March 17, 2020

Office of the Secretary
PCAOB
1666 K Street, NW
Washington, D.C. 20006-2803

By e-mail: comments@pcaobus.org

Re: Concept Release—*Potential Approach to Revisions to PCAOB Quality Control Standards*

(Release No. 2019-003, Rulemaking Docket No. 046)

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 23,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above-captioned concept release.

The NYSSCPA's Auditing Standards Committee deliberated the concept release and prepared the attached comments. If you would like additional discussion with us, please contact Jonathan Zuckerman, Chair of the Auditing Standards Committee, at (212) 867-8000, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

Ita M. Rahilly
President

Attachment

NEW YORK STATE SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON

CONCEPT RELEASE—*POTENTIAL APPROACH TO REVISIONS TO PCAOB QUALITY CONTROL STANDARDS*

(Release No. 2019-003, Rulemaking Docket No. 046)

March 17, 2020

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New York State Society of Certified Public Accountants

Comments on

Concept Release—*Potential Approach to Revisions to PCAOB Quality Control Standards* (Release No. 2019-003, Rulemaking Docket No. 046)

We welcome the opportunity to respond to the Public Company Accounting Oversight Board's (PCAOB or the Board) invitation to comment on its concept release of entitled *Potential Approach to Revisions to PCAOB Quality Control Standards* (the Proposal).

General Comments

Although we agree that it is time to revise the PCAOB quality control (QC) standards, we hope that the PCAOB, in developing a new standard and practice guidance, takes into consideration any unreasonable expectations as to the level of quality assurance that the new QC standard might provide.

We are concerned that the Proposal does not adequately address scalability, as discussed with more specificity in our responses to the questions for respondents.

We offer the following responses to the numbered questions for comment presented by the Board in the Proposal. We do not have any comments on Questions 5, 6, 11, 30 b., and 55.

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?

Yes. We agree that it is time to revise the PCAOB QC standards to reflect several developments in audit and business practices and to provide more definitive direction regarding firm QC systems. We particularly agree that the stated overall objective in proposed ISQM 1, the related illustrative comparative graphic set forth in section III.A. on pp. 11-12, and the detailed quality objectives of proposed ISQM 1 set forth in the first bulleted list section IV.A.1 on p. 15 of the Proposal would be appropriate for a revised PCAOB QC standard. However, with due consideration for scalability (see our responses to Questions 17 and 56-58), and our preference for principles-based *vs*. rules-based standards, we would prefer that the status of the first two out of three bullets in the second list on p. 15 be reduced from that of proposed requirements to recommendations for consideration by a firm's management.

We agree that there is a public interest need for having a QC approach that is informed by the findings of audit inspections and performed from the perspective of individuals that are seen to be objective and skeptical enough to challenge the status quo when appropriate.

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

We have a mixed view on this matter. On one hand many reports on audits conducted under PCAOB standards are relied upon by international users; some believe it is appropriate that proposed ISQM 1 could be used as a baseline. However, given the differences in the business and regulatory environments with those of the U.S. we believe the PCAOB should take into consideration the current, evolved U.S. AICPA QC standards in developing a future PCAOB QC standard. We recognize that the AICPA is presently similarly engaged in further updating its QC standards with convergence with proposed ISQM 1 among its principle objectives and, therefore, it may not matter whether the Board uses proposed ISQM 1 or a forthcoming AICPA proposal as the starting point as the eventual result should be substantially the same.

Notwithstanding, because many reports on audits conducted under PCAOB standards are relied upon by international users, we believe it is appropriate that the Board consider providing in its reporting standard an optional insert alerting international users that there are differences between the standards of the PCAOB and the IAASB and that such differences may be significant.

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?

The reasons provided are more general than specific, except for item (3)(b) which addresses topics in the Proposal that are not in ISQM 1. We question whether it is desirable for a revised QC standard to provide "more definitive direction" as indicated in item (3)(d) in many respects where it would serve to reduce the need and opportunity to apply professional judgment, most particularly as to scalability (see our responses to Questions 56-58).

An additional reason for differences is a greater tendency of users in the U.S. to litigate against auditors.

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?

Some of our members believe a firm's QC system, and most particularly, its internal inspection function, will continue to fall short of desired effectiveness, too frequently allowing for issuance of inappropriate audit opinions, unless the firms' QC systems were required to be controlled more directly by unbiased evaluators (at least for the largest firms) who are independent – not hired and compensated by the audit firm – such as regulators or others engaged by regulators.

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?

Please refer to our responses to Questions 1 and 2.

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?

As set forth in our response to Question 1, the objectives outlined in proposed ISQM 1 are appropriate and should be the core elements of an effective QC system for a firm, subject to our comments elsewhere about scalability and principles *vs.* rules.

9. Would the potential revisions to PCAOB QC standards described in this concept release improve QC systems and audit quality?

We believe that, if finalized, the Proposal may likely improve audit quality but that such improvement may not be significant. We also believe it is likely that proposed revisions by the three principal standard-setters (ASB, IAASB and PCAOB) would move in the same general direction and ultimately be similar in many respects. However, unless there is coordination among the bodies as to an effective date, it would create an undue burden for U.S. firms, most particularly smaller firms with fewer resources, who would need to revise their QC systems to be in compliance with all three frameworks.

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 to support a preventive approach to managing quality?

We believe the frequency of occurrence of such deficiencies can be reduced effectively by employing preventive measures such as careful monitoring of the overall effectiveness of practice aids and guidance provided by the firm to its professionals. We also believe a more pro-active preventive approach toward potential audit deficiencies, applied at the selected individual engagement level, should include more emphasis on internal QC monitoring during the audit process rather than solely after the fact, as seems to be the dominant current practice. (See our response to Question 29.) However, this change would have to be evaluated carefully by both firms and regulators to avoid practical problems in meeting already constrained filing deadlines, especially for issuers meeting the accelerated and large accelerated filing criteria.

We believe that those responsible for quality control administration of a firm should inspect engagement files randomly, but also place emphasis on higher risk audits or audits where a partner previously had deficiencies identified.

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?

Although we are unable to estimate probable costs, we believe the cost of developing a "quality control document" containing policies that will adequately meet the objectives of the Proposal would be substantial (see our response to Question 9). Implementation costs, including training of personnel, and re-evaluation and revision of practice aids and inspection tools and procedures, will likely vary significantly from firm-to-firm depending upon the extent to which these objectives are already being met under the system currently in place. Any benefit to be realized from adopting these proposed standards likewise will vary significantly from firm-to-firm depending upon the extent to which these objectives are already being met under the existing system.

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?

Please refer to our response to Question 58. We have no further comment on this question.

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

Assignment of firm responsibility is already encompassed in the roles and responsibilities at most firms large enough to have a formal structure. However, we see this as problematic for local or regional firms where there is little or no opportunity for distinct assignment of roles and responsibilities.

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

We believe decisions about a firm's senior leadership is best left to the firm.

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?

The requirement to provide necessary resources to audit function quality is addressed in proposed ISQM 1 paragraphs 23 (c) and (e). We believe that any additional general requirements would be redundant. We question the appropriateness of additional detailed requirements for quality control standards.

We see counterbalancing clients' interests and high quality as an unachievable goal. High quality would only be balanced with commercial interest when they are aligned, which only

occurs when the clients of the firm (i.e., those making the decision to purchase the firm's services) are the ones who benefit from the high quality. The principal beneficiaries of a particular audit of an SEC registrant are members of the investing public, and perhaps other stakeholders, not always the registrant paying the audit fee. Also, there is a growing trend for audit firms to provide more non-audit services, but the consideration of effects of these services on audit independence are already highly evolved and substantially addressed in the ethics and SEC literature that place effective boundaries on providing such services for attest clients, boundaries that are often not applicable to firms following the ISQM.

Accordingly, while it may be appropriate to include a general admonition to firms to consider ways to counterbalance commercial interests, we do not see a need to add any more specificity in this regard to the QC standards. We think that it is important for the Board to attempt to counterbalance commercial interests in firm governance and leadership but that should not be reflected in a promulgated standard. Rather, understanding and accepting the underlying economic fundamentals should be the starting point of any proposed QC standards. In particular, it would be useful to consider ways to more closely align the commercial interests with high quality auditing, for example by encouraging firms to devise ways of demonstrating their audit quality to the investing public thereby indirectly affecting demand for their services by registrants who want to attract investors.

We also have two suggestions for consideration: (1) Add language requiring that firms for which the audit practice is only a small part of the overall firm be given special consideration in the allocation of financial resources; and (2) a cosmetic point admittedly, but, for emphasis, organize the standard so the that requirements that are similar to paragraphs 23 (c) and (e) in ISQM be given more prominence, maybe each with their own paragraph.

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?

Consistent with our view set forth under our General Comments above, we believe scalability should be a primary consideration in determining the nature and extent of any oversight to be applied to a firm's QC function (see our responses to Questions 56-58), and that an "independent" QC oversight should not be mandated except perhaps for the largest of firms. Also, we believe that the size, composition and qualifications of members of a body designated with responsibility for overseeing a firm's internal QC function might best be similar to those of audit committees – with independent members and at least one representative who represents a wider scope of stakeholders, for example, someone who is not a CPA or an auditor.

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?

We believe the objectives should be defined by a firm's management consistent with the objectives inherent in the proposed ISQM 1 QC standard. The risk assessment process should take place in light of pre-prescribed objectives. In current practice at firms, the risk-based approach is frequently performed on an informal basis. The approach as it is now documented in the Proposal may be overreaching when considering our concerns on scalability as discussed in our responses herein.

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?

We are generally in favor of standards that are more principles-based than rules-based, but it is not clear to us the intended meaning of the somewhat contradictory term, "principles-based ***requirements"*** [emphasis added]. We believe a PCAOB staff-developed practice aid describing in further detail the supplemental direction (in an iterative fashion) assisting firms in their risk assessment would be helpful in avoiding any expectation gap between the PCAOB staff and auditors or firms. This will likely reduce the frequency of differences of opinion between the firm and PCAOB inspectors.

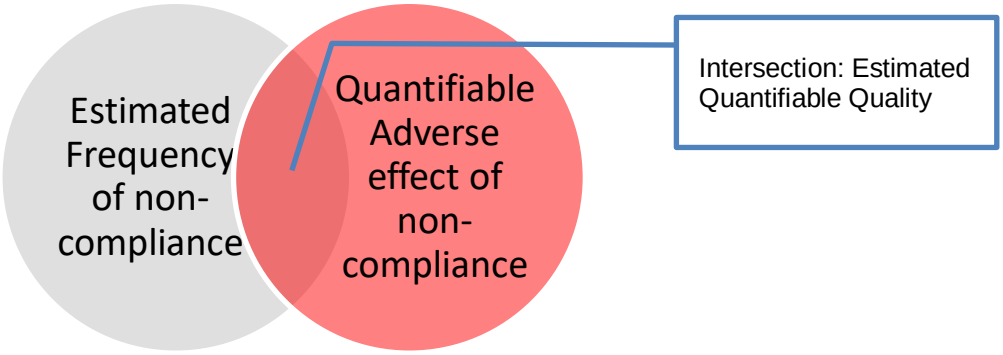
20. Should a future PCAOB QC standard specify certain quality risks that must be assessed and responded to by all firms? If so, what should those risks be?

In our view, a "default risk" assumption should be made only for a few identifiable risks that are deemed so pervasive that they apply to virtually every audit (akin to the rebuttable revenue recognition presumption in fraud consideration under the auditing standards). We have not considered what those few risks might be. Otherwise, consistent with our preference for principles-based standards, we believe risk assessment and the nature and extent of documentation thereof should be left primarily to the professional judgment of the firm and its auditors.

21. 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)?

Performance measures at firms have always been quantifiable. However, except for financial measures (primarily with regard to expectations for business originations) profitability measures (*e.g.*., realization or variance rates) have been expressed in the negative for evaluating professional quality, *i.e.*, the number of instances of noncompliance or deficiencies observed. We believe that the development and institution of positive, objective and qualitative criteria for measuring performance quality that are directly linked to the partner reward system (*i.e.*, compensation) would afford a more effective incentive for quality performance. We believe that the PCAOB should develop and provide for audit firm managements' consideration suggested quality performance measures outside its revised QC standard in the form of nonprescriptive staff guidance.

The quantifiable portion should be in the intersection of the estimated frequency of an adverse event with the quantifiable impact, typically in dollars as illustrated below:



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?

We believe it would be more appropriate that the ethical requirements be based on the existing AICPA and SEC standards and regulations as a starting point, and that they be supplemented with excerpts from the International Independence Standards of the International Code of Ethics for Professional Accountants to the extent deemed relevant and necessary.

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?

We believe the PCAOB should review the legacy SEC Practice Section (SECPS) membership requirements, including but not limited to those regarding independence contained in Appendix L, sec. 1000.46 (reproduced as Appendix 2 to the Proposal on pp. A2-1 to 3, thereof) and place all registered firms on a level playing field by adopting those deemed to be relevant and necessary, with a view toward scalability, and eliminating others that are deemed excessive, impractical or likely to be ineffective with respect to achieving their objectives.

Costs associated with a future QC standard will likely increase somewhat for firms not presently subject to the legacy SECPS requirements; however, we believe that the extent of such cost increases will vary on a firm-by-firm basis and be dependent on features present in their current QC systems. Although we do not have access to data to support this view, it is our opinion that any benefits to be achieved by a firms' clients or users will be limited. .

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?

Acceptance and retention of clients is probably the most frequently identified root cause of audit deficiencies and litigation. Therefore, we support the belief that the coverage of this area in the future standard should be more expansive and prescriptive than in the extant QC standard. Client acceptance should be based on risk considerations. The more risk involved, the more a firm's leadership (for example, an executive committee) should be involved in client acceptance. Despite our general views about rule-based standards, we believe this principle should be required, and that it be well-articulated in the firm's quality control document.

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?

As set forth in greater detail in our response to Question 2, we believe it is unlikely to matter whether the Board uses proposed ISQM 1 or a forthcoming AICPA proposal as its starting point. The result should be substantially the same.

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?

Yes, we agree that a future PCAOB QC standard should expressly address firm responsibilities and recommend or require (with due regard for scalability) actions to support and monitor the appropriate application of professional skepticism and significant judgments made by engagement teams. A specific requirement should be included regarding the documenting evidence involving the exercise of professional skepticism with questions raised by auditors on engagements, the indicator and causes of the professional skepticism and their resolutions.

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?

This question appears to deal with the use of other auditors, and auditor or client engaged or employed specialists on audit engagements, which we believe is adequately addressed on the engagement level by extant auditing standards. Therefore, we do not recommend addressing this topic in a future QC standard in a way that would duplicate these standards. However, we believe a QC standard should address on a firm-wide basis the criteria, and required policies, for selecting and engaging or employing the work of other auditors or specialists.

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? 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?

We believe that the Appendix K requirements should be extended to all audits in which a non-U.S. firm issues an audit report on the financial statements of an issuer but only when that audit report is to be included in an SEC filing. Further, audits of financial statements presented under International Financial Reporting Standards (IFRS) should be exempt from all or a portion of the Appendix K requirements to the extent the Board deems it appropriate, and we believe the Appendix K requirements for inspection procedures and disagreements should be updated to align with the potential requirements under consideration in the Proposal for monitoring and remediation and differences of opinion.

We have no comment as to whether it is sufficiently clear how the responsibilities of an Appendix K reviewer differ from the role of the engagement quality reviewer.

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?

Engagement monitoring is a detective rather than a preventive control and as such has limited effectiveness in our view. As discussed more fully in our response to Question 10, we believe some focus should be placed on preventive controls to the extent deemed practical and necessary in the firm-specific environment, such as monitoring the effectiveness of practice aids in use, and the limited and judicious use of unpredictable job-in-process review procedures whereby a member of a firm's QC administration reviews, with the potential for the pre-release remediation of possible deficiencies.

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?

AS 2401 and its derivative standards should be used.

c. With respect to going concern consideration?

We believe the extant auditing standards afford sufficient quality control over these specific areas of audit risk and that there is no need to highlight this area compared to others in the QC standards. We would support, however, including some language in the future PCAOB QC standard alerting auditors in general as to their responsibilities under Section 10A of the Securities Exchange Act.

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?

As set forth in greater detail in our response to Question 2, we believe it is unlikely to matter whether the Board uses proposed ISQM 1 or a forthcoming AICPA proposal as its starting point. The result should be substantially the same.

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?

We are in agreement that the QC standard should expressly address the adequacy of technical training, and all firm personnel practicing in PCAOB audits in a supervisory capacity (for example, manager level or higher) should be encouraged to participate (see response to Question 33). There should be a minimum training requirement, similar to the AICPA's Audit Quality Center's training requirements for auditors of employee benefit plans and, governmental entities.

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?

We support the inclusion of a list of examples of professional competencies in the new QC standard such as appears on pp. 30-31 of the Proposal. However, we would have them characterized not as requirements but as possible considerations when accepting engagements and assigning responsibilities. We propose that the list not be characterized as all-inclusive and should be accompanied by a list of ways to overcome apparent shortages in competencies such as by obtaining timely training, reading relevant material or use of outside consultants or specialists. Suggested criteria for evaluating and selecting outside consultants we believe should also be included in a new standard.

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?

We support adding discussion in the final standard to address any requirements or guidance that is intended explicitly to avoid any ambiguity.

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?

We believe the new QC standards should highlight audit firms' responsibility to safeguard their IT systems against unauthorized access, to safeguard the integrity of its technology and work files and to protect the confidentiality of client data, but should not prescribe any minimum requirements criteria or specify any software for such purpose.

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?

We believe the term "sufficient time" is not well-defined and therefore we do not have sufficient information to enable us to answer the question.

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

As set forth in our response to Question 21, we fully support the notion that performance quality should be objectively measured to the extent practical and directly linked, among other factors, to the partner evaluation process and determination of compensation. We welcome the development of nonprescriptive suggestions as to how such qualitative measurements might be objectively made. In our view, an inspection should not be the sole basis for compensation, but a portion of the compensation should be based on quality, including results of peer review and inspections from regulators. While the results of internal QC inspections might be a factor in such assessments, one must be mindful of any tendency to be biased, especially if results are to be made public (see our response to Question 39).

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?

As set forth in greater detail in our response to Question 2, we believe it is unlikely to matter whether the Board uses proposed ISQM 1 or a forthcoming AICPA proposal as its starting point. The result should be substantially the same.

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)

We believe that a requirement for public disclosure by a firm of its internal inspection results may be perceived by some as punitive, damaging and a likely disincentive to conducting honest and objective internal inspections that would be necessary to maintain or achieve high quality performance. Even if not so specific as to require disclosure of inspection results, *per se*, such a requirement could also result in widespread, self-serving and boilerplate disclosures.

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?

As set forth in greater detail in our response to Question 2, we believe it is unlikely to matter whether the Board uses proposed ISQM 1 or a forthcoming AICPA proposal as its starting point. The result should be substantially the same. In any event, however, as set forth in greater detail in our response to Question 10, we believe there should be a somewhat increased focus on preventive monitoring procedures when practical and necessary to supplement more traditional retrospective detective and corrective procedures.

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?

We believe it should be left to the firms to develop a mix of ongoing and periodic monitoring activities deemed appropriate by each firm's top management and governance body, if any. Although some guidance might be offered, we do not believe the appropriate mix should be embodied in the standard or predetermined by the Board or its staff.

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?

We believe the PCAOB should provide nonprescriptive guidance for determining the nature and extent of additional and expanded inspection if a deficient audit is discovered, such as searching for other audits supervised by a particular manager or partner, or in a similar specific industry, or a fee range. Any constructive feedback provided by the PCAOB for consideration by firms in connection with remediation following one of its inspections would be of considerable value.

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?

Yes, we agree that all firms should have an internal inspection process, as they do now. However, there are some differing viewpoints as to the extent, with some members suggesting that inspection could be waived in the year of a peer review, while others suggest that internal inspections occur not only annually, but on a surprise basis during the audit process in order to enhance audit quality.

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?

An internal selection process should be consistent and comprehensive, with selections based on fees, risks, market capitalization, etc., and some at random. We do not support the establishment in a QC standard of minimum or cyclical thresholds for inspections of completed engagements, but would be in favor of nonprescriptive guidance that would give due consideration to scalability. See our response to Question 43.

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?

A firm's internal inspection process should be sufficient in scope to result in an evaluation of the overall effectiveness of a firm's QC system. The evaluation should be reported to the firm's top management or a governing board. As stated more fully in our response to Question 39, we believe this evaluation should not be made public.

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)?

We are of two minds in regard to this question: Some members are in favor of this proposed requirement because they believe that theoretically it would enhance the accountability and transparency of the internal inspection process. Other members have reservations about requiring public disclosure (see our response to Question 39) and, therefore, contend that although firms should prepare reports on their annual evaluation of QC system effectiveness, these annual evaluations should be reported only to the firm's management or an independent (or partially independent) governing board and believe such evaluations should continue to be made available to the Board, as they now are, only during the inspection process.

Additionally, we believe the credibility of the internal inspection process could be enhanced if all the detailed inspection documentation were required to be maintained and shared with the PCAOB inspectors (and peer reviewers) as well.

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?

We have no comment on this question given our split response to Question 46.

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?

As set forth in our response to Question 2, we believe it is unlikely to matter whether the Board uses proposed ISQM 1 or a forthcoming AICPA proposal as its starting point. The result should be substantially the same.

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?

We consider the sufficiency and retention period requirements as described to as exceeding statutory requirements and beyond what is reasonably necessary and appropriate to achieve optimum quality control.

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?

We agree that firms using methodology and related practice aids obtained from a network or third party provider should obtain or create documentation summarizing how such methodology and tools are maintained by the provider to be timely and responsive to the applicable professional standards and legal and regulatory requirements. Further, we believe such documentation should be updated and evaluated by the firms at least annually.

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?

We do not believe roles and responsibilities of firm management and other personnel should be specified in any standard due to the wide variability in size and complexities of firms. Perhaps this could be discussed in supplemental staff guidance or another nonauthoritative form.

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?

See our response to Question 51.

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?

In our view, the proposed amendments to AS 2901 would not significantly change an auditor's current approach as extant AS 2901 is commonly interpreted. The proposed amendments would simply codify current practice, and would be welcomed.

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

The standard should be maintained relatively intact as it provides clarity to the practitioner, although we agree that the last sentence could cause confusion, and that its removal would have no adverse consequence.

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?

Since it is inherently difficult to provide detailed structure in a standard to provide a "one-size-fits all" quality control standard, we recommend that the final standard be more principles-based than rules-based, thus allowing for (and, in fact, requiring) greater use of judgment by firms, most especially as it would relate to scalability. The firms that are registered with the PCAOB run the spectrum from firms with few partners to the Big Four. Since it will be impractical for some firms to maintain a separate, PCAOB-compliant quality control system applicable only to its SEC practice, we believe a factor for consideration that may likely be equally important for scalability as the size of the firm, is the degree of concentration of SEC audit hours in its practice.

We recommend that the PCAOB provide nonprescriptive guidance (outside the standard) for smaller firms where an appropriate threshold could be determined such as instances where the firm is exempt from the auditor rotation requirements of larger firms. This would assist in addressing scalability.

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?

We believe that unless scalability is addressed more robustly than is currently proposed, while reducing proposed requirements to matters for consideration wherever feasible, the proposed changes to the QC standards would be quite onerous for small and midsize firms with limited resources considering the costs of both development and in monitoring compliance. Indeed, we would expect the difficulty of compliance for smaller firms would be so high and impractical that their ability to meet the objectives of the standard as proposed would be considerably less than expected without necessarily impairing quality of performance.

We believe the final revised standard should also provide specific guidance to be applied by each of more than one category of smaller firms and criteria for determining the most fitting and appropriate category for each firm.

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?

It would enhance public confidence in large firms if there were more specific requirements regarding certain components or areas (*e.g*., governance and leadership) such as a requirement for an independent governing board consisting of various stakeholders, not just auditors or CPAs, perhaps with specified qualifications. This would also aid in accountability and provide more objective and effective firm leadership and direction.