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

Re: A Firm's System of Quality Control and Other Proposed Amendments to PCAOB Standards, Rules, and Forms; PCAOB Rulemaking Docket Matter No. 046

Dear Office of the Secretary:

FORVIS, LLP (FORVIS) appreciates the opportunity to respond to the PCAOB's proposal, *A Firm's System of Quality Control and Other Proposed Amendments to PCAOB Standards, Rules, and Forms (the "proposed QC standards" or the "proposal")*. FORVIS ranks among the top 10 public accounting firms in the nation, with more than 5,700 dedicated professionals and clients in all 50 states, as well as internationally, and is a member of Praxity, a global alliance of independent firms.

Overall, FORVIS is supportive of the Board's efforts in advancing the quality control standards and considering the AICPA's adopted and IAASB's existing quality management standards in drafting the proposed QC standards. Alignment with other global standard setters will not only promote consistency, but ensure the fundamental concepts are aligned and minimize unnecessary differences or incremental efforts without a corresponding benefit to audit quality. Furthermore, alignment will allow firms to implement the proposed QC standards more efficiently and effectively, building on the investments firms have already made to comply with other quality management standards. However, we do have concerns related to scalability of the proposed QC standards, including the potential barriers to entry it could create and significant additional costs to firms, particularly firms that perform between 100 to 500 issuer audits, without a corresponding increase in audit quality.

This letter includes our views, observations, and recommendations on the proposed QC standards, including responses to certain questions specifically requested for comment by the PCAOB. Our responses are framed by our experiences serving middle-market public issuers, and non-issuer brokers and dealers, and include our concerns regarding the potential implications the proposals could have for firms that perform more than 100 issuer audits below the top six Global Network Firms (GNFs).

General Comments

Quality control/management is a key component to establishing and maintaining audit quality at every firm, and involves numerous aspects of their governance and operations, including human resources, information technology, tone at the top, etc. As quality control is fundamental to how a firm operates (regardless of the type of client base), complying with differing quality control/management standards between multiple standard-setters *i.e.*, AICPA, IAASB, and the PCAOB, will be challenging. Therefore, it is imperative to minimize differences between the PCAOB quality control standards and other standard-setters' quality management standards. Furthermore, in considering the PCAOB's proposed QC standards, it is critical for the PCAOB's Quality Control Proposal, QC 1000, *A Firm's System of Quality Control*, to align with the IAASB's International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* and the AICPA's Statement on Quality Management Standards (SQMS) 1, *A Firm's System of Quality Management*, particularly as it relates to key definitions and other matters that are foundational to the system of quality control.

Due to our 2022 merger between legacy firms BKD, LLP (less than 100 issuers) and DHG LLP (less than 100 issuers) to become FORVIS, LLP, the merged firm will perform the audits of more than 100 issuers in calendar year 2023 and become subject to annual inspections. Although we embrace this opportunity and enhanced oversight, the additional requirements proposed in the PCAOB's proposal that are applicable to firms that audit between 100 and 500 issuers could significantly impact firms transitioning from less than 100 issuers to 100 issuers or more.

Although we appreciate the outreach performed by the PCAOB in developing the proposed QC standards, the analysis of U.S. Global Network Firms (GNFs) in the proposal focuses only on the top six firms, of which their firm sizes range from approximately 56,000 to over 400,000 partners and employees. This is a stark contrast to FORVIS, a top 10 firm with over 5,700 total partners and employees, which is approximately one tenth of the size of the sixth largest GNF.

Furthermore, Table 1 of the proposal, which outlines resources associated with U.S. GNFs QC policies and procedures, indicates the mean total FTEs the top six firms dedicate to the QC process is over 600 FTEs per firm. For firms with similar size and composition to FORVIS, a comparable FTE group would represent over 10 percent of the total partners and employees of the firm. Further consider that, also stated in Table 1 of the proposal, despite existing resources, the top six GNFs noted that additional resources would likely be required to properly adopt the requirements of the proposed QC standard. When considering a tight labor market, we believe that even for firms willing and able to absorb significant additional costs, simply recruiting and retaining partners and employees into a firm's QC system will be a tremendous challenge. Therefore, we believe additional outreach efforts are needed to account for firms outside of the top six GNFs with more than 100 issuers. This will be particularly important as merger and consolidation activity continues within the industry.

We also believe that imposing requirements could result in creating potential barriers to entry or a reduction in the number of issuer clients served, particularly for firms that have grown their assurance practice through quality endeavors and investments and demonstrated sufficient quality in performing PCAOB audits. We believe a decrease in audit providers would also lead to higher audit costs, without a direct benefit of enhancing audit quality, and reduce fair competition in the marketplace. We believe such a potential significant impact to stakeholders should be studied and considered before any proposal is finalized.

Furthermore, we do not agree with the assumption on page 282 of the proposal that any exit would likely be limited to firms with small market shares or smaller issuer or broker-dealer audit markets, as we believe any firm that audits more than 100 issuers that are outside the top six GNF firms may reconsider their client base given the level of cost that will be incurred to adopt and maintain the provisions of this proposal, along with the heightened legal and business risk that may arise from the new certifications being proposed in Form QC.

We also have concerns about creating a potential Sarbanes-Oxley (SOX) type certification for privately held accounting firms. For example, we believe the information included in the QC Form may not provide a full view of the subject matter it purports to be certifying to. In addition, it could create an unjust reliance by a third party on this certification for which it was not intended. It should be noted that most internal control reports (outside of SOX requirements) are limited/restricted to users who need to know and understand the subject matter. Making this information available to the public could create market confusion as to what exactly is being certified and the level of reliance users should place on such a certification.

For these reasons, if the benchmark is issuer count, we recommend using a threshold of 500 issuers for the heightened requirements as it aligns with existing SEC rules, specifically Regulation S-X Rule 2-01 that requires an accounting firm that provides audit, review, or attest services to more than 500 SEC registrants to have an automated system to identify and track partner and managerial employees' security investments. Furthermore, firms who audit more than 500 issuers have significantly larger and more complex practices and their issuer client bases represent a significantly larger portion of their audit practice.

We would also encourage the Board to consider whether using just a quantitative threshold of 100 issuers is appropriate. We believe the Board should also consider additional factors including the total market cap of the population of issuers or the type of entity being audited *e.g.*, special purpose entities, start-ups, 11-Ks, large accelerated filers, etc. We believe that additional qualitative factors should also be taken into consideration as the Board is setting thresholds for specific requirements.

Questions for Respondents

Question 3: Are the proposed definitions of "firm personnel," "other participants," and "third-party providers" sufficiently clear and comprehensive, or is additional direction necessary? Please explain what additional direction may be necessary.

No, we do not believe the definition of "other participants" is sufficiently clear. Rather, we believe the definition should be bifurcated to separate other participants whose responsibilities include assisting with the performance of the firm's engagements and other participants whose responsibilities include assisting with the design, implementation, or operation of the firm's QC system. These two groups play significantly different roles within the QC system and firms will need to consider different quality risks for each group. We believe that bifurcating the definition will lead to enhanced clarity throughout the standard wherever other participants are referenced.

Question 9: We intend the proposed standard to be scalable for all firms based on their nature and circumstances. Are there additional factors we should consider so that the proposed standard is scalable for all firms? If so, what are those factors? Should the standard be revised to make it more scalable? If so, how?

We believe that using a principles-based approach helps to make any standard scalable. However, we have identified areas within the proposed QC standards that could inhibit scalability and may have an adverse impact if it encourages a prescriptive approach for firms, regardless of size and complexity.

For instance, we believe that requiring specified quality responses related to the firm's governance structure, engagement performance, oversight function, and incorporating automated systems to identify independence threats, rather than just including more quality objectives, makes the proposal less scalable, and results in a more rules-based approach to quality management, which we believe goes against the intent of creating a principles and risk-based standard that allows for firm judgment based on the circumstances.

Question 16: Should the proposed definition of "quality risks" explicitly address risks of intentional misconduct by firm personnel and other participants? If not, please explain why. Should the definition explicitly address other risks? If so, what are the other risks?

Yes, we believe the proposed definition of "quality risks" should explicitly address risks of intentional misconduct by firm personnel and other participants. However, as we discuss further in our response at Question 17, we believe the current threshold for considering risks of intentional misconduct, *i.e.*, every act of intentional misconduct that could adversely impact the achievement of one or more quality objectives, is too low a threshold and likelihood needs to also be considered.

Question 17: In the proposed definition of "quality risks" should the threshold of "reasonable possibility of occurring" also apply to all risks, including risks of intentional misconduct by firm personnel and other participants? If so, why?

Yes, we believe the threshold of "reasonable possibility of occurring" should apply to all risks, including risks of intentional misconduct by firm personnel and other participants. However, we do not agree with the proposed definition of quality risks and believe it would be better defined as follows:

> "Risks that, whether due to intentional misconduct or unintended acts by firm personnel, individually or in combination with other risks, have a reasonable possibility of adversely affecting the firm's achievement of one or more quality objectives if the risks were to occur, and have a reasonable possibility of occurring."

Under the proposed QC standards, the consideration of intentional misconduct is considerably different from ISQM 1 and SQMS 1. We believe this is an unnecessary difference. Additionally, we equate this to the current guidance in PCAOB AS 2110, *Identifying and Assessing Risks of Material Misstatement*, which requires auditors to identify risks of material misstatement whether due to error or fraud. In that case, reasonable possibility of occurring applies to both risks of error and fraud. We believe that same principle should be applied here.

Question 22: For the proposed specified quality response related to the firm's governance structure, is the threshold (firms that issued audit reports with respect to more than 100 issuers during the prior calendar year) appropriate? If not, what is an appropriate threshold?

No, we do not believe the threshold is appropriate, for reasons stated in the "General Comments" section of this letter. We recommend that a higher threshold be considered, such as 500 issuers, consistent with the threshold already established for certain QC requirements in SEC Regulation S-X Rule 2-01(d)(4). There are vast differences in the structures and audit practices of firms who audit close to 100 issuers and those who audit hundreds of issuers. The rationale for suggesting 500 issuers is that it aligns with existing SEC rules. Firms who audit more than 500 issuers generally have significantly larger and more complex practices than firms who audit between 100 and 500 issuers.

For example, the quantitative threshold of auditing more than 100 issuers does not take into consideration the differences among issuers that a firm might have in their audit portfolio. For instance, one firm might audit 101 large or accelerated filers, while another firm might audit 51 non-accelerated filers and perform 50 11-K audits. Both firms audit a total of 101 issuers, but the level of complexity and structure of those practices would likely be vastly different.

If the specified quality response remains, we encourage the PCAOB to consider that the number of issuer audit reports issued during a given year may not necessarily be indicative of the size,

structure, and complexity of a firm. We encourage the PCAOB to conduct outreach to firms that would be impacted by this incremental requirement (including FORVIS) to consider if an increased threshold or using additional metrics may be more appropriate.

Furthermore, with ongoing mergers and market activity, it is reasonably possible that a firm may cross the threshold during a given year. Adding additional clarity on the transition period and cut-off date would be useful for firms who are close to the threshold. We would propose a transition period, preferably 18 to 24 months, from the cut-off date to allow adequate time for firms to adopt the provisions of this proposal.

Question 23: Is the proposed specified quality response to incorporate an oversight function for the audit practice for firms that issue auditor reports with respect to more than 100 issuers appropriate? If not, why not?

There are concerns that if the oversight function is applied to a low threshold (for example, firms with more than 100 issuers), there may not be enough qualified and interested individuals to satisfy the requirements of the standard. That is one reason we suggest raising the threshold for the oversight function to firms who audit more than 500 issuers. We believe finding individuals qualified to fulfill this role and willing to take on this role will be challenging, and to improve audit quality, they need to be well qualified and able to devote significant time and effort to the oversight function.

It is also unclear from the proposal what the expectations are regarding the appropriate knowledge, skills, and experience required of someone fulfilling this role. The proposal focuses on the independence aspects, but not on the qualifications of the individual, which we believe is imperative to ensure the objectives of the role are met.

An additional concern we have is the cost associated with hiring this individual as well as what type of D&O insurance coverage might be needed for an individual acting in such a capacity for a firm. We believe firms may either be required to carry additional insurance coverage for this individual and/or compensate them accordingly for the risk they will be assuming in association with this role. And because this individual would currently be required for any firm auditing over 100 issuers, we do not believe this cost would be appropriately scalable.

Question 28: Is the proposed specified quality response to have an automated process for identifying direct or material indirect financial interests appropriate? If not, why not? Is the proposed threshold (firms that issued audit reports with respect to more than 100 issuers during the prior calendar year) appropriate? If not, why not?

We do not support the requirement to have an automated system because there is a lack of clarity as to what "automated" means. All systems of checking conflicts rely on manual input to determine whether conflicts exist, so it is unclear what part of the process needs to be "automated" and what

constitutes automation. We believe the Board should provide additional clarity on what is meant by the term "automated," perhaps by providing examples of how a firm might comply with identifying direct financial interests in an automated way.

In addition, we believe 500 issuers is the appropriate threshold as noted earlier in our letter. Furthermore, we believe that if the process is required to be automated for firms with more than 100 filers, firms may need adequate time to identify and evaluate software tools, some of which may not even be available in the marketplace until the proposal is closer to finalization.

We would also like to point out that as noted on page 112 of the proposal, firms that audit more than 500 issuers already have automated systems in place, based on SECPS requirements. Therefore, adding this requirement for firms that audit between 100 and 500 issuers would introduce additional cost and is not scalable.

Question 29: Is the proposed specified quality response related to communication of changes to the list of restricted entities at least monthly (and more frequently, if appropriate) to firm personnel and others performing work on behalf of the firm who are subject to independence requirements appropriate? Could communication to a more limited group accomplish the goal of alerting all individuals whose actions and relationships are relevant to independence? If so, to whom should changes be communicated?

No, we do not believe requiring a specified quality response related to communication of changes to the list of restricted entities at least monthly to firm personnel and others performing work on behalf of the firm who are subject to independence requirements is appropriate. This specified response is not sufficiently scalable for firms with between 100 to 500 filers with infrequent changes to the list of restricted entities and therefore the response may not be necessary or effective and should not be prescriptive.

In addition, many firms have policies where individuals are required to review the restricted entities list prior to purchasing stock/during proposal/acceptance procedures to determine whether an independence conflict would exist, which would help mitigate this risk. Many firms also make those restricted lists readily available to employees as part of their current QC systems.

Question 34: Should we include specified quality responses for the engagement performance component? If so, what should they be?

No, we believe specified quality responses for the engagement performance component are not appropriate or necessary and are not consistent with a principles-based approach. Quality responses should be based on a firm's risk assessment and specified quality responses may not be appropriate for all firms given their specific facts and circumstances.

Question 41: Is the proposed quality objective addressing the firm's external communications about firm-level and engagement-level information appropriate? If not, what changes to the quality objective are necessary?

We generally agree; however, we are aware that the Board recently added a research project on firm and engagement performance metrics. This research project includes considering metrics already disclosed by firms along with work the PCAOB (and the Center of Audit Quality [CAQ]) has done over the years, and we encourage the Board to perform additional outreach in this area.

Question 43: Are there legal or regulatory concerns regarding other participant firms sharing the most recent evaluation of their QC system and a brief overview of remedial actions taken and to be taken? If so, please specify.

Yes, we believe that requiring other participant firms to share the most recent evaluation of their QC system and a summary of remedial actions would violate the confidentiality provision in Sarbanes-Oxley Section 105(b)(5)(A), if information were required to be shared at the QC deficiency level. However, this concern would be alleviated if the definition of QC deficiency were updated to align with the definition in ISQM 1 and SQMS 1, as we suggest in our response to Question 53 below.

Question 53: Are the proposed definitions for "engagement deficiency," "QC finding," and "QC deficiency" sufficiently clear and appropriate? If not, what changes should be made and why?

We appreciate the additional clarity provided by the PCAOB by including these definitions and believe these will be useful to firms as they complete their annual evaluations. However, the definitions are different from the definitions in ISQM 1 and SQMS 1 and therefore, we have concerns that such differences could lead firms to reach different conclusions regarding the effectiveness of their system of quality control/management under QC 1000 and ISQM 1/SQMS 1. As it is the goal of the PCAOB to not have unnecessary differences between QC 1000 and ISQM 1/SQMS 1, we encourage the PCAOB to consider how the definitions could better align between the standards.

Question 57: Is November 30 an appropriate evaluation date for firms to conclude on the effectiveness of the QC system? Is there another specific date that would be more appropriate and if so, what date? Should firms be permitted to choose their own evaluation date?

No, we do not believe an evaluation date of November 30 is appropriate. The evaluation date should not be prescribed by the PCAOB and should instead be up to each individual firm to select based on their business cycle (as is permitted under ISQM 1 and SQMS 1). As some firms have implemented ISQM 1 as of December 15, 2022, they have selected evaluation dates different from November 30, and many have used their fiscal year-ends as the evaluation date. At the very least,

changing the evaluation date to November 30 would lead firms to perform an assessment twice in one year. This difference is unnecessary and creates additional work for firms without a commiserate benefit to audit quality.

Many firms have chosen their fiscal year-end as the evaluation date because quality management processes and response structures are aligned to the firm's fiscal year-end and business cycle. Additionally, for some firms, the November 30 date would conflict with the timing of external inspections field work or their peer review cycle. If firms were required to evaluate their system of quality control as of November 30, the responses, monitoring, and remediation efforts would potentially cross reporting periods, *e.g.*, the firms' annual reporting period, peer review cycle/period, internal EQR timing, and PCAOB inspection cycle could all be different, and may create unnecessary complexity or impact audit quality.

As noted in the proposal, there is a direct correlation between number of hours worked and audit quality, whereby audit quality goes down at a certain level. Imposing strict deadlines that conflict with the firm's business cycles or timing that may be challenging for a firm or result in multiple evaluation dates could result in a drastic increase in number of hours during those times and therefore have an impact on overall quality.

Finally, a November 30 date could be detrimental to audit quality as December to January is a key period for firms performing pre-issuance monitoring reviews and training/education on current practice and profession-wide matters. For instance, firms during this period as well as planning, risk assessment and other procedures for calendar year-end engagements. Firms concentrate on providing important updates to their audit practice in preparation for audits of calendar year-end companies.

The prescribed evaluation date is an unnecessary difference between QC 1000 and other quality management standards that would cause additional work for firms implementing the proposal. As quality control standards are intended to improve audit quality and we believe setting a November 30 cut-off could have a negative impact to audit quality, we strongly recommend that the proposal allow firms to select their own evaluation dates.

Question 58: Is the proposed definition of "major QC deficiency" clear and appropriate? If not, what changes should be made and why?

We agree with the concept of a major QC deficiency, which would prevent a firm from concluding that its QC system is effective. However, we believe that the phrase "severely reduces the likelihood" is vague and is not sufficiently defined in the proposed QC standards. We propose that the definition be updated to include "an unremediated QC deficiency or combination of unremediated QC deficiencies, based on the evaluation under paragraph 78, that prevents the firm

from concluding that the firm has achieved the reasonable assurance objective of one or more quality objectives."

Question 63: Is the proposed date for reporting on the evaluation of the QC system (January 15) appropriate? Is there another specific date that would be more appropriate and if so, what date? Is 45 days after the evaluation date an appropriate reporting date?

No, we do not believe the proposed reporting date of January 15 is appropriate. The January 15 reporting date does not provide firms with sufficient time to complete their evaluations and documentation. In addition to 45 days not being enough time, the period from November 30 to January 15 includes time over the winter holidays, during which many firms are busy with year-end inventory observations and other audit procedures, in addition to the pre-issuance monitoring reviews and training/education on current practice and profession-wide matters mentioned above.

We believe that at least 90 days between the evaluation date and reporting date (as recommended in our response to Question 64) is a superior alternative to allow firms to perform thorough and detailed evaluations. We also believe that firms would benefit from an additional time, such as a 45-day period, to archive documentation associated with these reviews beyond the reporting date.

Question 64: Rather than reporting on Form QC, should firms report on the evaluation of the QC system, as of March 31 on a non-public portion of Form 2, which is due on June 30?

As described above in our response to Question 57, the preferred approach for firms is to select their own evaluation date. As stated in our response to Question 63, a 90-day period between evaluation and reporting dates would allow firms to perform thorough and detailed evaluations.

Question 71: Are the proposed documentation requirements appropriate? If not, what changes should be made?

We believe the proposed seven-year retention period for documentation is cost prohibitive. If a firm changes their systems, for example, they will have to maintain licenses for old systems to be able to access/use the data and pay for up to seven years' worth of storage which we believe introduces unnecessary additional cost. We also believe that maintaining that much data for that period (*i.e.*, HR data, client data, emails, etc.) would increase cyber security risks.

Also, as mentioned in our response to Question 63, we believe that a reporting date that is only 45 days after the evaluation date does not provide firms with sufficient time to complete their evaluations. Performing a thoughtful and detailed evaluation of the QC system will take time and resources. Additionally, compiling the detailed reporting of QC deficiencies and related remedial actions to report to the PCAOB will require additional time and effort and also needs to be

completed prior to the reporting date. Therefore, we strongly encourage the PCAOB to allow a period of at least 90 days between the evaluation date and reporting date.

We also think additional context should be provided as to the level of granularity the Board would expect as it relates to document retention. It should be noted that many firms have strict email retention policies so extending to seven years would result in additional IT related storage costs, not to mention opening the firm up to additional risks.

Another operability issue with the seven-year retention period is that it goes well beyond the retention requirements of the quality control/management standards set forth by the AICPA and IAASB. For firms that are subject to the PCAOB requirements and with a significant private company client base, it will be challenging to have different document retention policies based on client base since many aspects of QC relate more to the firm as a whole.

We suggest aligning documentation retention requirements with the firm's inspection and remediation cycle or allow the firm to use a risk-based approach based on their judgement, which more closely aligns with standards set by the AICPA and IAASB.

Question 75: Is it appropriate for remedial action to be required for all identified engagement deficiencies, not just in situations where the auditor's opinion may be unsupported? If not, why not?

We agree with the principle behind this change to AS 2901 as it is intended to promote audit quality. In current practice, most identified engagement deficiencies are remediated, even when the auditor's opinion is not unsupported.

We do not agree with the proposal that an engagement deficiency should automatically be a firm-level QC finding, which would require firm-level remediation. We believe that some deficiencies may result in the firm performing a root cause analysis, and there could be cases where the root cause may not rise to the level of being a firm-level QC finding, but could rather be engagement, industry, or partner/staff specific. We support the remediation of engagement deficiencies at the appropriate level, and to the extent that engagement deficiencies rise to the level of a QC finding or QC deficiency, we support remedial action at the firm level.

Question 81: Are there additional academic studies or data related to the baseline for measuring the potential impacts of the proposed requirements? If so, what are they?

The proposed economic analysis section focuses on the six GNFs, which leaves out those national firms that are between the 100 to 500-issuer mark, or seven of the total GNFs (more than half). FORVIS is also expected to exceed the 100-issuer mark in 2023 and therefore would not be included in this analysis. We believe that the national firms below the 500-issuer mark have

significantly less resources associated with QC policies and procedures and would require additional time and cost to prepare for the proposed standard.

For example, FORVIS has slightly more than 5,700 staff overall, while Table 1 of the proposal noting resources associated with U.S. GNFs QC policies and procedures notes an average total of 647 FTEs per firm that are dedicated to QC matters (and hundreds of thousands of partners and staff overall).

These studies also do not consider the Great Resignation and talent shifts that are happening in the many professional service industries, including the accounting industry, in the United States. The AICPA, IFAC, CAQ, Journal of Accountancy, and many other well-known accounting resource providers have done studies and articles on this issue, and we believe firms may have difficulty finding additional qualified resources needed to ensure compliance with the various aspects of this proposal.

Question 87: Does our analysis appropriately capture the potential costs of the proposal? If not, please explain.

We believe the cost section of the proposal is silent to the impact on incremental costs associated with the suggested requirements for firms with more than 100 issuers, but less than 500 issuers, which is where FORVIS and several other firms annually inspected within the NAF program would fall within and would be impacted significantly due to the resource differences as compared to the top six GNFs. For this reason, we believe the PCAOB needs to perform additional outreach to these constituents before finalizing this proposal.

We also believe there should be additional studies related to the proposed seven-year document retention period, as we believe this could be a significant cost for firms as noted in our response to Question 71. This analysis should also include how much the top GNFs are compensating to their oversight functions. For a firm with a 100 to 500 issuer client base, we feel this cost does not demonstrate scalability.

Question 89: Are there additional academic studies or data related to the potential benefits and costs of the proposed requirements? If so, what are they?

As noted in our response to Question 87, we believe the Board should perform their analysis on every firm with more than 100 issuers but less than 500 issuers to provide an accurate picture of the additional resources that firms would need to put in place to comply with the proposal, before any such new requirements are adopted. We also believe the Board should look at qualitative factors such as market cap or type of issuer rather than setting just a strict 100 issuer threshold.

We would also encourage the Board to look to any lessons learned or studies published by the IAASB and the AICPA related to their QM standards to help inform any refinements that might be needed or additional implementation guidance that might be useful in adoption.

Question 93: Would the effective date as described above provide challenges for auditors? If so, what are those challenges, and how should they be addressed?

Yes, the proposed effective date could create challenges for auditors. The proposal sets forth an effective date of "December 15 of the year after approval by the SEC." Operating under the assumption that the standard may be approved by the SEC as early as 2023, the effective date could be December 15, 2024, with the first evaluation occurring in 2025 (as currently proposed, as of November 30, 2025). This effective date would be difficult for firms, especially for smaller firms that are not required to implement ISQM 1. The effective date of the AICPA's SQMS 1 is December 15, 2025. We therefore suggest that the PCAOB propose an effective date that would be no sooner than December 15, 2025 (in alignment with the effective date of the SQMS 1).

Providing firms, particularly smaller firms not subject to ISQM 1, with sufficient time to implement the standard will allow firms to thoughtfully identify quality risks and develop and document robust quality responses. This is critical to generate the intended transformational benefits of an enhanced QC standard. Allowing at least one additional year from the effective date of the AICPA standards would also allow firms adequate time to consider and build in additional policies and procedures that are incremental to the AICPA requirements.

We also encourage the PCAOB to consider a phased implementation for the incremental required quality responses for firms that issued audit reports with respect to more than 100 but less than 500 issuers during the prior calendar year. We observe that some firms will need additional time to implement the responses as required in the proposal, particularly the firms which fall just above the 100-issuer threshold. We propose that the PCAOB provide an additional year to implement those incremental requirements (no earlier that December 15, 2026).

There is precedent for allowing additional time for smaller entities. The PCAOB Critical Audit Matters (CAM) implementation is one example where the Board allowed additional time for certain entities to adopt, with the non-large, accelerated filers having an additional year and a half to adopt those incremental reporting requirements.

One additional issue the Board may wish to consider is how firm mergers and acquisitions would impact the thresholds and providing specific guidance on when those firms would be required to follow the proposed QC standards. For example, if two firms, each who audit 75 issuers, were to merge, guidance should be provided regarding transition and effective date of the standards. We would urge the Board to consider allowing such firms additional time to adopt, given they may not have adequate resources in place to effectively adopt the standard immediately following a merger or acquisition.

Additional Comments

To ensure all respondents are given adequate time to review and comment on these proposals in the future, we would suggest providing longer comment periods, especially in situations where the proposed changes are lengthy and significant for firms or when comment periods overlap with firm's busiest time of the year. There are aspects of this proposal that will impact firms in many areas, including but not limited to legal, governance, human resources, information technology, and overall operations of a firm. The proposal is nearly 400 pages long and takes time to sufficiently review and vet through various departments, and we found a comment letter response period of less than 75 days (30 of those days being the busiest month of the year for SEC auditors in practice, and other days during the holiday seasons) to be challenging for firms who may be impacted the most significantly by these proposed changes and do not have as many resources to devote to responding to exposure drafts.

It should be noted that the IAASB issued their proposal on quality management in March 2019, with comments due by July, a more than three-month comment letter period. The IAASB will typically give a comment letter period of up to 120 days for changes that are expected to have a significant impact on firms. We believe the Board should consider these factors when reviewing comments from respondents to come up with a reasonable effective date.

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In closing, FORVIS is supportive of the PCAOB's effort to advance the quality control standards and believe our suggestions above will only further enhance the proposal. We appreciate the opportunity to comment on the proposed QC standards and are pleased to discuss any questions the Board and its Staff may have concerning our comments. Because FORVIS is in a unique position in that we recently exceeded 100 issuers due to a merger, we believe that our perspective on issues concerning scalability, costs, scope, and effective date is critical. If you have any questions related to this response and would like to discuss further, please feel free to email Will Neeriemer in our Professional Standards Group at will.neeriemer@forvis.com.

Sincerely,

FORVIS, LLP

FORVIS, LLP