February 1, 2023

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

RE: PCAOB Release No. 2022-006, *A Firm's System of Quality Control and Other Proposed Amendments to PCAOB Standards, Rules, and Forms*

Dear Madam Secretary:

We[1] appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the "Board") Release No. 2022-006, *A Firm's System of Quality Control (QC) and Other Proposed Amendments to PCAOB Standards, Rules, and Forms* ("the proposal," "proposed QC 1000," or "the proposing release").

Overview

Quality is the bedrock of building trust. Maintaining audit quality remains our number one priority. We support the PCAOB in its efforts to modernize and significantly enhance its standards in this area, with revisions aimed at continuous improvement to firms' QC systems.

We support the PCAOB's efforts to create a framework that (1) supports international alignment, (2) is integrated, risk-based and able to be scaled for application by firms of all sizes, and (3) promotes accountability. We have identified matters for the Board to further consider in advancing these objectives, including:

- additional efforts to avoid differences between the quality management standards issued by the International Auditing and Assurance Standards Board (IAASB) and American Institute of Certified Public Accountants (AICPA) that would enhance the proposal's effectiveness,
- elements of the proposal that could better align with the intent to develop an integrated, risk-based, and scalable approach, particularly in determining how best to report deficiencies, and permitting judgment in considering potential intentional misconduct, and
- how the principle of promoting accountability may be undermined by a prescriptive hierarchical approach to supervision (e.g., in relation to individuals with expertise in independence, ethics, and other QC components).

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[1] Reference to "we" and "our" in this letter are to PricewaterhouseCoopers LLP, the US member firm of the PwC global network. References to the "PwC global network" are to the PwC network, which consists of firms that are separate legal entities. Firms in the PwC network are members in, or have other connections to, PricewaterhouseCoopers International Limited (PwCIL), an English private company limited by guarantee. PwCIL does not practice accountancy or provide services to clients. The PwC network is not one international partnership and PwC member firms are not otherwise legal partners with each other. A member firm cannot act as an agent of PwCIL or any other member firm, and cannot obligate PwCIL or any other member firm. Similarly, PwCIL cannot act as an agent of any member firm and cannot obligate any member firm. While this response has been developed by the US member firm, we have solicited feedback from other member firms within our network that would also be subject to proposed QC 1000 in order to inform our response.

Across the PwC global network, we have been actively participating in standard-setting and other efforts to improve quality management and support effective implementation. We have implemented a proactive approach to our system of quality management, even in advance of mandatory effective dates,[2] with significant investments to redesign our QC systems and with the benefit of our multi-disciplinary experience in organization-level quality management. The responses included in this letter are based in part on those experiences and build on the views we provided in response to the 2019 Concept Release.[3]

Continued support for leveraging ISQM 1 in developing the proposal

We continue to support the PCAOB's leveraging ISQM 1 in developing proposed QC 1000. In our experience, the IAASB's efforts to refocus its QC standard to be based on an objective-driven and risk-based approach has encouraged a proactive focus on quality management, while allowing a firm's QC system to be tailored to the jurisdiction in which the firm operates. This proactive approach is aligned to risk management frameworks used by issuers and other organizations. Given the continuously changing environment in which firms will conduct audits and the possibility of changes in firm circumstances and quality risks over time, PCAOB QC standards need to be principles based, similar to ISQM 1.

We appreciate Chair Williams' acknowledgment that "when developing proposed standards, we consider the IAASB's efforts as part of our analysis. If possible, we try to avoid unnecessary differences." We agree that "it is imperative that we are mindful when there are differences and that such differences are justified and do not create unintended consequences."[4]

Continued desire for scalability in implementation

The proposal calls for an integrated, risk-based, and scalable approach to firm quality control, similar to COSO's *Internal Control - Integrated Framework*. Page 216 of the Board's proposing release also sets out the view that "analogous to the CEO and CFO certifications required under Sarbanes-Oxley [SOX], such certification would lead to increased discipline in the evaluation process and would reinforce the accountability of the certifying officers." We support this direction.

We encourage the PCAOB to consider experiences from the initial implementation of SOX 404. Following the implementation of AS 2,[5] the regulatory approach evolved and the PCAOB and SEC promulgated revisions to AS 2 and provided additional guidance to achieve a risk-based approach that addressed the most important matters in an audit of internal control over financial reporting (ICFR). AS 5[6] was adopted to achieve more effective implementation of the requirements.

It would be beneficial for the PCAOB to continue to carefully consider proposed QC 1000's scalability, emphasis on risks, and costs to implement and operate relative to the benefits achieved in light of the overall reasonable assurance objective of a firm's QC system. We believe doing so will serve the public

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2 The International Auditing and Assurance Standards Board's International Standard on Quality Management (ISQM) 1, *Quality* Management *for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, which became effective December 15, 2022; the AICPA's Statement of Quality Management Standards (SQMS) 1, *A Firm's System of Quality Management*, which will become effective December 15, 2025.

3 See PwC's response to the 2019 Concept Release here.

4 Williams, Erica, "Remarks at the PCAOB International Institute on Audit Regulation," November 16, 2022.

5 Auditing Standard (AS) No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*

6 AS No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements, which superseded AS 2 effective for fiscal years ending on or after November 15, 2007*

interest by allowing firms to realize the benefits of an enhanced QC system upon initial implementation, promote appropriate consistency among firms, and reduce the likelihood that later revisions to the standard are needed.

The following are our specific suggestions in relation to scalability:

- Likelihood should be taken into account when a firm considers potential intentional misconduct by firm personnel and other participants. A risk-based approach in this area would lead to more effective governance and oversight. We provide additional context in the appendix.
- Further alignment is needed with key concepts in ISQM 1 in relation to how quality risks, QC findings, and QC deficiencies are defined. Using different definitions would undermine the PCAOB's stated intent that firms be able to leverage the significant investments of time and resources already made to comply with other QC standards.
- The PCAOB should reconsider the nature and extent of specified responses in proposed QC 1000. This level of prescription makes the standard inherently less scalable and could be a barrier to entry for smaller firms. An overreliance on specified responses as opposed to well-articulated quality objectives could discourage firms from performing robust risk assessments and developing tailored and innovative responses that acknowledge that certain quality objectives can be achieved through a range of potential quality responses, the effectiveness of which would be considered and responses revised as necessary as part of the firm's ongoing monitoring and continuous improvement.

Promoting accountability while considering the importance of operational flexibility to support quality

We assign roles and responsibilities with respect to the QC system as a means of promoting accountability, and we support this important aspect of the proposal, including the implementation of Form QC. But it is equally important to consider specialized expertise and separation of incompatible duties. Pages 69 and 73 of the proposing release set forth the expectation that *one individual* be assigned operational responsibility for the firm's compliance with ethics and independence requirements, as well as for monitoring and remediation. In our experience, these subject matters require different competencies and encompass a wide variety of matters, and the volume of work for larger firms requires more than a single individual to be able to effectively assume responsibility for both ethics and independence. It is also more effective to separate those responsible for monitoring and remediation than to have those roles combined. Accordingly, the final QC standard would be significantly improved if it were to take a more principles-based approach to the requirement in paragraph .12 and allow for more than one individual to be assigned to these roles as appropriate, based on a firm's nature and complexity. The firm would be expected to clearly delineate their respective responsibilities to drive accountability, including with respect to the role they play in the operation of the firm's QC system and expectations related to communications. Our thinking is more aligned with page 97 of the proposing release, which notes:

> The proposed requirement is intended to enhance supervision *within the context of firms' existing QC systems and supervisory structures, without requiring firms to develop or adopt any particular supervisory structure*. The requirement would also complement Section 105(c)(6) of Sarbanes-Oxley and, with respect to the QC system, the documentation requirements of proposed QC 1000. (Emphasis added.)

Similarly, the intent of the requirement in paragraph .27 for the firm to establish a structure that appropriately promotes accountability is sound. However, the prescriptive, hierarchical approach that could result from the application of the requirements in paragraphs .12 and .27 of the proposal (and as

described in the proposing release) is not desirable or practicable. In particular, we are also concerned that the proposing release suggests that there could be heightened exposure to liability beyond that which already exists under SOX and applicable Board standards and rules for those within a "supervisory personnel" capacity that may dissuade others within the firm from teaming out of personal concern for their own liability. The discussion on page 75 of the proposing release notes that "the individuals who are assigned specific responsibilities with respect to the QC system could be charged with violations if they fail to comply with those responsibilities, *as well as* for knowingly or recklessly contributing to firm violations or failing reasonably to supervise" (emphasis added). This language suggests that there could be incremental liability imposed upon those individuals even in instances when the firm has a QC system that would reasonably be expected to prevent and detect a violation of QC standards, audit standards, or Board rules, and those individuals reasonably discharge their duties and obligations consistent with the firm's QC system and had no reasonable cause to believe that such procedures and system were not being complied with. This would be contrary to the intent for supervisory responsibility at accounting firms as expressed in Section 105 of SOX.

Additional recommendations on specific matters to enhance proposed QC 1000

We urge the PCAOB to reconsider certain areas of proposed QC 1000 summarized below. Additional details and other recommendations are included in the appendix.

Need to revisit the prescribed date for the annual evaluation of a firm's QC system and the potential conclusions reported

We currently perform an annual evaluation of our QC system and support including the requirement in the proposal. Our process is designed to be aligned with the objectives of the monitoring and remediation process described in ISQM 1 and proposed QC 1000.

Our annual evaluation is performed as of March 31. We selected this date because of (1) its proximity to when the majority of our audit reports are issued in order to shorten the feedback loop on areas for attention; (2) the timing of audit committee communications ahead of the audit planning cycle; and (3) the timing of our engagement-level compliance reviews, which occur during the summer months, allowing us to balance resource needs across the practice and within our various QC-related functions. Other member firms within our network have different evaluation dates, in part to align with their local regulatory requirements.

We encourage the PCAOB to permit firms to select "as of" dates for the annual evaluation that match the firm's operational and regulatory objectives. Although this may result in less ability for the PCAOB to compare results across registered firms, this change would allow firms to leverage the significant investments made to date and appropriately balance costs with anticipated benefits.

Notwithstanding this "as of" date, more importantly we operate our QC system with a focus on maintaining quality and making continuous improvement. We evaluate the design of our quality responses and use a combination of ongoing and periodic monitoring to evaluate their operating effectiveness throughout the year. Our process is also designed to, on an ongoing basis, identify opportunities for enhancement. We consider the severity and pervasiveness of any individual QC deficiencies throughout the year so that we can design timely and effective remedial actions.

Evaluating deficiencies in a firm's QC system involves considerable judgment, taking into account the firm's specific quality objectives, the related risks, and the interrelationships between different components of the QC system. Evaluating whether deficiencies, individually or in aggregate, preclude a

firm from concluding that its QC system achieved the reasonable assurance objective also requires judgment. Finally, this evaluation takes into account whether the remedial actions (1) are appropriately designed to address the identified deficiencies and their related root causes and (2) have been implemented.

We recommend that a firm's QC system be evaluated as either effective or not effective based on whether any unremediated major QC deficiencies exist as of the evaluation date such that the reasonable assurance objective has not been achieved. Additionally, communications on Form QC, to audit committees, and to other firms (if applicable) should be limited to major QC deficiencies. Moving to an "effective/not effective" conclusion and reporting on major QC deficiencies would be consistent with reporting the conclusions on the effectiveness of ICFR, which focuses external reporting by management and auditors on material weaknesses. This would also help avoid situations (in particular discussions with audit committees) when the most relevant content (i.e. major QC deficiencies and remedial actions to address them) is potentially diluted by an undue focus on less significant unremediated deficiencies that are not inconsistent with reasonable assurance.

Need to clarify how other participants are considered in the firm's QC system

We agree with the PCAOB's observations that audits of issuers increasingly involve the use of entities and individuals outside the firm to perform audit procedures and evaluate audit evidence, and that these arrangements can pose risks because other participants may not be subject to the same quality controls as firm personnel. We note that other participants may also be involved in the design, implementation, and operation of the firm's QC system and agree that those individuals should exercise due professional care in executing their responsibilities. Accordingly, we support a quality objective for the design, implementation, and operation of a QC system to address the use of other participants.

We are concerned, however, with the manner in which the concept of "other participants" is included in the objective of the firm's QC system (paragraph .05 of proposed QC 1000), the requirements in the information and communications component (paragraph .53 of proposed QC 1000), and other requirements within the standard and proposing release. Certain of these requirements appear to suggest that the other participants would be subject to all of the firm's policies and procedures, which we do not believe is the Board's intent. Paragraph .53 of the proposed standard sets out an expectation that information will be communicated to other participants to enable them "to understand and carry out their responsibilities relating to activities within the firm's QC system and the performance of its engagements … in accordance with the firm's policies and procedures." It would be impractical to suggest that a firm's QC system can be applied to other participants (including those from other firms) or that they would explicitly comply with the firm's policies and procedures as if they were part of the firm. We encourage the PCAOB to reconsider paragraph .53 and the manner in which it is presented.

In our view, the firm should identify quality risks when other participants are used and develop appropriate responses to mitigate those risks at the firm or engagement level.

- When other participants assist with the design, implementation, or operation of the firm's QC system, including engagement quality reviews, the firm would establish quality responses designed to address their use, including with respect to direction, supervision, and accountability.

- When other participants are involved in a firm's engagement, in accordance with paragraph .20 of proposed QC 1000, the response should be tailored depending on the type of other participant (e.g., other auditors or internal auditors) and the nature and extent of their use. In practice, communications would take place between engagement teams and other participants, including

expectations about what information is needed from other participants to effectively direct and supervise their work. For example, two-way communication with other auditors involved in an engagement would address expectations related to direction, supervision, and review; how significant matters and significant judgments are expected to be resolved (e.g., in relation to compliance with ethics and independence requirements); and other matters that are expected to be brought to the attention of the lead auditor. This approach is consistent with the PCAOB's recently approved amendments to its standards addressing the use of other auditors, as well as our experience in implementing ISQM 1. The same principles would apply when using specialists or internal audit, which are also addressed in current PCAOB auditing standards.

Requiring other participant firms to share the most recent evaluation of their QC system and a brief summary of remedial actions as contemplated by the note to paragraph .53(g) of proposed QC 1000 may present challenges, for example, related to confidentiality provisions in relevant local laws and regulations. We also have practical concerns regarding the application of this requirement to other participants that are not registered with the PCAOB (e.g., some network firms). For example, we do not believe that the PCAOB could mandate a non-registered firm to share their most recent QC evaluation. Firms and engagement teams should be permitted to take a risk-based approach to determine what information is needed from other participants to determine whether the usage of other participants is appropriate.
If such a requirement is retained, we encourage the PCAOB to provide guidance to clarify how registered firms should address situations when QC requirements or disclosures may violate or conflict with another jurisdiction's laws or regulations, including confidentiality restrictions.

Need to ensure appropriate time for public comment and implementation

We appreciate the PCAOB's desire to move expeditiously to improve firms' QC systems and commend the Board for issuing a thoughtful proposal to solicit public comment. However, the pervasive and complex nature of the proposal calls for careful analysis and consideration, especially by US firms that have not yet implemented SQMS 1.
Accordingly, a transition resource group on QC, convened with PCAOB oversight, would assist in finalizing and then more consistently implementing the QC standard. This would be consistent with the approach taken by the PCAOB during the implementation of the PCAOB's new auditor reporting model as well as in other areas of financial reporting, such as FASB accounting standard setting, COSO controls guidance, and climate working groups. To this end, real-time dialogue with firms and others, such as the IAASB and AICPA, in advance of the effective date may identify areas where additional guidance could support more consistent implementation and the achievement of the PCAOB's objectives in revising its QC standard.

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We appreciate the opportunity to provide input and would be pleased to continue a dialogue with the Board and its staff. Please contact Brian Croteau at brian.t.croteau@pwc.com or Tim Carey at d.timothy.carey@pwc.com regarding our submission.

Sincerely,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Appendix

The following expands upon certain matters highlighted in our cover letter and identifies additional matters for the PCAOB's consideration in finalizing the standard. Where possible, we offer recommendations as to how the potential concerns or challenges we have identified may be addressed.

I. Revisiting how the firm's evaluation of its QC system is conducted, including key definitions and their alignment with ISQM 1

We support requirements that improve audit quality and accountability within audit firms, as SOX has done for issuers. Certain aspects of a firm's QC system are dissimilar to an issuer's ICFR, however. The objective of a QC system is much broader than the objective of ICFR. For example, evaluating the impact of deficiencies relating to ICFR involves a direct link to judgments about the potential for the financial statements to be materially misstated, with consideration given to account-level activities at a point in time. Evaluating deficiencies in a firm's QC system can be far more subjective given the nature of certain components and their relationship to the overall objective of the system. The proposing release and proposed QC 1000 acknowledge that the components are intended to operate in an iterative and integrated manner, not exclusively in a linear manner. Some quality risks may relate to multiple quality objectives, either within a single component or across several components. Quality responses may address multiple quality risks related to one or more QC components. Finally, audits and other engagements are performed and reports are issued throughout the year. The intent is therefore for the QC system (in particular, the monitoring and remediation process) to continuously provide for ongoing improvement. Due to the complex nature of a firm's QC system, it is essential that decisions about its design and operation, and evaluation of its effectiveness, are appropriately tailored to the firm's circumstances.

While we appreciate the need for a framework to support consistent judgments about the effectiveness of a firm's QC system, we have concerns that key concepts underpinning the firm's evaluation are unduly prescriptive and potentially conflict unnecessarily with the criteria used to perform the annual evaluation most firms will be required to undertake in accordance with ISQM 1 or SQMS 1.

Engagement deficiencies and QC findings

We do not agree with the PCAOB's view that all engagement deficiencies should automatically be QC findings. This approach could be interpreted as suggesting an absolute level of assurance (i.e., all errors or instances of noncompliance at the engagement level are findings relevant to the overall QC system.

We support the Board's approach in paragraphs .68-.70 of proposed QC 1000 that requires firms to evaluate and appropriately respond to engagement deficiencies. As part of this evaluation, based on the factors in paragraph .71 that could give rise to a QC finding, firms would already be in a position to consider whether the engagement deficiency is a QC finding, and therefore subject to further evaluation in accordance with paragraphs .72-.74. For example, results of the firm's evaluation in accordance with paragraph .68 may indicate that an engagement deficiency is related simply to an isolated human error and does not indicate that there is more than a remote likelihood of the firm not achieving a quality objective or the reasonable assurance objective. The inability of the firm to be able to apply judgment to the determination of whether an engagement deficiency represents a QC finding could undermine audit quality by expending firm resources on isolated matters that, through its evaluation in accordance with proposed QC 1000, the firm may have already concluded (i) present a remote likelihood of other quality issues occurring due to the same root cause, and (ii) could not have a severe or pervasive effect across its portfolio of audit engagements.

Accordingly, we recommend that the definition of QC findings note that "engagement deficiencies may be indicative of QC findings." This would preserve a principles-based approach and be consistent with ISQM 1. Additional emphasis could be given in paragraphs .68-.69 to note that when a deficiency is indicative of a QC finding, further action at the firm level may be required.

QC deficiencies

The definition of a QC deficiency in paragraph .A8(1) of proposed QC 1000 could result in more QC findings rising to the level of a QC deficiency than under ISQM 1 because "a reduced likelihood" represents a lower threshold than a reduction "to an acceptably low level" as used in ISQM 1. That is, under proposed QC 1000, *any* reduction in the likelihood of the firm achieving the reasonable assurance objective, regardless of the severity of the reduction, would equate to a QC deficiency. Said differently, under ISQM 1, a matter may be determined to be only a QC finding, but under proposed QC 1000 that same matter could rise to the level of a QC deficiency because of the differences in the definitions. As a result of these differences in definitions:

- There could be matters that, in the firm's judgment, are not indicative of a QC deficiency for which root cause analysis would nevertheless be required. The firm would also need to consider whether these QC deficiencies, individually or in the aggregate, resulted in a major QC deficiency and document the firm's rationale.
- A firm could reach different conclusions about the effectiveness of its QC system under ISQM 1 (e.g., that the QC system was effective) compared with proposed QC 1000 (e.g., that the QC system was effective except for one or more unremediated QC deficiencies)— which the PCAOB acknowledges on page 218 of the proposing release.

These outcomes could lead to potential confusion by stakeholders as well as unnecessary effort to evaluate less significant matters, and we are not aware of a compelling reason to deviate from the definition of a QC deficiency in ISQM 1. We recommend that the definition in the final standard align with the ISQM 1 definition, with additional guidance developed if the PCAOB considers it necessary to illustrate when a response does not reduce the likelihood of a risk occurring to an acceptably low level. This approach would be consistent with the reasonable assurance objective and the overall risk-based approach to quality control. In addition, the requirement in paragraph .72 sets out an appropriate framework to enable firms to make consistent judgments about when QC findings rise to the level of a QC deficiency.

The process to determine whether a major QC deficiency exists

We view the definition of "major QC deficiency" akin to a material weakness in the context of ICFR. This is an appropriate threshold in relation to the reasonable assurance objective of the firm's QC system. In our view, in line with ISQM 1, major QC deficiencies are those that are severe and pervasive.

The proposed definition includes the criterion that a major QC deficiency would be presumed to exist if an unremediated QC deficiency or combination of unremediated QC deficiencies relates to the firm's governance and leadership that *affect the overall environment supporting the operation of the QC system*. Page 202 notes that such unremediated QC deficiencies "almost always severely reduce the likelihood of the firm achieving the reasonable assurance objective." But firms should be allowed to apply judgment in determining whether and, if so, how the unremediated QC deficiency affects the overall environment (e.g., considering the "tone at the top," as well as the extent to which remedial actions have been implemented, tested, and found effective). The focus on the significance in relation to the firm's portfolio of engagements conducted under PCAOB standards can assist firms in concluding whether any

unremediated QC deficiencies have a pervasive effect on the firm's ability to achieve the reasonable assurance objective.

The conclusion on the effectiveness of the QC system

Consistent with ISQM 1, a firm should have policies and procedures addressing the evaluation of the relative severity and pervasiveness of any identified QC deficiencies, including the effect of the identified QC deficiencies, individually and in aggregate, on the firm's QC system. Having a principles-based requirement such as that in ISQM 1 enables the firm to consider deficiencies that have been identified in the context of the firm's overall design of its QC system.

As noted in our cover letter and elsewhere in this appendix, we have concerns with differences in the way key concepts in proposed QC 1000 are defined compared to ISQM 1 and SQMS 1, including the definitions of quality risks and QC deficiencies, and the potential for different conclusions under two (or more) of these frameworks. We think such circumstances could be confusing to external stakeholders when the firm reports its evaluation under two sets of QC standards (e.g., to audit committees in accordance with QC 1000, in a required transparency report, or in other communications about its QC system).

For example, we are concerned that the existence of even one unremediated QC deficiency, which a firm concludes is *not* severe or pervasive and does not rise to the level of a major QC deficiency, would result in a conclusion in accordance with proposed QC 1000 that states there were unremediated QC deficiencies, which would then be communicated to the audit committee. This is an unnecessarily restrictive consideration, particularly in comparison to ICFR, in which management would not need to disclose any control deficiencies other than material weaknesses. Additionally, in these circumstances, a firm could conclude under paragraph .54(a) of ISQM 1 that its QC system provides reasonable assurance without describing that there are identified QC deficiencies, and without the need to report those deficiencies outside of the firm.

Remediated major QC deficiencies and all other unremediated QC deficiencies that are not major QC deficiencies should not result in a conclusion that states "effective except for one or more unremediated QC deficiencies that are not major QC deficiencies." Rather, the public interest would be better served — and communications with audit committees better focused — by requiring the firm to conclude either (i) the firm's QC system is effective with no unremediated major QC deficiencies and therefore has achieved the reasonable assurance objective, or (ii) the firm's QC system is not effective because one or more major QC deficiencies exist and therefore the reasonable assurance objective has not been achieved.
As the PCAOB already has the ability to access QC documentation for all registered firms, the Board would have full transparency into a firm's unremediated QC deficiencies, including a firm's basis for determining whether or not a deficiency rose to the level of a major QC deficiency and the documentation of its evaluation of its QC system. Accordingly, this level of detail is not needed on Form QC.
Specified dates for the annual evaluation and reporting on Form QC

As noted in our cover letter, firms should have flexibility in determining when to perform the annual evaluation. We do not support the PCAOB's proposal to require the evaluation to be performed by all firms as of November 30 and for firms to report within 45 days of the evaluation. Neither ISQM 1 nor SQMS 1 specifies the date on which such evaluations are to be performed. Similar to issuers whose fiscal year ends vary, firms may have reasons to select different dates for the evaluation of the QC system as a result of the firm's fiscal year end, resource implications, or regulatory and other factors (such as transparency reporting).

Requiring firms that have already invested in developing an ISQM 1-compliant system to change their evaluation date to a fixed date of November 30 could result in undue effort and also would appear to undermine the PCAOB's stated intent that firms be able to leverage the significant investments of time and resources already made to comply with other QC standards.

We note that firms within our network that are subject to multiple QC standards and other legal and regulatory requirements may need to undertake multiple evaluations for purposes of reporting to regulators, audit committees, and the public. For example, transparency reporting required in Europe must be done as of no later than four months after the end of each financial year. If a firm's evaluation date under ISQM 1 was their fiscal year end (e.g., June 30), the transparency report would be done as of October 31, and then shortly thereafter the firm would need to update the firm's evaluation to align with the November 30 evaluation date in proposed QC 1000.

November 30 is also untenable because of its proximity to year end. The potential need to divert resources in a critical period when calendar year-end audits are being finalized could detract from audit quality. For some firms, the November 30 date would conflict with the timing of field work of the PCAOB's external inspection. This could make it very difficult for a firm to consider the results of external inspections in their assessment, perform root cause analysis, and implement and test remedial actions.

If the PCAOB continues to believe that a single "as of" evaluation date is necessary, the alternative proposed by the PCAOB of aligning with the Form 2 date of March 31 would be preferable.
In addition, a reporting date that is only 45 days after the evaluation date does not provide firms with sufficient time to complete their evaluations. A thoughtful and detailed evaluation of the QC system, as well as documenting and reporting on that evaluation, takes time and resources. We encourage the PCAOB to allow a period of 90 days between the evaluation date and reporting date (as proposed as an alternative in the proposing release and in alignment with Form 2). Even if the PCAOB were to decide that a single "as of" evaluation date is appropriate, if that date is March 31 with a provision of 90 days between the evaluation date and a reporting date, then a June 30 reporting date would still enable the PCAOB to receive timely data on which to make potential decisions related to inspections, in particular in relation to triennially inspected firms.

We also recommend that the PCAOB address how firms should consider information that comes to their attention after the evaluation date or the reporting date that is relevant to the firm's conclusion on Form QC, including how this interacts with relevant provisions in proposed EI 1000.

Reporting to audit committees

The primary way in which we communicate relevant information about the design of our system of quality management and the results of monitoring it is through our annual Audit Quality Report and interim updates. We require engagement teams to share the Audit Quality Report with the audit committee at least annually. This is consistent with the approach in ISQM 1 for the firm to establish policies and procedures mandating communications with those charged with governance of listed entities about how the system of quality management supports the consistent performance of quality audit engagements. Other firms within the network share transparency reports with audit committees for a similar purpose.

Audit committees should be made aware when the firm's conclusion indicates the QC system is not effective (i.e., whether any deficiencies in the firm's QC system result in the firm not achieving the reasonable assurance objective). Absent that circumstance, audit committees are likely to find more value in understanding quality matters specific to the engagement and having a broader dialogue about the firm's approach to quality management.

We are concerned with the nature of the proposed reporting to audit committees about *all* unremediated QC deficiencies that exist as of the evaluation date, in part because of the interaction of such communications with the confidentiality restrictions under Section 105(b)(5)(A) of SOX. The proposed threshold could also have unnecessary costs and unintended consequences (including detracting from discussion about matters more relevant to the oversight of the individual audit and the company's financial reporting or otherwise undermining the objective of a QC system focused on continuous improvement). Such reporting would create more extensive communication requirements for firms related to QC deficiencies than what auditors are required to communicate to audit committees in an audit of ICFR. Furthermore, this proposed approach would differ from management's external reporting on its ICFR to its stakeholders, which solely discloses deficiencies that are material weaknesses.

II. Revisiting the definition of quality risks and how intentional misconduct is considered in the firm's risk assessment process

We agree that the risk of intentional misconduct by firm personnel is an important part of the firm's consideration of quality risks and the development of appropriate responses to those risks. We recommend that the likelihood of intentional misconduct be explicitly taken into account when considering the impact of such misconduct on one or more quality objectives. A risk-based approach in this area would focus attention on the risk within each of the firm's processes on the likelihood of the conduct.

Our firm's current process to identify and assess quality risks takes the potential risks of intentional misconduct into account. To inform our views on how intentional misconduct may occur, we leverage our knowledge of the practice environment, our monitoring, as well as thematic and specific information from PCAOB inspections and other regulatory actions in relation to registered firms. When we identify QC findings through our monitoring process, we take into account whether those findings are a result of intentional misconduct in determining whether they represent QC deficiencies and in evaluating their severity and pervasiveness. Similarly, when developing appropriate remedial actions, we consider whether the existence of these deficiencies suggests a need for revisions to one or more quality risks and/or additional responses. These remedial activities mitigate the likelihood of these events occurring as well as the risk that the firm will not appropriately respond in a timely manner.

Under the proposal, however, firms would be required to consider *any* risks of intentional misconduct that have a reasonable possibility of adversely affecting the firm's achievement of one or more quality objectives, including risks that do not have a reasonable possibility of occurring. We believe this threshold is too low. Page 84 of the proposing release suggests that "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." There are many ways that intentional misconduct could adversely impact the achievement of one or more quality objectives; however, many have only a remote likelihood of occurring. It is not a practical or efficient use of time and resources to design and implement quality responses to risks that have a remote likelihood of ever occurring, and such responses will not have a commensurate benefit to audit quality. Further, diverting firm resources to respond to remote risks may harm audit quality because this could unnecessarily distract the firm from addressing more reasonably possible risks and thereby adversely impact the efficient use of firm resources. In addition, the inclusion of "other participants" in addressing every conceivable risk of intentional misconduct may be impractical for firms to implement. In many cases, firms may be legally restricted from accessing information on the conduct of certain other participants (such as human resources files) that would need to be considered to address any and every (even remote) risks of intentional misconduct by other participants.

Accordingly, we suggest defining quality risks as follows:

> Quality risks – Risks that, whether due to intentional misconduct or unintentional acts by firm personnel and other participants, individually or in combination with other risks, have a reasonable possibility of adversely affecting the firm's achievement of one or more quality objectives if the risks were to occur~~,~~ and ~~are either:~~
>
> ~~(1) Risks that~~ have a reasonable possibility of occurring~~; or~~
>
> ~~(2) Risks of intentional acts by firm personnel and other participants to deceive or to violate applicable professional and legal requirements~~.

This updated definition aligns with the consideration of quality risks under ISQM 1 and appropriately focuses on the objective of obtaining reasonable assurance of compliance with applicable laws and regulations. While ISQM 1 does not explicitly discuss risks of intentional misconduct, in implementing that standard we have considered risks and likelihood of intentional misconduct that could adversely impact the achievement of quality objectives. Accordingly, we are able to concentrate quality responses hon risks that have a higher than remote likelihood of occurring, focusing our efforts most effectively and efficiently to prevent and detect intentional misconduct that could adversely impact the achievement of one or more quality objectives.

This is also analogous to PCAOB AS 2110,[7] which requires auditors to identify risks of material misstatement whether due to error or fraud that have a reasonable possibility of occurring. Auditors perform fraud brainstorming to consider all possible fraud risk factors and then in part use likelihood to determine whether, individually or in combination with each other, those risk factors indicate a fraud risk. A similar concept should be applied here.

The PCAOB should also consider more explicitly noting that whether acts were intentional should be considered as part of the overall consideration of the potential severity and pervasiveness of a QC deficiency. Such consideration may indicate the need for the firm to re-evaluate its views on the likelihood of a certain risk occurring, potentially leading to additional quality responses being deemed necessary, including with regard to appropriate accountability when acts of intentional misconduct by firm personnel are identified.

III. Reconsidering how "compliance with firm policies and procedures" is articulated in proposed QC 1000

We support the Board's determination to focus on the proposed "reasonable assurance objective" of the firm's QC system and the requirements of the proposed standard on compliance with applicable professional and legal requirements.

We also agree with the statement in the proposing release that notes:

> Compliance with the QC standard ultimately would be based on whether the firm had met its quality objectives and the reasonable assurance objective—which would be driven by whether the firm's policies and procedures had in fact been effective in addressing quality risks—and on whether the firm

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7 AS 2110, *Identifying and Assessing Risks of Material Misstatement*

had complied with the requirements of the standard in the design, implementation, and operation of the QC system.

But it is important to acknowledge that a QC finding related to noncompliance with a particular firm policy or procedure does not in and of itself suggest that a firm's quality risk may not be appropriately mitigated or that a quality objective has not been achieved.

To illustrate, in designing our QC system, we may have one or more preventative quality responses that are designed to ultimately support compliance with applicable professional and legal requirements. Our policies and procedures related to CPE, for example, are designed to meet the AICPA's membership CPE requirements. However, we may choose to require additional hours of CPE (e.g., on specific topics), or specify which particular training classes must be completed by a particular deadline. When instances of noncompliance with these policies and procedures are noted, unless an individual consistently fails to take the firm's CPE-eligible courses, there is a remote risk that the individual will not comply with the applicable professional requirements established by the AICPA. Our monitoring and remediation activities would, as necessary, enable us to consider whether they represent QC findings and ultimately QC deficiencies, taking into account the effectiveness of other quality responses designed to address engagement performance, including design of our methodology and policies governing supervision and review of the engagement.

IV. Clarifying how the concepts of "awareness" and "timeliness" are articulated in proposed QC 1000

A number of quality objectives and requirements within the proposed standard refer to information needing to be considered upon the firm becoming aware of such information. For purposes of proposed QC 1000, the firm is "aware" of information if any partner, shareholder, member, or other principal of the firm is aware of such information. Page 124 of the proposing release notes that this approach aligns with the instructions to Form 3, under which a firm is deemed aware of reportable facts on the first day that any partner, shareholder, principal, owner, or member of the firm first becomes aware of the facts. Form 3, however, relates narrowly to specific matters. Further, the questions regarding the concept of the firm becoming aware are also compounded by the way in which "timely" is referenced in the standard.

The concepts of "awareness" and "timeliness" need to take into account the size and scale of the firm, and the nature of the matters related to the QC system. For example, paragraph .65h notes that complaints and allegations and other relevant information of which a firm is aware should be taken into account in determining the nature, timing, and extent of QC system-level monitoring. Separately, the quality objectives set out in paragraphs .53(b)-.53(c) of the proposed standard relate to the timely exchange of information between firm personnel and leadership, including those with responsibilities for the firm's QC system. We have various policies and procedures in place to facilitate timely information sharing, such as an ethics and compliance hotline, and we encourage a culture of communication without fear of repercussion. These policies and procedures are, in our view, the way in which our QC system is designed to make the firm aware of relevant information. However, the individuals with responsibilities for the firm's QC system may not be aware of such information until it is reported to them, and they would not be able to take action until such time as they become aware.

We agree with the Board's view that what constitutes "timely" would depend on the underlying matter to which the action relates, including the matter's nature, scope, and impact, and that timely action should be sufficiently prompt to achieve its objective. However, the evaluation of certain matters (e.g., those related to potential violations of independence requirements) would be conducted in accordance with firm policies and procedures, and while we would promptly begin the process to gather relevant facts and

execute on the firm's consultation requirements, it may require some amount of time before the matter could be communicated to the individual ultimately responsible for independence and ethics. In our view, the firm's policies and procedures are designed to strike a balance between prematurely alerting individuals to matters for which the facts and potential impact are not fully known (i.e., communicating "immediately") and making sure those with operational responsibility for decisions are made aware on a timely basis.

We recommend the final release includes a clarifying statement that the firm's policies and procedures assist in promoting communication such that the appropriate individuals with responsibilities over the firm's QC system become aware of relevant matters in a timely manner, as appropriate for the size and the scale of the firm and relative to the nature of the matter.

V. More extensive consideration on reporting of firm and engagement-level information needed before moving forward

We understand the PCAOB's focus in paragraph .53(e) related to reporting of firm and engagement-level information (including firm or engagement performance metrics). We agree that communications to stakeholders about a firm's or engagement's performance should be complete and accurate and not misleading. However, we are concerned with the breadth of reporting to which this quality objective may be expected to apply (e.g., to *any* communication to external parties that includes firm-level or engagement level metrics).

Further, certain of these metrics may also be tailored in individual communications for a specific audience (e.g., to communicate specifically about a sector or type of engagement, such as only issuer audits). The level of disclosure that would be required — including "how the metrics or the method of determining them changed since performance metrics were last communicated" — may create confusion or may not ultimately be necessary, in particular in instances when the metric does not relate to audit quality. The disclosures may also conflict with requirements that may apply to registered firms outside the US (e.g., required transparency reporting in Europe and other similar initiatives to report specified audit quality measures).

We recommend that these concerns be considered as part of the PCAOB's current research project on firm and engagement performance metrics. As noted above, we agree that it is important to address the completeness and accuracy of a firm's public external communications about firm-level and engagement-level information, such as firm and engagement performance metrics, but additional clarification on the scope of such communications is needed. For example, we recommend that the scope of the requirement be limited to metrics related to audit quality that are required to be communicated under applicable professional, legal, or other regulatory requirements or are otherwise disclosed voluntarily and publicly to mirror such required communications. Additional information regarding scope may come to light through the ongoing research project. Therefore, we recommend that this specific quality objective be removed from proposed QC 1000 so that it can be thoroughly considered through the PCAOB's ongoing research project.

VI. Reconsidering the practicality of certain documentation requirements

Documentation completion date

Under the proposed standard, the QC documentation completion date is the same date as the reporting date (January 15, as currently proposed). We recommend a documentation completion date 45 days after the reporting date, consistent with the documentation completion requirements for audit engagements in

AS 1215, *Audit Documentation*. Consistent with that standard, we recommend that the PCAOB require that all necessary procedures to support the QC evaluation be completed prior to the reporting date. The 45-day documentation completion period would be for the audit firm to assemble the complete and final set of documentation for retention. This better aligns with the current audit documentation requirements and will allow firms to focus their efforts on the evaluation and reporting requirements in advance of the reporting date.

Documentation retention requirements

Paragraph .81 of proposed QC 1000 would require that the firm prepare and retain documentation of the design, implementation, and operation of the QC system and of the annual evaluation of the QC system. Page 220 of the proposing release gives further context with respect to expectations of documentation. The requirement to maintain all documentation evidencing the operation of the QC system is extremely broad and would require firms to maintain a substantial volume of documentation to demonstrate that responses operated as designed in every instance throughout the year. We suggest that the documentation requirements for firms complying with proposed QC 1000 be comparable and analogous to the documentation requirements set out in the SEC's rules and related interpretive guidance.

VII. Other matters

Effective date

The nature and complexity of proposed QC 1000 calls for a longer implementation period than what is recommended in the proposal. Proposed QC 1000 should be effective no sooner than for periods beginning on or after December 15, 2025, in line with the effective date of SQMS 1. This alignment would be consistent with the Board's view that firms subject to multiple QC standards should be able to leverage those efforts. Considering a phased implementation program that differentiates between those registered accounting firms that are annually inspected and all other firms (including those that will be subject to the "design only" requirements of proposed QC 1000) may be appropriate.

Applicability of proposed QC 1000 to registered firms that do not perform PCAOB engagements

We agree with the PCAOB's view in the proposing release that the costs of fully implementing proposed QC 1000 outweigh the benefits for registered firms that do not perform any engagements in accordance with PCAOB standards. Notwithstanding this, we question whether it is necessary to require those firms to design a QC system in line with proposed QC 1000 ("design only"). Costs associated with the design and documentation of the QC system to address the incremental requirements in proposed QC 1000 could be significant. We understand the Board believes establishing such a requirement is consistent with its statutory mandate set forth in SOX; however, we are concerned the PCAOB's proposed applicability will have the following unintended consequences:

- Registered firms may decide it is no longer viable to remain as registered firms.
- A focus on "design only" may not result in a robust implementation, whereas an expected full adoption of ISQM 1 or SQMS 1 would promote accountability for an effective QC system.

Accordingly, we recommend that the PCAOB allow these firms, including those within our network, to design their systems of QC in line with ISQM 1 or SQMS 1 (which are substantially equivalent) and perform an annual evaluation in accordance with these standards. This is consistent with the PCAOB's views that investments to comply with the requirements of the IAASB and AICPA could be leveraged. This expectation could be addressed specifically in the applications for registration as well. Guidance could be

developed to remind firms that they must have designed a QC 1000 compliant system before accepting any PCAOB engagement.

Communications about matters related to ethics and independence

We agree that timely communication of ethics and independence-related matters to appropriate individuals within the firm is important for audit quality, including communications to those responsible for the firm's monitoring and remediation process and operational responsibility for the firm's QC system. However, we are concerned that the prescriptive nature of the requirements addressing communications may detract from achievement of the intended objectives. It is reasonable to expect the firm to have policies and procedures addressing when and how violations of ethics or independence requirements are communicated to others. However, the manner in which such communication is done (including to whom the matters are initially communicated and when) may depend on the nature of the violation. The requirement in paragraph .16(b) of proposed QC 1000 appears to require the communication of *all* violations of ethics and independence requirements to the individual with operational responsibility and accountability for the QC system as a whole, which may not be necessary in all cases.

Additionally, it is important to recognize that the evaluation of certain matters (e.g., those related to potential violations of independence requirements) would be done in accordance with firm policies and procedures. While the firm would promptly begin the process to gather relevant facts and execute on the firm's consultation requirements, it may require some amount of time before the matter could be communicated to the individual ultimately responsible for independence and ethics. The firm's policies and procedures are designed to strike a balance between prematurely alerting individuals to matters for which the facts and potential impact are not sufficiently known (i.e., communicating "immediately"), and making sure those with ultimate responsibility for decisions are made aware on a timely basis (i.e., communicating "timely").

We support the requirement to automate the process for identifying direct or material indirect financial interests that might impair the firm's independence of firm personnel, which is consistent with SEC requirements for firms of a certain size. The use of technology can be beneficial to firms to make information available in a timely manner to firm personnel to achieve the quality objectives set out in paragraph .31 , as well as to facilitate annual confirmation of compliance with independence and ethics requirements. Many firms have invested in developing automated systems to enable firm personnel to understand which entities are restricted prior to investing in them. This type of preventative quality response can be helpful in mitigating the risk that independence violations will occur. However, there are inconsistencies in the way in which the PCAOB suggests using technology to facilitate the operation of the ethics and independence component when compared to the manner in which required communications about independence matters are articulated, such that the requirements in paragraphs .33-.34 of proposed QC 1000 may need to be revisited.

Technological resources

Paragraph .51 of proposed QC 1000 would require the firm to design, implement, and maintain policies and procedures so that technological resources have the capacity, integrity, resiliency, availability, reliability, and security necessary to enable the operation of the firm's QC system and the performance of its engagements in accordance with applicable professional and legal requirements. Several of these characteristics are operational in nature and do not relate directly to the risk of failing to prevent or detect quality matters resulting from the use of technological resources. While integrity, reliability, and security of systems and data are important to audit quality, the other attributes extend beyond the information processing objectives of completeness, accuracy, validity, and restricted access. For example, if a given

application used in the firm's QC system did not have sufficient capacity to handle data requests, the person using the data in a quality response may notify the application owner and either wait until the data is available from the system if time permits, or use other means to execute the quality response. We encourage the PCAOB to remove this specified response, as the quality objective established in paragraph .44(h) is sufficient to address the use of technological resources by the firm.

Proposed EI 1000, Integrity and Objectivity

EI 1000 provides additional clarification on the meaning of "misrepresenting facts." While in principle the proposed standard is helpful to align with the concepts set out in QC 1000, the concept of failing to correct a document that is materially false and misleading when having the authority to do so should be limited to circumstances in which the document was materially false and misleading "when made." Doing so would appropriately focus on false and misleading statements when made, as opposed to suggesting that the firm and its associated persons have an obligation to correct a document for an indefinite period in the future, even if it was correct and truthful when made, but because of subsequent events it later becomes incorrect.

Instructions for Form QC

The instructions for Forms 2 and 3 provide that a foreign registered public accounting firm may decline to provide certain information required by the form if the firm could not provide such information without violating non-US law and otherwise complies with relevant provisions of Rule 2207. Form QC, however, contains no such provision. As there may be circumstances where a foreign firm determines that providing the information required by Form QC would violate non-US laws, we recommend that Form QC be revised to include a similar instruction, which would enable a firm to otherwise comply with its regulatory obligations. Discussion with the International Forum of Independent Audit Regulators may benefit the PCAOB as it finalizes the proposal in the context of implications for non-US firms.