on assessed risk and client base. We do not feel specific requirements should be mandated in a future PCAOB QC standard, as mandating generic training requirements would not properly address the trainings needs of different firms.

- 32) 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?

Response: No, we feel the proposed language is sufficient, and we do not believe that additional standards is needed to address audit partner competency.

- 33) 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?

Response: No, we do not believe additional competencies of individuals needs to be addressed beyond what is currently in the PCAOB QC standards and the proposed ISQM 1.

- 34) 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?

Response: Yes, with more and more instances of large companies and even some audit firms reporting being victims of hacking this should be addressed in the PCAOB QC standards.

- 35) 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?

Response: The concept release already includes a requirement to ensure that sufficient time is given to firm personal to perform quality engagements. Additional emphasis is not necessary.

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

Response: No, given the vast differences in sizes of audit firms and inherent differences in resources this is impractical.

### Information and Communication

- 37) 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?

Response: Yes, it is appropriate.

- 38) 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)

Response: We don't think such public disclosure to be necessary. A future QC standard could require disclosure of quality indicators with narratives, together with annual evaluation of their QC system's effectiveness (refer to question 45). Information about the design of QC systems is not deemed necessary.

### **The Monitoring and Remediation Process**

- 39) 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?

Response: Yes, it is appropriate.

- 40) 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?

Response: Yes, it would prompt firms to develop an appropriate mix of ongoing and periodic monitoring activities and create an appropriate feedback loop.

- 41) 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?

Response: We welcome additional direction in the form of guidance to add clarity and consistency in practice. We do not believe any prescribed direction would be needed.

- 42) 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?

Response: Yes, should be required.

- 43) 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?

Response: No, we do not see a need for the PCAOB standard to prescribe selection criteria for internal inspection. We believe firms can exercise professional judgement, risk-based approach, and utilize random sampling in the selection criteria. We are concerned that adding mandated selection criteria could potentially compromise quality on jobs with lower odds of selection.

- 44) 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?

Response: Yes, we believe firms should be required to perform an annual evaluation of their QC system's effectiveness, as already made mandatory in some European countries in their Transparency Report. Reference period could be aligned to the firm's financial year closing date.

- 45) 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)?

Response: We believe firms should report to their Board their annual evaluation of QC system effectiveness, and we also believe that quality objectives should be approved by the Board on an annual basis. In the report, should be included evaluation of the QC systems evaluation, quality indicators set up to monitor the quality objectives, root causes analysis and remediation plan.

- 46) 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?

Response: Yes, we believe that tone at the top is a key driver to audit quality, so firm's top leadership (or the Board) should endorse the assessment of QC systems effectiveness.

## Documentation

- 47) 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?

Response: Yes, it is appropriate.

- 48) 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?

Response: Yes, it is appropriate. The retention period to correspond to the requirements in PCAOB standards and SEC rules appear to be reasonable.

- 49) 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?

Response: We believe that not every individual in the firm needs to document their understanding of the methodology and tools used so we assume that the word “firms” here refers to the local “technical functions”. We agree that it makes sense that the responsible of the professional standards & methodology in each firm of the network/Group has the adequate documentation available sent by the network/Group in order to understand the methodology and tools.

Case 1: the firm uses the network/Group methodology without any adaptation to local requirements and in that case the firm should get an annual confirmation that the methodology and tools are updated and can be used. The mapping between the requirements of the professional standards and the methodology/tools needs to be available also for each firm of the network/Group.

Case 2: the firm needs to add some local requirements in the case they are stricter than the network firm. In that case additional documentation should be elaborated by the local firm.

If third party tools are used, it should be clearly documented by the third party if those tools can or cannot be modified by the local firm.

Case 1: if it is a tool that cannot be modified, the documentation should be limited to the user guide, adequate training and not necessarily testing protocol.

Case 1: If the tool can be modified, then the local firm needs to document what they have done, which parameters have been changed, which testing they performed etc.

However, we believe that the documentation should be proportionate to the complexity of the tools.

We understand that this question is not addressing the case in which the Group Engagement Team uses the work of a component auditor who do not belong to the network/Group. In order not to reintroduce the concept of related/unrelated auditors, the component auditors should not be required additional documentation.

### **Roles and Responsibilities of Individuals**

- 50) Should a future PCAOB QC standard specify roles and responsibilities of firm personnel in relation to the firm's QC system?

Response: No, as this may become impractical in applicability for smaller firms.

- 51) 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?

Response: Yes, the roles and responsibilities described in this concept release is appropriate and does not require additional roles.

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

- 52) 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?

Response: Yes, the potential amendments to AS2091 seems appropriate.

- 53) Does AS 1110 provide helpful direction to auditors, or should it be rescinded? Please provide explanation for your answer.

Response: AS110 with the proposed changes to the PCAOB QC standard seems redundant to have.

- 54) Are there other PCAOB standards for which substantive changes might be needed to align with a future PCAOB QC standard?

Response: PCAOB standard in general should consider the size of the firms when applying the QC standards and consider coming up with different standard that varies depending on the size of the firm.

### **Scalability**

- 55) 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?

Response: PCAOB QC standards should consider the fact that smaller firms may lack the human capital to implement all the changes that are being proposed, so scalability is important to consider. Guidance on how to adjust this scalability should be given.

- 56) 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?

Response: Yes, there are aspects that would disproportionately affect smaller firms. Areas such as QC standards for roles and responsibilities (there may be not enough people to fill the roles), technical training (insufficient budget or resources) and other audit participants (smaller firms may be outsourcing IT audit function for example). PCAOB should consider practicality when applying theoretical concepts.

- 57) 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?

Response: No, we believe ISQM 1 appropriately addresses firm governance and the responsibility of firm leadership, and more specific requirements would not be beneficial. On the contrary, a risk-based approach would most enhance quality, inherently allowing firms to tailor their quality control systems to best address the unique aspects of their businesses.