

January 30, 2023

PCAOB
Office of the Secretary
1666 K Street, NW
Washington, DC 20006-2803

Email: comments@pcaobus.org

RE: Request for Comments on PCAOB's Rulemaking Docket Matter No. 046 – A Firm's System of Quality Control

The views expressed herein are written on behalf of the Professional Standards Committee (PSC) of the Texas Society of CPAs. The committee has been authorized by the Texas Society of CPAs' Board of Directors to submit comments on matters of interest to the membership. The views expressed in this document have not been approved by the Texas Society of CPAs' Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the Texas Society of CPAs. Please find our responses below to the requests for comment in the above-referenced Release No. 2022-006.

Overall, the PSC is supportive of the Board's proposal to update existing PCAOB quality control standards consistent with other standard setters in a manner similar to the structure of ISQM 1 and SQMS 1, including the fundamental risk-based, eight component framework of these standards. The quality of public company audits is likely to be improved after the enhancement of all firms' systems of quality control. Supplemental to our general support of the proposal, the PSC is providing general comments for the Board's consideration as included below, focusing primarily on potential impacts to smaller firms (i.e., those firms with 100 or fewer issuer clients).

Increased Audit Cost

The PSC believes that the requirements of QC 1000 will most likely result in higher audit costs, disproportionately impacting smaller firms. Notwithstanding the proposal's statements relating to being principles-based and scalable, many smaller firms will need to hire additional staff for the monitoring, evaluation and remediation functions of the revised requirements or incur similar costs to hire consultants to assist in these functions. It is likely that the costs of implementing QC 1000 for these firms will exceed the estimated costs considered by the PCAOB, resulting in significantly higher audit fees. While some firms may decide to discontinue audits of public companies, it is unknown whether those audit resources will relocate to the firms that will need additional staff to implement the proposed requirements. The PSC is concerned that the Board does not have sufficient understanding of the costs and burdens of implementation of the standard on smaller firms and recommends the Board conduct further outreach and consideration of potential impact on smaller firms.

Limit Competition of Smaller Firms

Due to resource constraints and substantial incremental costs, the PSC is concerned that the additional requirements in QC 1000 may result in fewer firms performing public company audits. While this potential result is not necessarily a negative impact on audit quality (for example, due to elimination of registered firms that do not intend to actually perform public company audits), the sudden exit of firms performing these audits may result in a temporary shortage of firms performing public company audits. Additional scalability may be helpful for smaller firms to stay competitive in the marketplace.

Effective Date

While similar in many aspects to ISQM 1, which is effective in December 2022, the implementation period is substantially different. ISQM allows for further development after the implementation date, whereas the PCAOB approach is that the system of quality control must be designed and operational by the effective date. An additional one to two years after the proposed date may be needed for firms with less than 100 issuers, or that have not adopted ISQM 1, to develop and implement the additional monitoring, evaluation and remediation requirements. While the QC 1000 effective date may not be until 2025, the initial evaluation is only 11 ½ months later, which will not allow much time for remediation and correction. The PCAOB should consider a longer onboarding process similar to ISQM 1.

We appreciate the opportunity to provide feedback on the PCAOB's System of Quality Control proposed standard.

Sincerely,

A handwritten signature in black ink, appearing to read "John R. Womack III".

J. Ramsey Womack III, CPA
Chair, Professional Standards Committee
Texas Society of Certified Public Accountants