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February 1, 2023

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

Via Email to comments@pcaobus.org

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

Dear Board members and staff:

Grant Thornton LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB's or Board's) Rulemaking Docket Matter No. 046, *A Firm's System of Quality Control and Other Proposed Amendments to PCAOB Standards, Rules, and Forms* (the Proposal). We commend the Board for utilizing feedback from various stakeholders to propose a comprehensive, modernized quality control standard (proposed standard or QC 1000). A firm's system of quality control is paramount to maintaining and enhancing quality on audit, attestation, review, and other engagements. Our firm, like many others, has made a variety of enhancements to our system of quality control (QC) in recent years. In doing so, we recognize the need for changes to, and support meaningful revisions of, the PCAOB's QC standards in order to best serve the public interest. However, in order to be most impactful, such changes require striking an appropriate balance in order to avoid an unintended financial or operational burden that could ultimately have a negative effect on quality.

We support the Board's approach to using 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* as a base for the proposed standard, and we appreciate the commentary provided throughout the Proposal that compares and contrasts the proposed PCAOB requirements to those established in both ISQM 1 and Statement on Quality Management Standard (SQMS) 1, *A Firm's System of Quality Management*.

As discussed in our March 2020 letter responding to the PCAOB's 2019 Concept Release, *Potential Approach to Revisions to PCAOB Quality Control Standards,* we believe that ISQM 1 generally provides a principles-based approach to quality control that can provide flexibility and scalability, depending on each firm's assessment of risks

to quality control. We believe there could be great advantages to enabling global network firms to institute a consistent QC system, and the cost/benefit of incremental or divergent requirements should be weighed carefully.

We respectfully submit our comments and recommendations herein and have included as an Appendix to this letter our responses to certain of the questions posed in the Proposal.

Components of PCAOB proposed standard and impact on QC systems

We acknowledged in our 2020 letter that certain incremental differences from ISQM 1 would need to exist due to basic jurisdictional differences but indicated that we had reservations about being overly prescriptive in the proposed standard due to the wide spectrum of accounting firms that would be impacted. The number and significance of the differences from ISQM 1 could also have negative unintended consequences to engagement quality that could ultimately be detrimental to public interest.

In considering the Proposal, we remain concerned about the unintended consequences associated with certain requirements that deviate in meaningful ways from ISQM 1, as well as the broad nature of certain of the requirements that may lack sufficient interpretative guidance to enable firms to implement satisfactory responses (discussed further below). We identify throughout this letter incremental areas in the proposed standard that may require significant additional time and cost for firms to design and implement; however, those incremental investments and increased costs may not be commensurate with the intended benefits. Further consideration of certain of the requirements may be warranted to confirm the cost of implementation and operation does not outweigh the benefit of the incremental requirement.

The addition of new definitions, certain ambiguous language, and other incremental requirements could create significant divergence in QC systems among firms around the world as opposed to enabling a cohesive, global system that will enhance and promote engagement quality in furtherance of the public interest. We believe such divergence could be a detriment to long-term engagement quality.

Role of professional judgment in a system of quality control

The PCAOB's rules and engagement standards make clear that professional judgment is required in identifying risks and in developing appropriate responses to such risks. We are concerned that this foundational concept is absent from the Proposal. A system of quality control is effected by individuals, informed by a robust risk assessment, and grounded in professional judgment. We believe it is important for the PCAOB to explicitly incorporate the notion of professional judgment into the proposed requirements to reiterate the importance that professional judgment plays in the design, implementation, and operation of an effective system of quality control.

We draw attention to the requirements ISQM 1, which state in part that:

> The firm shall design, implement, and operate a system of quality management. In doing so, ***the firm shall exercise professional judgment***, taking into account the nature and circumstances of the firm and its engagements… (emphasis added) (paragraph .19)

> The firm remains responsible for its system of quality management, including ***professional judgments made*** in the design, implementation and operation of the system of quality management… (emphasis added) (paragraph .48)

Additionally, we note that ISQM 1, paragraph 16, includes the following definition of "professional judgment":

> The application of relevant training, knowledge and experience, within the context of professional standards, in making informed decisions about the courses of action that are appropriate in the design, implementation and operation of the firm's system of quality management.

Similar to due professional care, which includes professional skepticism, professional judgment is essential in effective QC systems. Therefore, we strongly encourage the Board to revise paragraph .06 or .07 to incorporate the concept of professional judgment in the overall design, implementation, and operation of the QC system to clearly express the importance of professional judgment to all stakeholders. We also encourage the Board to explicitly define the term within Appendix A of proposed QC 1000 similar to the definition contained in ISQM 1.

Implementation and interpretive guidance

We note that ISQM 1 and SQMS 1 each contains over 200 paragraphs of application guidance to their respective standards. In addition, the IAASB published an implementation guide that provides nearly 100 pages of additional guidance and examples to further assist firms in appropriately and adequately building their systems of quality management.

Given the importance of quality control and its key role in firms providing services that support the public interest, we strongly encourage the PCAOB to provide comprehensive, timely implementation guidance, along with practical examples, that will enable firms to succeed in complying with the final requirements. Absent significant interpretative guidance that includes practical examples, certain broad-based language and requirements in the proposed standard may be subject to varying interpretation, and the PCAOB's intent may be either misinterpreted or not fully understood by various parties, especially with the benefit of hindsight. Such misinterpretation could result in inspection outcomes that vary across firms with similar fact patterns or standard setting via inspections.

We believe comprehensive and timely guidance from the PCAOB is of particular importance due to the extent of the requirements proposed in QC 1000 that are incremental to both ISQM 1 and SQMS 1. We do not believe it will be sufficient for firms to leverage existing guidance issued by other standard setters, which might not align with the PCAOB's intentions or expectations. The Board plays a crucial role in the marketplace to protect investors and the public interest, and in this regard, clear and comprehensive PCAOB-specific guidance is undeniably imperative. We identify in the Appendix to this letter some of the specific areas where we believe that implementation guidance is necessary.

We also encourage the PCAOB to consider conducting working or listening sessions with the profession to address early implementation questions or challenges that firms may experience. This could give firms the opportunity to address those challenges

proactively and thoroughly, further strengthening a firm's QC system prior to the PCAOB's effective date.

Form QC and certifications

We offer our support for the PCAOB's decision to treat Form QC as nonpublic. We continue to believe that the type of information that would be included in Form QC under the Proposal would be difficult for the general public to synthesize in a useful manner without the right level of context or understanding, including the observation that the Board "do[es] not believe making incomplete, potentially confusing, and potentially misleading Form QCs public would be in the interests of investors or other stakeholders…."[1] Further, we agree with the Board's determination that the Sarbanes-Oxley Act (SOX) contemplates that the type of information to be included in the proposed Form QC be nonpublic.

We provide more detailed comments in the Appendix to this letter regarding potential operational challenges that the proposed QC reporting requirements may cause, along with our recommendations that could assist in optimizing the effectiveness of QC-related reporting, including adjusting the level at which reporting occurs and providing a longer time period between the evaluation date and submission date.

Effective date

There are a variety of areas where we believe the requirements proposed by the PCAOB that are incremental to ISQM 1 will require a significant investment of time and financial resources well beyond the investments made in implementing ISQM 1.

While we acknowledge that the "proposed evaluation date of November 30 builds in almost a full year delay between the effective date of the standard and the first evaluation date,"[2] we do not believe it is practicable to design, implement, and operate the PCAOB-related incremental portions of the QC system to an extent that would allow meaningful evaluation at the November 30 date (detailed feedback on the proposed November 30 evaluation date is included in the Appendix to this letter). In addition, firms will need time to consider whether and how to transition from their evaluation date previously established under ISQM 1. What's more, firms would greatly benefit from having a period of time to allow for pilot testing and fine-tuning aspects of their QC systems that address the PCAOB's incremental requirements.

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We would be pleased to discuss our comments with you. If you have any questions, please contact Jeff Hughes, National Managing Partner of Audit Quality and Risk, at 404-475-0130 or Jeff.Hughes@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP

[1] PCAOB Proposal, page 213
[2] PCAOB Proposal, page 291

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Appendix: Responses to certain questions within the Proposal

Terminology and definitions

Question 1. Is the proposed definition of "applicable professional and legal requirements" appropriate? Are there elements that should be excluded, or other requirements that we should include? If so, what are they?

We believe the proposed definition of "applicable professional and legal requirements" is reasonable and understandable.

Question 2. Is the proposed definition of "engagement" clear and appropriate? If not, why not? Should the definition be narrower (e.g., limited to engagements required to be performed under PCAOB standards) or broader? If so, how?

The proposed definition includes circumstances in which the firm serves as the lead auditor or practitioner, as well as when the firm plays a substantial role in the preparation or furnishing of an audit report. We believe the notions of "lead auditor" and "substantial role" are generally well understood given their role in existing professional standards.

We are concerned, however, by requirements that go beyond the scope of "engagements" as it is proposed to be defined. In paragraph .07b, for example, the Board proposes that the QC system must go beyond "engagements," indicating that, when a firm's QC system is required to operate effectively, such system must operate over all work, even in instances where the firm plays less than a substantial role. We acknowledge that the Proposal includes the following commentary on page 162:

> In situations where the firm participates in another firm's engagement but does not play a substantial role, sometimes called "referred work," while such work would not be treated as the firm's own "engagement" for purposes of the proposed standard, any firm that was required to implement and operate an effective QC system under the proposed standard would be required to extend its QC system to all audit, attestation, review, and other work it performs under PCAOB standards, including other firms' engagements in which the firm plays less than a substantial role.

We believe that additional clarity is needed as to why the definition of “engagement” in the Proposal does not align with the scope of work that is expected to be subject to the proposed standard, for example, how required monitoring activities are intended to apply to work where the firm plays less than a substantial role. We ask the Board to consider providing additional guidance addressing how firms may approach the various levels of work (that is, lead auditor, substantial role, and less than a substantial role) in a risk-based manner within their QC systems.

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.

We found the diagrams included in the Proposal extremely helpful and encourage the PCAOB to carry them forward into the final standard or related authoritative guidance. While we believe the definitions themselves are sufficiently clear, there may be challenges in applying the terms in the context of certain requirements within the proposed standard.

We concur with separately defining “other participants” and “third-party providers.” We note, however, that the term “other participants” encompasses a vast array of individuals or roles, and that the Board incorporates “other participants,” into a variety of requirements in addition to firm personnel. We ask the Board to reconsider the specific, pervasive inclusion of “other participants” throughout QC 1000.

This use of the term “other participants” in the Proposal deviates from its use in ISQM 1 and SQMS 1, and we believe the practicability of certain requirements will be challenging if they apply to both “firm personnel” and the various parties contained within “other participants.” In particular, the policies and procedures related to “other participants” would differ, depending on the type of other participant (for example, an internal auditor providing direct assistance differs from an auditor, specialist, or engagement quality reviewer). The underlying PCAOB engagement standards dictate differing requirements that apply to various other participants. In contrast, QC 1000 seems to impose the same requirements for each type of other participant. As a result, it would not be feasible to apply the requirements in each set of standards (AS and QC) the same way.

Question 4. Is the other terminology used in QC 1000 clear and appropriate? Are there other terms that should be defined?

In this Appendix, we have identified certain terms or phrases used throughout the Proposal that may be confusing or vague, requiring additional guidance to enable firms to implement the related requirements appropriately and sufficiently within their QC systems. Without further guidance or clarification, we believe that the proposed requirements could be unintentionally misinterpreted or misapplied. We provide a variety of recommendations where additional clarity could enhance firms’ successful execution of the requirements in the remainder of this Appendix.

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Scalability

Question 5. Is it appropriate for the proposed standard to require firms that have not and do not plan to perform engagements pursuant to PCAOB standards to design a QC system in accordance with QC 1000? Why or why not? Would this requirement impose disproportionate costs on small firms? Please provide data or estimates, if available, on such costs.

We are concerned about the proposed standard's potential unintended consequences on global networks, and particularly whether QC 1000 will diminish the availability of global network resources. Smaller firms around the world may view the proposed standard as unsustainable or cost prohibitive and, therefore, decline to assist US firms in executing their global audits, which could be detrimental to overall engagement quality.

An alternative approach might be to require firms that only play a substantial role (that is, they do not issue auditor's reports related to audits of issuers) in more than a certain threshold of PCAOB engagements to comply with ISQM 1, with a specific requirement to focus on quality risks related to engagements and work performed in connection with a PCAOB engagement of another firm. ISQM 1 is a robust quality management standard and would be understood and translated, as appropriate, across the globe. In addition, underlying PCAOB engagement standards, particularly those related to audit engagements, have recently been enhanced with respect to appropriate supervision and review. We believe requiring compliance with ISQM 1 in such circumstances, combined with the lead firms' compliance with both QC 1000 and with the underlying PCAOB engagement standards applicable to the engagement, would protect the public interest, at a reasonable cost.

Question 6. Is the proposed distinction between the obligation to design a QC system and the obligation to implement and operate a QC system appropriate? Is the proposed threshold for full applicability of QC 1000—having obligations under applicable professional and legal requirements with respect to a firm engagement—appropriate?

As noted in our response to Question 5 above, we are concerned that the proposed threshold for full applicability will create difficulties for foreign firms that are members of global networks. We believe certain firms will be challenged with assessing the extent to which the requirements apply to their firm, particularly those firms that are at or near the 100-issuer mark.

We appreciate the effort taken by the Board to provide clear delineation regarding the level of obligation applicable to each firm. Nevertheless, we still had difficulty in navigating the requirements within paragraph .07. If the Board moves forward with the distinction between (a) design and implementation and (b) operation, we recommend the following clarifications:

- We believe the requirements would be clearer if sub-bullet (d) were presented as a separate requirement. The content of the sub-bullet does not appear to align with the lead-in of the requirement since the lead-in speaks to implementing and operating

the QC system. By separating sub-bullet (d), we believe that content will be easier to understand.

- We recommend putting paragraph .07 closer to the beginning of the standard. While we understand its proposed positioning, currently, the distinction between design obligations and operation obligations as one begins reading the standard is not readily apparent. By explicitly addressing the distinction at the beginning of the standard, the Board could achieve greater clarity about the extent of applicability.

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 appreciate the Board's intention of creating a quality control standard that is scalable for all firms. We believe the scalability of the standard would be even more effective if the Board could incorporate more explicitly certain concepts, such as professional judgment and relevance and reliability. Without these concepts, we are concerned that the requirements lose the notion of being risk-based because they are set forth in such definitive terms. For example, professional judgment is essential in operationalizing a standard that is intended to be scalable based on a firm's size and circumstances. As discussed in the body of our letter, we believe the standard could be even stronger by incorporating the notion of professional judgment throughout the proposed standard in the context of the design, implementation, and operation of a firm's QC system. Similarly, the information and communication component could refer to "relevant and reliable information" to convey that not all information is intended to be obtained and disseminated to the required individuals or roles.

Firm's QC system

Question 10. Is the reasonable assurance objective described in the proposed standard appropriate? If not, why not? Are there additional objectives that a QC system should achieve? If so, what are they?

We continue to believe that the concept of *reasonable assurance* is not well understood generally as it relates to systems of quality control and recommend that additional clarity is needed. Without clear guidance specific to quality control, users of engagement reports, inspectors of audits, and auditors themselves may interpret the proposed standard, as well as the results from its application, in different ways, which could change their notion of what reasonable assurance should be as well as undermine the overall trust in the audit process itself.

We are concerned that, without additional guidance, the proposed phrase "an appropriately low level of risk" is open to varied interpretation and may result in unnecessary differences in application, even in situations with similar fact patterns. We strongly recommend that the Board add the guidance from footnote five of existing QC 20, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*, which states the following:

> Deficiencies in individual audit, attest, review, and compilation engagements do not, in and of themselves, indicate that the firm's system of quality control is

insufficient to provide it with reasonable assurance that its personnel comply with applicable professional standards.

We believe including such guidance as another note to paragraph .05 reinforces the notion that a firm's QC system provides reasonable, not absolute assurance. It also provides more clarity regarding the impact that QC deficiencies may have on a firm's overall conclusion regarding the operating effectiveness of its QC system.

Roles and responsibilities

Question 12. Are the proposed requirements related to roles and responsibilities described in the standard clear and appropriate? If not, how should they be clarified or modified?

We support the roles identified in the Proposal. We encourage the Board to consider whether a firm's head of the audit practice should also be included in the standard. The accountability that comes with that position across firms could align with the governance component of the QC system.

While we believe the roles identified are those that are most accountable for a successful QC system, we foresee potential challenges in operationalizing certain aspects of the requirements.

Assignment of roles

We are concerned about the expectation that only one individual is to be assigned responsibility for each role discussed in paragraph .12. Practically speaking, it may not be operational for only one individual to fulfill the robust QC responsibilities set out in the Proposal while still executing their day-to-day job functions, especially when considering the disparity in the size of firms subject to the operation requirements of QC 1000. We believe this requirement could contradict the authority, requisite skillset, and time necessary to appropriately design, execute, and oversee all of the responsibilities included in the Proposal.

In order to dedicate sufficient time to the QC system, firms may designate multiple individuals for a particular role, which may be appropriate depending on how firms are structured. For example, the concept of "ethics" is a broad term that might encompass a variety of areas. The concept of "ethics and independence" is used throughout the PCAOB's standards and rules. However, a broader view of the term "ethics" could include concepts such as compliance with ethical standards and a firm's code of conduct. We request clarification as to whether the use of the phrase "ethics and independence" is intended to be read consistent with its use in existing professional standards or whether a broader definition is intended. The current ambiguity creates concerns that, again, one individual may not be able to operate in this role in a practicable manner.

Communication loop

We agree with creating an appropriate feedback loop among the individuals described in paragraphs .11 and .12. It is unclear, however, whether "establish[ing] a direct line of communication" implies a direct reporting relationship between the roles identified in paragraph .12 and the firm's principal executive officer. Currently, firms may not be structured in a manner whereby these roles report directly to the principal executive

officer. In addition, the expectations for practical application are unclear with regard to the nature and frequency of these communications. We believe examples or implementation guidance will help firms consider how these requirements are expected to be achieved.

Question 13. Would firms have difficulty filling the specified roles in light of the proposed requirements?

We believe firms may have difficulty filling the specified roles in the proposed standard. The workload expectations for a single person to fulfill in each role may not be operational (refer to our response to Question 12 above). Given the size of some firms and the proposed limitation to a single individual, these roles, by design, may be too broad to bear the expectations related to accountability.

Public accountants and firms know that accountability is important and necessary. However, the fact that the Proposal specifically discusses designing the roles requirements in QC 1000 so that "enforcement action could be brought against the individual if they fail to meet those responsibilities"[3] sets a troubling tone, which may deter the best and the brightest from seeking these important roles given the impact of an enforcement matter on a professional's career.

SEC Commissioner Hester Peirce discussed similar concerns in a recent statement:

> The PCAOB has set for itself an objective of "[i]mpos[ing] more significant penalties and other relief," [citation deleted] which could deter well-qualified people from joining the profession and undercut audit quality. [citation deleted] The smallest firms could suffer disproportionately, diminishing competition in an industry already dominated by several large firms.[4]

A more practical approach that would result in the same behavioral change while also attracting the right professionals for the role would be to have a specified response that the effectiveness of the quality control system is prominently embedded in these individuals' performance evaluations.

Risk assessment

Question 14. Are the proposed definitions of "quality risks," "quality objectives," and "quality responses" sufficiently clear and comprehensive? If not, why not?

We believe those definitions are sufficiently clear and understandable, and particularly support the PCAOB's use of the "reasonable possibility" notion within the proposed definition of "quality risks." We provide further feedback on the definition of "quality risks" in our response to question 16 below.

Question 15. Is the threshold of "adversely affecting" set out in the proposed definition of quality risk clear, or would more guidance and examples be helpful?

The threshold of "adversely affecting" is also included in ISQM 1 and SQMS 1 with little clarifying guidance to assist practitioners. We believe the concept is reasonably

[3] PCAOB Proposal, page 75
[4] SEC Commissioner Hester M. Peirce, "PCAOB's Ballooning Budget," December 23, 2022

understood. However, we would welcome additional guidance or examples in order to align how firms are viewing risks through the expected lenses.

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?

We understand the PCAOB's concerns discussed in the Proposal and believe the proposed definition of "quality risks" will help "raise the bar" for firms to appropriately address intentional misconduct in their QC systems. However, our response to question 17 below provides further discussion on what we foresee to be considerable operational challenges with the proposed definition as a whole.

In addition, we believe additional guidance may be beneficial with regard to intentional misconduct by other participants. It is currently unclear how a firm's QC system can be expected to assess and respond to risks associated with other participants that are not part of the firm.

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?

We strongly believe that the threshold of "reasonable possibility of occurring" should apply to all risks, including risks of intentional misconduct. In order to remain scalable and risk-based, it is necessary to strike a balance that requires firms to address legitimate risks relating to intentional misconduct without requiring firms to dedicate disproportionate time and resources to every possible type of misconduct that could adversely affect the QC system, irrespective of the likelihood of such conduct occurring. The Proposal clearly acknowledges that the Board's focus is on the "more pervasive and larger risks":

> Limiting risks of intentional misconduct to only those that have a reasonable possibility of adversely affecting achievement of the firm's quality objectives would result in the firm concentrating its efforts on more pervasive and larger risks and not on every conceivable act of misconduct.

A focus on conduct that could create pervasive or larger risks must take into account the probability of the conduct occurring. Therefore, we do not believe the proposed definition sufficiently limits the extent of the expected risk assessment related to intentional misconduct as the Board believes it would. As such, we believe the notion of "reasonable possibility of occurring" should also apply to risks of intentional misconduct in order to appropriately focus firm efforts on the more pervasive and larger risks, as intended by the Board.

Question 19. Are the proposed requirements sufficient to prompt firms to appropriately identify, assess, and respond to quality risks, or is supplemental direction needed? If supplemental direction is needed, what would assist firms in identifying, assessing, and responding to quality risks?

Risk assessment is the first step in building and maintaining an effective QC system. We believe the profession would benefit greatly from timely supplemental direction in

the form of guidance and examples from the PCAOB. Addressing potential practical application challenges early in the implementation process, such as in working or listening sessions, would only make firms' QC systems stronger, which will ultimately serve the public interest.

Question 20. Are the specific examples included in Appendix B helpful in assisting the firm in identifying and assessing quality risks? Should additional examples or guidance be provided? If so, what additional examples or guidance would be helpful?

Generally, we found Appendix B helpful and appreciate the specific examples that are intended to assist firms in identifying and assessing quality risks.

While we do not currently have any recommendations of examples to add, we ask the Board to reconsider the inclusion of paragraph B.10b, which discusses "the extent of alignment of the third-party providers' standards of conduct with those of the firm." Various observations have been made throughout the years indicating that many third-party providers that are used to obtain evidence are not centrally governed by codes of conduct like the public accounting profession. We are concerned that this example could imply that a third-party provider may not be appropriate or sufficient merely because it falls outside the public accounting profession. We believe paragraph B.10d adequately addresses a firm's quality control responsibilities related to third-party providers. Therefore, we recommend removing paragraph B.10b given its ambiguity.

Governance and leadership

Question 21. Are the proposed quality objectives for governance and leadership appropriate? Are changes to the quality objectives necessary for this component? If so, what changes?

We support the quality objectives set forth in paragraph .25 of the Proposal. We strongly agree with the need for "frequent and consistent communication from leadership to firm personnel regarding the commitment to quality."[5]

We suggest that firms would benefit from clarification of the term "leadership" within paragraph .25 and Appendix B. It is unclear whether the Board intends for "leadership" to apply to all partners and partner equivalents or just to the principal roles within the QC system set out in paragraphs .11 and .12. Clarification would enable firms to design and communicate appropriate expectations to a complete population of those considered to be firm "leadership." Since firms of varying size and circumstances would be implementing QC 1000, we believe the Board could provide clarification in general terms that can be widely applied.

We are, however, concerned with the implications of paragraph .25d. Certain actions taken by firms may take an extended time period in order to yield the benefits of quality. For example, a divestiture of a particular industry sector of an audit practice may temporarily strain resources, but the long-term benefits of such divestiture may ultimately far outweigh the initial stress that the transaction puts on the remaining audit practice. It is unclear how firms would operationalize or demonstrate the connection to

[5] Page 93 of Proposal.

their commitment to quality, particularly if such decisions or actions have longer term benefits.

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?

We are supportive of the notion that independent directors or advisory committees can provide helpful business insights to audit firms. However, we believe that implementing the requirement for independent oversight could be challenging. We are concerned that such a requirement is overly prescriptive in that it dictates the form of the independent function rather than being principles-based.

We also found the requirement to be unclear, given the use of the phrases “oversight function” and “independent judgment.” While the Board notes that the largest six firms had some form of governance structure that included a non-employee, we are unsure whether existing independent advisers would fulfill the proposed requirement. For example, various firms’ governance structure includes independent members that sit on an audit quality advisory council. However, we do not believe such council’s purview is that of an “oversight” role, but rather it is primarily an independent function that objectively and sufficiently advises firm boards and audit leadership on the firm’s quality control system. While we believe this structure meets the spirit of the Proposal, we believe clarification is necessary for firms to understand whether existing structures, as acknowledged in the Proposal, do in fact meet the intended purpose of the proposed requirement.

Further, we recognize the Board’s commentary on the concerns raised from the concept release regarding such role being within the “chain of command,” and we acknowledge that the proposed requirement does not dictate the role be in the “chain of command.” However, practically speaking, it is unclear how an independent role could truly function as an “oversight” role in the firm *without* being in the “chain of command.” Therefore, the concerns originally voiced regarding the operational challenges that firms would encounter if the oversight role fell within the chain of command remain a barrier to implementing this particular requirement.

We continue to believe that the Board’s intended objective with this requirement could be met either by designating an individual on a firm’s board as an “audit quality expert” (similar to audit committee requirements for a “financial expert”) or by hiring independent external advisers outside the board (or a similar construct) to focus on and advise firms regarding audit quality and their systems of quality control.

Question 24. Is the proposed specified quality response related to the firm's policies and procedures on receiving and investigating complaints and allegations appropriate? Are there any other specified quality responses in this area that we should consider, and if so, what are they?

We support having well-defined policies and procedures for addressing and resolving potential noncompliance. We appreciate the inclusion of the note to paragraph .29, which clarifies that the nature, timing, and extent of the process to investigate and resolve complaints and allegations would be commensurate with, and responsive to,

the significance of such complaints or allegations. We believe scalability is essential to being responsive to the risk and the successful execution of such process.

Ethics and independence

Question 26. Are the proposed quality objectives for ethics and independence requirements appropriate? Are changes to the quality objectives necessary for this component? If so, what changes?

We support the direction of the proposed quality objectives for the ethics and independence component; however, we have identified certain areas where greater clarity could enhance firms' implementation of the related requirements.

Certain requirements throughout the ethics and independence component describe "with respect to work performed on behalf of the firm, by others subject to such requirements" (for example, paragraphs .31a, .33e, and .33f) while other requirements refer to "affiliates of the firm" (for example, paragraphs .33a and .34). Some requirements also refer to "others subject to such requirements" (for example, paragraphs .33c and .33e), which we believe relates to "other participants," but is unclear. We found the terms used throughout paragraphs .31 through .35 to be confusing and not fully aligned with the independence rules themselves. We are concerned that the proposed requirements that contain this language could go beyond the intended applicability of the independence rules to the various parties contemplated in the proposed standard (for example, application of the requirements to other participants, which may include the entity's internal auditor or an auditor's external specialist who are not subject to independence). Given the importance of compliance with independence and ethics requirements, it is critical that the requirements be clarified and also aligned with the rules of the PCAOB related to independence and ethics.

We also believe the phrases referenced above could create operational challenges because they are open to interpretation, and certain interpretations may be too broad to enable appropriate implementation by firms. For example, it is not possible for a firm to dictate policies and procedures for its affiliates to follow. Therefore, we ask the Board to clarify the language used in the proposed standard either by cross-referencing to definitions that already exist in PCAOB rules or by providing definitions within QC 1000. We also believe this is an area where the profession would benefit from more detailed implementation guidance.

Question 27. Are the proposed specified quality responses for ethics and independence requirements appropriate? If not, what changes to the specified quality responses are necessary for this component?

We support the Board's desire to bring greater attention and accountability to the ethics and independence component. However, we believe that the level of prescription in certain of the quality responses for this component will create operational challenges that could ultimately be detrimental to quality.

For example, paragraph .33f(2) specifies that firms must take "preventive and correction actions to address ethics or independence violations, as appropriate, on a timely basis." Ethical or independence violations may take a variety of forms and therefore latitude is required in determining the best approach to handling them in the QC system. Dictating

that preventive ***and*** corrective actions must be taken does not promote a risk-based approach to responding to the quality risks identified by a particular firm related to ethics and independence.

In addition, we noted that the proposed standard does not define "affiliates." We recommend either referencing the definition provided within PCAOB Rule 3501 or defining this term in the proposed standard in a manner similar to Rule 3501's definition.

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?

As noted in the Proposal, the existing SEC Practice Section (SECPS) requirements to implement an automated system to track investment holdings of partners and managers use a threshold of more than 500 SEC registrants. However, the proposed requirement in paragraph .34a(1) institutes a threshold of 100 or more issuers, and the basis for reducing the threshold from existing requirements is unclear.

Firms that are currently subject to the SECPS requirements have likely invested considerable capital and resources to implement and maintain the tools that enable compliance with those requirements. We view that investment as worthwhile and believe these processes have contributed to audit quality over the years. Nevertheless, we are concerned that costs associated with implementing an automated system that would be incurred by firms with between 100 and 500 issuers may be cost prohibitive and not necessarily commensurate with the quality risk to which it responds. We are currently unaware of any truly "off the shelf" independence monitoring solutions that would be readily available to firms, which means that firms could incur substantial time and costs to design, test, and implement a system that is responsive to this requirement. Such investment may be cost prohibitive to certain firms with fewer than 500 issuer clients.

We further note that while some processes may have automated components, it is possible that they are not fully automated. It is unclear what the Board's expectations are with regard to the nature or level of automation, and we are concerned that the cost/benefit may only be realized by firms subject to the current SECPS threshold (that is, more than 500 issuers).

Question 30. In addition to the annual written independence certification, should the proposed standard require an annual written certification regarding familiarity and compliance with ethics requirements and the firm's ethics policies and procedures? Why or why not? Should firms be required or encouraged to adopt firm-wide codes of ethics or similar protocols? Why or why not? Are there other specific policies that QC 1000 should require or encourage to promote ethical behavior?

We believe that the proposed requirements highlighted in this question are already addressed by the requirement for mandatory training, which addresses ethics and independence requirements and firm policies and procedures. Successful completion of

such training would imply familiarity with those requirements, policies, and procedures. We are concerned, though, that paragraph .34e is overly prescriptive with regard to "obtaining certifications… upon any change in personal circumstances, such as role, geographic location, or marital status, that is relevant to independence." We believe that obtaining such certification is not risk-based and may create scalability issues as there are cost implications for designing and maintaining processes or systems that would operationalize this type of requirement.

Instead, we believe these items would be better suited as examples or considerations included in the implementation guidance, and we recommend that such examples include when or how the actions proposed in Question 30 may be scalable to the related quality risks.

Acceptance and continuance

Question 31. Are the proposed quality objectives for acceptance and continuance of client relationships and specific engagements appropriate? Are changes to the quality objectives necessary for this component? If so, what changes?

Generally, we found the proposed quality objectives to be reasonable. We support the Board's view that it is important to focus "the client acceptance and continuance process on the firm's ability to perform an engagement in accordance with applicable professional and legal requirements."[6] Nevertheless, we have concerns with certain requirements.

Paragraph .38a(1) states, "Judgments about whether to accept or continue a client relationship or specific engagement are… made as part of or before performing preliminary engagement activities." We are concerned that this paragraph may be overly prescriptive and, therefore, may not sufficiently address the intended quality objective. Generally, acceptance or continuance of client relationships or specific engagements is an ongoing obligation for each firm throughout the year.

Prescribing that such judgments be made "as part of or before preliminary engagement activities" could have unintended consequences, such as (1) inappropriately narrowing or misconstruing the intention of the quality objective and (2) misaligning this portion of the quality objective with the quality response proposed in paragraph .40. At a minimum, we ask the Board to consider specifying that this paragraph relates only to ***initial*** judgments about whether to accept or continue a client relationship or specific engagement.

We fully support the need for firms to consider the nature and circumstances of the engagement as well as the integrity and ethical values of the client. However, we believe paragraph .38a(3) regarding "the integrity and ethical values of the client (including management and the audit committee)" is unclear. Does the Board intend for all members of management and the audit committee to be considered? Would it be appropriate for firms to consider solely the audit committee chairperson as opposed to the entire audit committee? We believe these are the types of questions that could be addressed by introducing the concept of "professional judgment" in QC 1000, as well as in the implementation guidance.

[6] Page 120 of the Proposal

Engagement performance

Question 33. Are the proposed quality objectives for engagement performance appropriate? Are changes to the quality objectives necessary for this component? If so, what changes?

Generally, we support the proposed quality objectives for engagement performance. We believe that certain items would benefit from greater clarity either in the requirements themselves or in the implementation guidance. In particular, we note that in paragraph .42b, the requirement related to consultations says: "Consultations on complex, unusual, or unfamiliar accounting and auditing matters are undertaken with qualified individuals from within or outside the firm…"

We found the reference to "unfamiliar" accounting and auditing matters unclear. We note that "unfamiliar" is currently referenced in paragraph .19 of QC 20; however, that is in the context of providing examples of consultation matters: "for example, when dealing with complex, unusual, or unfamiliar issues." We are concerned that explicitly incorporating the word "unfamiliar" into the requirement creates an unnecessary level of prescription that will be difficult to operationalize. In addition, a potential unintended consequence is that auditors may infer from the proposed requirement that consultations may compensate for a lack of appropriate knowledge, skill, and experience on the engagement team, which we do not believe is the ultimate intention of the requirement. We recommend reverting to the current standard's language, which uses this term as part of an example. Alternatively, we propose the Board consider replacing the term "unfamiliar" with a term such as "unique" or "infrequent." We believe such revision would not diminish the objective of driving firms to continue focusing on the importance of consultation and resolution of matters prior to the issuance of the engagement report.

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

In order for the proposed standard to be scalable and risk-based for all registered firms, we do not recommend including specified quality responses for the engagement performance component. We believe the quality objectives are sufficient and will allow firms to develop the quality responses that are most appropriate for their particular circumstances.

Question 35. We are proposing to eliminate the current Appendix K requirement and rely exclusively on a risk-based approach. Should the standard include specified quality responses explicitly directed to non-U.S. firms that audit issuers? If so, what are they?

We do not agree with eliminating the existing Appendix K requirements. We believe there is merit and benefit to Appendix K reviews in their current form, and we are concerned that the unintended consequences of firms incorporating Appendix K reviews into their QC systems, without explicit direction from QC 1000, could be significant.

Currently, Appendix K procedures are limited to reading the draft filing and holding discussions with the engagement partner. These "filing reviews" are appropriately

limited given the objective of such reviews. Additionally, paragraph .01a(3) of Appendix K states the following:

> Because of the limited nature of the procedures described above, it is recognized that the filing reviewer cannot and does not assume any responsibility for detecting a departure from, or noncompliance with, accounting, auditing, and independence standards generally accepted in the U.S., independence requirements of the SEC and ISB, or SEC rules and regulations.

The existing requirements provide a clear separation of the reviewer from the engagement team, including the engagement quality reviewer. This distinction is an extremely important one, which could be lost by eliminating Appendix K. The result would be that the reviewers become members of the engagement team, thus subjecting them to all applicable standards and rules that use the term "engagement team." We believe this would be inappropriate given the limited nature of the filing review. Additionally, the reviewers' firms would become "other accounting firms" for purposes of Form AP reporting, and reviewers' hours would be included in Form AP. We believe this inappropriately positions the reviewer in the context of the audit itself. In addition, inadvertently incorporating these filing reviewers into the definition of "engagement team" could create a host of application challenges that may be a detriment to audit quality.

If the Board chooses to move forward with eliminating Appendix K, we strongly encourage the Board to provide this important distinction between the limited review function and the engagement team elsewhere in the standards or related guidance.

Resources

Question 36. Are the proposed quality objectives for resources appropriate? Are changes to the quality objectives necessary for this component? If so, what changes?

We believe paragraph .44j could be further clarified to enhance its implementation and operationality. As proposed, the paragraph applies to both networks and third-party providers, but a firm's approach to each of these groups may be significantly different, resulting in differing quality objectives. The Board separated networks and third-party providers in proposed Appendix B to QC 1000, and we recommend the Board reconsider instances where these two terms are combined in the proposed requirements. Keeping them together may imply that the Board expects firms to use a consistent approach to each group within the firm's QC system, which may not be operational.

Question 37. Does the proposed quality objective and specified quality response related to technological resources provide sufficient direction to enable the appropriate use of emerging technologies? If not, what additional direction is necessary?

We believe the proposed quality objective and specified quality response provide sufficient direction to enable the appropriate use of emerging technologies. As noted in the body of our letter, we welcome any implementation guidance, including information about emerging technologies, that the PCAOB is able to provide in order to enhance firms' success in implementing the Proposal.

Question 38. Are the proposed specified quality responses for resources appropriate? If not, what changes to the specified quality responses are necessary for this component?

While we have no specific recommendations, we observed that certain of these quality responses relate closely to PCAOB auditing standards, including AS 1201, *Supervision of the Audit Engagement.* We believe the profession would benefit from greater clarity with regard to how QC 1000 is intended to interact with engagement-related auditing standards so as to minimize potential duplication of efforts or documentation.

Question 39. Should the proposed standard include a specified quality response that would require the use of technological resources by the firm to respond to the risks related to the use of certain technology by the firm's clients? If yes, what should the requirement be?

In considering the various types of firms that are registered with the PCAOB as well as the various technologies that may be used by clients, we do not believe it would be appropriate to require the use of technological resources in this manner. If the Board observes best practices that would enhance firms' systems of quality control, we believe that information would be best positioned in either the implementation guidance or in ongoing guidance that the Board makes available to all firms.

Information and communication

Question 40. Are the proposed quality objectives for information and communication appropriate? Are changes to the quality objectives necessary for this component? If so, what changes?

In our view, the requirements associated with information and communication appear ambiguous and overly broad. The Board acknowledges on page 156 of the Proposal that they "propose not to use a similar qualifier [of relevant and reliable]" related to this objective. While we recognize this may not be the only relevant qualifier as it relates to successful quality controls over the information and communication component, by not providing any qualifiers at all, the Proposal leaves the notion of "information" open to wide interpretation and does not enable firms to focus on information that is most important and meaningful in the operation of a QC system.

We disagree that relevance and reliability is implied within the context of the drafted requirements; we believe the term "information" needs some parameters and qualifying language to provide some boundaries to the vast amount of information that exists or could be created in the context of a firm's QC system.

Moreover, we are concerned that the breadth of information that the Proposal implies must be considered and/or communicated within a QC system will inhibit firm leaders from identifying and focusing on information most relevant to the successful operation of the QC system. Without some appropriate qualifiers, firms may be overwhelmed by the sheer amount of information that is arguably related to the firm's QC system, which could be detrimental to quality. The auditing standards' expectations regarding the communication of internal control findings provide a helpful framework in this regard. Under those standards, every possible control deficiency is not required to be communicated to the audit committee. Rather, the standards require communications focused on findings that merit the audit committee's attention – significant deficiencies

and material weaknesses. In so doing, the standards implicitly recognize that information overload can be detrimental to good oversight and decision-making. So too with information required to be considered and communicated within a firm's QC system.

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 agree that information disseminated externally should be accurate and communicated in a manner so as not to be misleading. Nevertheless, we believe this requirement is wide-ranging and leaves too much room for interpreting the population to which this requirement relates. External communications range from transparency reports and key performance indicators to marketing and proposal materials. We do not believe it is the Board's intention to encompass all possible firm materials that may be provided externally, and we encourage the Board to clarify this requirement so that it focuses on the external information that is most relevant to a firm's QC system.

Question 42. Are the proposed quality objective and specified quality response addressing information and communication related to other participants appropriate? If not, why not, and what changes are necessary?

Page 46 of the Proposal defines "other participants" to include networks, among other parties. However, paragraph .53 is written in such a manner that .53f specifically addresses networks, while .53g addresses other participants. It is unclear whether .53g also applies to networks given their inclusion in the definition of "other participants" or if the Board intends for .53g to apply to any other party defined within "other participants." We believe this could be confusing in a similar manner related to mixing networks with third-party providers, as discussed in our response to Question 36.

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.

We are concerned that requiring network or non-network firms to share the most recent evaluation of the QC system could potentially undermine the protections afforded to such information under SOX. This is particularly concerning with regard to requiring a brief overview of remedial actions, which would specifically relate back to QC deficiencies.

We believe firms should be able to take a risk-based approach in determining whether it is necessary to request specific information regarding an other participant firm's QC system or whether it can be sufficiently handled at the engagement level based on the applicable PCAOB auditing standards.

Question 44. Are the proposed specified quality responses for information and communication appropriate? If not, what changes to the specified quality responses are necessary for this component?

We are concerned that expanding the requirement to communicate quality control policies and procedures beyond firm personnel to include other participants may not be operational, particularly when considered in tandem with our other comments on the

various types of other participants. Firms' policies and procedures can be voluminous and are made available through manuals, templates, and practice aids, among other things. Further, firms may have a centralized repository for these various materials with access limited to firm personnel. Accordingly, we believe it would be inappropriate to provide, in writing, a firm's entire library of policies and procedures to any other participant given the proprietary nature of this information. We believe existing PCAOB engagement standards already sufficiently address the auditor's or practitioner's responsibilities related to the use of other participants. We also believe the proposed standard may inappropriately blur the lines between a firm's system of quality control and engagement-level requirements. The quality control system relates to the firm and its personnel and addresses implementing policies and procedures for the appropriate use of other participants consistent with professional standards. Other participants themselves are not necessarily subject to those policies and procedures.

Additionally, proposed paragraph .56 states, in part, that:

> The firm should communicate information related to the monitoring and remediation process to firm personnel to enable them to take timely action in accordance with their responsibilities, including, to the extent necessary, a description of …
>
> b. Identified engagement deficiencies and QC deficiencies, including the nature, severity, and pervasiveness of such deficiencies; …

This proposed requirement implies that each engagement deficiency should be communicated to firm personnel. The language, as drafted, could hold firms to a higher standard than may be prudent. While we are not opposed to communicating thematic engagement deficiencies based on professional judgment, a perceived requirement to communicate each engagement deficiency seems imbalanced to appropriately influence change.

Monitoring and remediation

Question 45. Are the proposed requirements for the monitoring and remediation process appropriate? Are changes to the requirements necessary for this process? If so, what changes should be made and why?

We support requiring a mix of proactive and detective monitoring activities that allow firms to determine the appropriate firm- and engagement-level processes based on the firm's risk assessment. We believe many firms have adopted processes such as these already. As such, we agree that ongoing monitoring activities could be beneficial in the timely identification and correction of potential quality issues. On the other hand, such activities can be time consuming and costly to maintain, which is why we believe a principles-based approach that allows for a risk-based response by firms would be the most beneficial to firms' engagement quality, while also allowing for appropriate scalability. While the Board notes on page 167 of the Proposal that "ten of the twelve annually inspected firms performed some in-process engagement monitoring activities," it is unclear whether the Board believes such activities, as they existed in 2021, would be sufficient to meet the proposed requirements or whether the Board expects such activities to be expanded or enhanced to meet the intended purpose of the proposed requirements.

Question 46. Is the proposed requirement to inspect engagements for each engagement partner on a cyclical basis appropriate? If not, why not?

We support the proposed requirement to inspect engagements for each engagement partner on a cyclical basis. We are concerned, however, that the note to paragraph .62 introduces an unnecessary level of prescription to that requirement, particularly given the additional discussion in the note to paragraph .64d. We believe it is not unreasonable to consider whether engagement partners have been subjected to external inspections/reviews when determining if and when to subject them to an internal inspection. Additionally, this level of prescription does not account for the potential unintended consequences of inspection for engagement partners that serve clients subject to both PCAOB audits and AICPA audits and could unnecessarily drive firms to two separate cyclical inspection programs (that is, doubling inspection program activities) based on the applicable set of professional standards.

Firms should have the flexibility to determine the appropriate cadence of internal inspection based on the quality risks identified and information available from other monitoring-related activities, including external inspections. We agree with the Board's inclusion of requiring an element of unpredictability into the selections for inspection and encourage the Board to focus the note to paragraph .62 both to reflect that notion and to remove the prescription related to cycle length.

Question 48. Are the purposes of in-process monitoring (as proposed within this standard) clear and appropriate, including how in-process monitoring differs from the requirements of engagement quality reviews under AS 1220? If not, what additional direction is needed?

We believe that the proposed standard clearly distinguishes between in-process engagement monitoring and engagement quality reviews under AS 1220. We recommend the Board consider further clarifying that in-process engagement monitoring is equally not supervision or review as per the underlying PCAOB engagement standards.

Question 50. Are the proposed factors for firms to take into account when determining the nature, timing, and extent of engagement monitoring activities, including which engagements to select, appropriate? If not, what other factors should be specified?

We found the proposed factors in paragraph .64 to be helpful in determining the nature, timing, and extent of engagement monitoring activities. We would welcome implementation guidance to assist firms in understanding how the factors could impact the extent, in particular, of monitoring activities.

The characterization of in-process engagement monitoring in the proposed requirements and in the commentary provided in the Proposal are unclear, however. We recommend one clarifying edit to paragraph .64c, which refers to "inspections of in-process engagements." We do not believe the characterization of in-process engagement monitoring as an "inspection" is consistent with how in-process engagement monitoring is described in the Proposal, as the in-process monitoring activities observed by the PCAOB do not include inspections of in-process engagements in its observations. We recommend revising this phrase to "monitoring of

in-process engagements." We believe the distinction between "inspection" and "monitoring" is meaningful, and that consistent characterization will avoid inappropriate interpretation of the Board's expectations.

Question 52. Are the proposed requirements for firms that belong to a network that performs monitoring activities appropriate? If not, what changes should be made?

We believe the proposed requirements in paragraph .66 are reasonable. We agree with the Board's position that, if networks perform monitoring activities, the existence and results of such activities would inform the firm's own monitoring activities.

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 discussion and examples provided in the Proposal regarding engagement deficiencies; we believe the additional information is helpful in better understanding the proposed definition. We encourage the Board to memorialize such discussion and examples in implementation guidance that may be issued with or shortly after the final standard is approved.

Nevertheless, the introduction of the proposed definitions of "engagement deficiency" and "major QC deficiency," as well as the related requirements, represents a fundamental and incremental shift away from ISQM 1 and SQMS 1, which could minimize the desired benefits of having consistent, global QC-related standards and QC systems. We believe the incorporation of these definitions and related requirements will require additional time that firms will need to implement these incremental concepts thoughtfully and effectively into their existing QC systems.

Question 54. What, if any, additional direction is needed regarding:

a. Evaluating information to determine whether QC findings exist;

b. Evaluating QC findings to determine whether QC deficiencies exist; or

c. Responding to engagement and QC deficiencies?

There are a few areas where we believe additional direction is needed with regard to these topics. In relation to evaluating QC findings, we ask the Board to consider addressing the concept of *compensating responses* when considering QC findings. Paragraph A160 of ISQM 1 includes "whether there are other responses that address the same quality risk and whether there are findings for those responses" as an example of a qualitative factor that a firm may consider in determining whether findings give rise to a deficiency. We believe a similar factor would be beneficial to include in proposed paragraph .72 for compensating responses. Alternatively, the Board could address compensating responses more broadly in the implementation guidance.

Additionally, paragraph .68d of the Proposal instructs firms to evaluate whether similar engagement deficiencies exist on other in-process engagements or whether they would arise if remedial action is not taken. The concept is reasonable. The example, however, refers to an issue in a firm's methodology which, by its nature, would be a deficiency at the QC level resulting in potential issues at the engagement level. Additional examples

of engagement deficiencies would be helpful to firms as the concept of applicability to other in-process engagements, as noted in paragraph .68d of the proposed standard, could be broadly interpreted and subject to varying interpretations.

Question 55. Should firm personnel be allowed to inspect engagements or QC activities in which they are involved? If so, please explain why and provide examples of mechanisms that could reduce to an appropriate level the risk that noncompliance with PCAOB standards or the firm's policies and procedures would not be detected.

In order to sufficiently address this question, we believe we need greater clarity on the inspection-related requirements proposed in QC 1000. As noted in our response to question 50 above, one proposed requirement characterizes in-process engagement monitoring as "inspection" while other requirements do not. We do not view in-process engagement monitoring as a form of inspection and encourage the Board to revise paragraph .64 as a result.

We believe this distinction is important because it is essential to allow individuals that perform in-process engagement monitoring to also be "involved" in the engagement. For example, the engagement team may consult with an engagement monitor on an accounting or auditing matter that requires consultation under firm policies. It will create a significant resource constraint that may be very difficult for firms to overcome if the Board intends for in-process engagement monitoring to be "independent" of other individuals within the firm who may be involved in the engagement through consulting with engagement teams, evaluating engagement team progress, or monitoring turnover on the engagement team.

Evaluating and reporting on the QC system

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?

We appreciate the Board's desire to have consistent reporting among firms with regard to their annual evaluation of their QC system and related reporting to the PCAOB. However, we have significant concerns with the proposed November 30 evaluation date. Page 201 of the Proposal provides the following basis for the Board's proposal:

> Our proposed evaluation date is based on our understanding that many firms perform their internal inspections process during the second and third quarters, which allows them time to design and implement remediation efforts ahead of "busy season."

Presuming that firms substantially complete internal inspections by September 30 each year, a November 30 evaluation date gives firms less than 60 days (considering the Thanksgiving holiday) to complete all of the following QC-related activities:

- Accumulation and aggregation, where appropriate, of inspection findings;
- Root cause analysis and determination of causal factors;
- Identification of remedial actions; and

- Design and implementation of remedial actions.

In addition, the proposed standard would expect that such remedial actions also be evaluated and tested to determine whether the related quality control findings are remediated. This timetable may neither allow for a sufficient period for firms to remediate the findings, considering the need for root cause analysis, nor afford them an opportunity to conclude on the effectiveness of its remediation.

The proposed standard would require firms to consider findings related to external inspections, such as that of the PCAOB. We note that the date of Grant Thornton LLP's (United States) most recent inspection report was November 4, 2022. Such timing, if consistent in future periods, would give our firm less than one month to evaluate, design, implement, and test remediation resulting from the findings within the inspection report.

The November 30 evaluation date (and January 15 submission date for Form QC) could have the unintended consequence of rushing firms through evaluation and remediation during a time of year that is already extremely busy for our personnel with both professional engagement-related preparations and personal celebrations of the holiday season. We believe the November 30 evaluation date and the January 15 submission date do not provide firms with an appropriate amount of time to complete their assessment thoughtfully and adequately, including remedial activities, given the proximity to when substantive internal inspection procedures (internal and external) are performed.

In addition, the Proposal notes that the January 15 submission date correlates to the 45-day document assembly period within PCAOB standards. However, the 45-day period is the document assembly period and not the period after the "as-of" date in an auditor's report of internal control over financial reporting (ICFR). Similar to issuer reporting deadlines for ICFR audits, we believe additional time is required for Form QC preparation, similar to that of issuer reporting deadlines, with a document assembly period following after the Form QC submission (refer to our response to Question 71 below for further feedback on the document assembly period).

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

Refer to our response to question 53 above with regard to the impact the proposed definition and related requirements could have in terms of firms' implementation efforts.

Question 60. Are the proposed factors for determining whether an unremediated QC deficiency is a major QC deficiency appropriate? If not, what other factors should be specified?

While we do not disagree with the factors set forth in paragraph .78, we believe it is important that either the proposed standard or the related implementation guidance acknowledge that the evaluation of unremediated QC deficiencies can be undertaken only based on what is known or reasonably knowable at the time of that evaluation.

In addition, we ask the Board to consider addressing the concept of *compensating responses* when considering whether a QC deficiency rises to a major QC deficiency, similar to our response to Question 54 above. Paragraph A163 of ISQM 1 includes

guidance on whether there are compensating responses to address the quality risk to which the response relates as a factor that firms may consider in evaluating the severity and pervasiveness of an identified deficiency. We believe compensating responses are an important factor in appropriately evaluating QC deficiencies and that they should therefore be explicitly included in the proposed factors.

Finally, the proposed evaluation date of November 30 may not leave sufficient time for firms to appropriately analyze and remediate identified QC deficiencies, which could increase unnecessarily the number of unremediated QC deficiencies.

Question 61. Should firms be required to report on the evaluation of the QC system to the PCAOB? If not, why not?

There may be challenges with regard to the reporting as proposed in QC 1000. We believe the requirement to report unremediated deficiencies is at too granular a level in order for the reporting to be meaningful. We draw attention to a portion of our response to Question 40 above, which discusses the volume of information that would be required and analogizes to the level of information that is required to be communicated to audit committees in financial statements audits – significant deficiencies and material weaknesses. Requiring that all unremediated deficiencies be reported could ultimately be detrimental to oversight and decision-making.

For firms with more than 100 issuers, those firms are subject to annual inspection activities, including evaluation of a firm's quality control system. For these firms, all quality control–related documentation and conclusions would be available and subject to PCAOB inspection. Therefore, preparing a formal report to be submitted to the PCAOB in addition to the inspections process may be unnecessarily duplicative.

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?

Refer to our response to question 57 above.

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?

While the timing of expanded Form 2 reporting could alleviate the time constraints and challenges discussed in our response to question 57 above, we agree with the Board's observation in the Proposal that expanding Form 2 would make the form longer and more complex, requiring multiple people from different areas of the firm to collect, report, and sign the various parts of the form.

Question 70. Are the proposed amendments to AS 1301 that require the auditor to communicate to the audit committee about the firm's most recent annual evaluation of its QC system appropriate? If not, why not?

We support a certain level of disclosure regarding firms' systems of quality control to audit committees. In the PCAOB's "Conversations with Audit Committees" publication, the PCAOB observed that "most audit committee chairs evaluated audit quality with an emphasis on their engagement team, with a lesser degree of focus on the

characteristics of the audit firm."[7] We are concerned that proposed paragraph .04b to AS 1301, *Communications with Audit Committees* is overly prescriptive, and the level of specificity of the required communication (that is, providing an overview of remedial actions taken or to be taken) could be a source of confusion, not clarity, for audit committees, particularly since audit committees appear focused more on the specific engagement team as opposed to the audit firm overall, as observed by the PCAOB's past outreach described above.

We are also concerned that firm conclusions with regard to identified deficiencies and quality control effectiveness would be vastly misunderstood when considered in the context of other publicly available information. Particularly since there may be a considerable time lag between when the firm is required to conclude on effectiveness and when an inspection report, or portions thereof, could be made public.

Those quality issues could be misconstrued and viewed as contradicting the firm's previous conclusion that the system of quality control is effective. It could be extremely challenging for audit committees to understand and reconcile the information that would be communicated to them under the proposed changes to AS 1301, especially given the considerable time period between the issuance of public portions of firm inspection reports and the potential release of nonpublic inspection findings.

Finally, we believe it is possible this proposed communication could also be construed as contradictory to the PCAOB's conclusion that Form QC would be treated as nonpublic under SOX.

Documentation

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

We are concerned that the proposed requirements related to documentation are unnecessarily broad. For example, paragraph .83a states that documentation needs to be "in sufficient detail to support a consistent understanding of the QC system by firm personnel…" We do not believe this type of threshold currently exists, so it may not be easily understood.

Further, the proposed requirements may not be clear as to how they relate back to the requirements for each quality control component. For example, the phrase "successive senior levels" is used only in paragraph .82a, and no additional commentary on this phrase is provided in the Proposal. It is unclear what this phrase is intended to mean and how it relates back to other references within QC 1000, such as those to "leadership" and the roles defined in the roles and responsibilities section. We ask the Board to clarify the various paragraphs to make the terminology more consistent with other requirements.

Document assembly period

We do not disagree with the proposed 45-day document assembly period; however, we believe the assembly period should ***begin*** on the date when Form QC is submitted to the PCAOB (assume the proposed due date of January 15). Currently, it is proposed

[7] "Conversations with Audit Committee Chairs: What We Heard & FAQs," Public Company Accounting Oversight Board, December 18, 2019.

that the assembly period ***end*** on such date. We propose that the assembly period should ***begin*** on January 15 by way of analogy to the document assembly period in the auditing standards. AS 1215, *Audit Documentation* requires "a complete and final set of audit documentation should be assembled for retention as of a date not more than 45 days after the report release date." With regard to the firm's QC system, the "report release date" would be the date of submission of Form QC. Therefore, following the spirit of the audit standards, the QC documentation would be assembled and archived within 45 days after submitting Form QC to the PCAOB.

Document retention

We believe additional guidance would be necessary in order for firms to appropriately adopt documentation retention policies that meet the PCAOB's expectations. It is currently unclear whether "all books and records" related to the QC system and the firm's evaluation thereof (that is, the operation of controls as well as tests of operating effectiveness) would require assembly and retention. For example, invites on individuals' calendars may provide evidence of the occurrence and timing of certain meetings that are identified as a quality response. Is it sufficient to retain the workpaper indicating the evaluation of such evidence, or does the proposed documentation standard contemplate the calendar invites themselves to be retained? We believe clear implementation guidance could help narrow the interpretation of the proposed documentation requirements to an appropriate level that is consistently applied among all firms.

We encourage the Board to consider adding language that appears in SQMS 1 that we believe will greatly assist audit firms in implementing the documentation requirements. SQMS paragraphs A224 and A227 state, respectively, that:

> It is neither necessary nor practicable for the firm to document every matter considered, or judgment made, about its system of quality management. Furthermore, compliance with this SQMS may be evidenced by the firm through its information and communication component, documents or other written materials, or IT applications that are integral to the components of the system of quality management.
>
> The firm is not required to document the consideration of every condition, event, circumstance, action, or inaction for each quality objective or each risk that may give rise to a quality risk. However, in documenting the quality risks and how the firm's responses address the quality risks, the firm may document the reasons for the assessment given to the quality risks (that is, the considered occurrence and effect on the achievement of one or more quality objectives) to support the consistent implementation and operation of the responses.

While it may seem intuitive, we have observed that the execution of the documentation requirements in the related auditing standards have evolved over time. Providing this type of guidance allows for a principles-based approach to level-setting expectations across the profession with regard to the extent of a firm's QC documentation.

Retention period

On page 226 of the Proposal, the Board "question[s] how the proposed retention period would be burdensome for firms since there is no obligation on the firm to take additional

actions once the documentation is assembled for retention." We believe a seven-year retention period could be burdensome and costly because most, if not all, documentation related to a firm's QC system would be retained electronically. The amount of documentation to be retained based on the proposed requirement is expected to equal terabytes of data needing storage for each evaluation period. This considers retaining all firm manuals, IT system info, and other significant design components in totality. The retention of this significant amount of data translates to a need for new servers to house this data, incurring an additional associated cost that could be challenging for certain firms to manage.

The Proposal indicates that a "firm's remediation activities may span multiple years and the actions taken by the firm in certain areas may be informed by prior actions." We believe this could reasonably be handled by firms on a case-by-case basis, and any necessary documentation that may impact or inform future periods could be specifically retained. We do not believe retaining all documentation for a particular evaluation period is necessary to realize the perceived informational benefits. Given the dynamic nature of QC systems, we foresee information becoming "stale" in a few years' time and do not anticipate the information retained early on being used for such purposes as training or the retention of organizational knowledge in later years.

Amendments

Question 74. Is the proposal to expand the scope of AS 2901 to include engagement deficiencies on ICFR audits appropriate? If not, why not?

We do not object to expanding the scope of AS 2901 to include engagement deficiencies on ICFR audits. As we were reviewing the proposed changes to AS 2901, however, we observed that the language within Note 1 to paragraph .01 may be counter to what we believe firms observe in practice. We believe that there are situations where it would be unreasonable for a firm to automatically conclude that financial statements (and the auditor's report thereon) are still being relied upon. Such situations may include, for example, when a client has filed for bankruptcy; although the entity's most recent SEC filing remains available to the general public, it may be reasonable to conclude that the filing no longer is being relied upon. Since there are circumstances where an auditor's report in the most recent SEC filing is no longer being relied upon, we believe it is problematic for AS 2901 to mandate (i.e., the use of "must") that the auditor treat the report as being relied upon. We recommend the Board consider modifying the language to acknowledge that facts and circumstances exist where it may be reasonable for the auditor to conclude the financial statement (and the auditor's report thereon) no longer are being relied upon.

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 believe the objective of this standard should be to address instances where, due to an omitted procedure, the auditor's opinion may be unsupported. We believe this is where the risk exists for stakeholders and the investing public and that firms should, therefore, treat these instances with expeditious care. Requiring remedial action of all identified engagement deficiencies is overly prescriptive and could be unnecessarily

burdensome in instances where the auditor's opinion is adequately supported despite an identified engagement deficiency.

Because engagement deficiencies can arise from a variety of circumstances, we encourage the Board to reinstate the following language that exists currently in AS 2901.04:

> When the auditor concludes that an auditing procedure considered necessary at the time of the audit in the circumstances then existing was omitted from his audit of financial statements, he should assess the importance of the omitted procedure to his present ability to support his previously expressed opinion regarding those financial statements taken as a whole. A review of his working papers, discussion of the circumstances with engagement personnel and others, and a re-evaluation of the overall scope of his audit may be helpful in making this assessment. For example, the results of other procedures that were applied may tend to compensate for the one omitted or make its omission less important. Also, subsequent audits may provide audit evidence in support of the previously expressed opinion.

We believe it is essential to include this language in the proposed new AS 2901 because it allows for professional judgment and a scalable response to an engagement deficiency while maintaining focus on the auditor's opinion being appropriately supported by sufficient appropriate audit evidence. In particular, we believe subsequent audits are an important component of engagement deficiency remediation considerations, including whether all identified engagement deficiencies require remediation.

Question 79. Are the proposed amendments to other PCAOB standards and rules appropriate? If not, why not? Are there additional amendments to other PCAOB standards or rules that the Board should consider?

For the amendments to AT 1 and AT 2, we propose similar recommendations and edits as those related to AS 2901 included in our response to Question 75 above.

Additionally, given the Board's current project to modernize the interim attest standards, this could be an opportunity to create a separate attest standard like AS 2901 of the auditing standards. We encourage the Board to consider creating a separate attest standard to minimize repetition within each attest standard, especially if the Board plans to adopt new standards beyond AT 1 and AT 2 in the future.

Economic analysis

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

We believe the cost analysis described on pages 276-280 of the Proposal is reasonable. In considering the details of the Proposal, we anticipate considerable added cost to implement and operate the areas of QC 1000 that are incremental to the system that Grant Thornton established to comply with ISQM 1.