

February 1, 2023

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006

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

To the Secretary:

On behalf of the undersigned organizations, we write in response to the PCAOB's proposed Quality Control Standard for audit firms.¹ While we agree that updated quality control standards are long overdue, we are disappointed that this Proposal does not go further to ensure audit firms perform high quality audits or operate with adequate transparency and accountability. Similar concerns were raised in response to the Board's 2019 Concept Release² – regrettably, those concerns are not sufficiently addressed by this Proposal. Therefore, we respectfully request that the Board revise this Proposal with the clear objective of improving overall audit quality and enhancing transparency and accountability for firms' quality control systems.

Audit firms are critical gatekeepers in our financial system, helping to maintain investor confidence in financial disclosures and stability in our markets. It is the PCAOB's responsibility to ensure that audit firms are able to perform this role, and one of the most important ways the Board does this is through its quality control standards. As such, it is incumbent on the PCAOB to issue quality control standards that would maximize audit quality and accountability, and to ensure that these principles are rigorously applied throughout the entire audit process. Moreover, effective quality control standards must be designed to overcome the economic incentives that too often can work against a high quality audit, including the conflicts inherent in an issuer-pays business model and a business interest in minimizing costs that eat into firm profits.

Therefore, in order to ensure that PCAOB standards maintain the high level of accuracy and reliability that instills trust in audited financial disclosures, firms' quality control systems must be required to seek a higher performance standard than mere compliance and must operate with sufficient transparency to ensure accountability.

There is compelling evidence, too, both that the project to enhance quality controls is badly needed and that the new standard must be rigorous. To wit, a review of the PCAOB's Staff Inspection

¹ PCAOB, A Firm's System of Quality Control and Other Proposed Amendments to PCAOB Standards, Rules, and Forms, Release No. 2022-006, November 18, 2022, <https://bit.ly/3wfw5oi> ("Proposal").

² See, e.g., Consumer Federation of America, *Comment Letter Re: Re: PCAOB Release No. 2019-003, Concept Release, Potential Approach to Revisions to PCAOB Quality Control Standards* (March 16, 2020), <https://bit.ly/3QTLbxY> (filed in response to PCAOB, Potential Approach to Revisions to PCAOB Quality Control Standards, Release No. 2019-003, December 17, 2019, <https://bit.ly/3D0oZNB>).

Briefs from recent years suggests that significant improvements to firms' quality control systems are necessary and long overdue.³ What's more, the deficiencies that inspection staff describe year after year do not simply involve arcane, highly technical issues that could trip up even the most experienced, ethical auditor – they involve basic foundational issues of critical importance to a high quality audit.⁴ Perhaps most disturbing is the regularity with which the inspection staff finds these deficiencies, i.e., those related to auditor independence and professional skepticism, the fundamental foundations on which audit quality depends.⁵

But unfortunately, the current Proposal sets the bar too low to resolve the problems demonstrated by these consistent deficiencies. In our view, by failing to focus its proposal on audit quality and accountability, the Board's updated standard would only perpetuate the status quo, where quality control standards permit firms to operate without adequate regard to the quality of their audits or accountability to the investors that rely on their work.

Accordingly, the PCAOB should revisit this Proposal with the clear objective of proposing a Quality Control Standard that prioritizes audit quality and accountability. This should include realigning quality control standards to incentivize a higher performance objective than mere compliance with audit standards,⁶ and rethinking the decision not to provide investors and the public with meaningful disclosure about the structure, operation, and effectiveness of a firm's system of quality control. We stress that accountability and trust cannot be assured without adequate transparency.

Respectfully submitted,

AARP

American Federation of State, County and Municipal Employees (AFSCME)

Americans for Financial Reform Education Fund

Better Markets

Consumer Federation of America

Public Citizen

20/20 Vision

³ See, e.g., PCAOB, Spotlight Staff Outlook for 2021 Inspections, at 6 (April 2021), <https://bit.ly/3ZSMPUE> (“In our inspections, we continue to identify deficiencies that suggest some firms may not have appropriate quality control systems in place to prevent and/or detect violations of applicable independence rules.”).

⁴ See, e.g., PCAOB, Spotlight: Staff Update and Preview of 2021 Inspection Observations, at 13 et seq. (December 2022), <https://bit.ly/3J37Lm7> (For example, at 19, the report states, “Independence is a critical element to be addressed by an audit firm’s QC system and remains an area for improvement.”).

⁵ See, e.g., PCAOB, Staff Inspection Brief 2016 (“ . . . Inspections staff continues to observe situations in which auditors seek to obtain only evidence that would support significant judgments or representations made by management, rather than to critically assess the reasonableness of management’s judgments or representations . . . [.]”); and PCOAB, Inspections Outlook for 2019 (December 6, 2018), <https://bit.ly/3D64mir> (“These recurring deficiencies suggest that some firms and their personnel either do not sufficiently understand applicable independence requirements or do not have appropriate controls in place to prevent violations.”).

⁶ Despite comments to the Board’s Concept Release from investor-focused groups advocating this approach, the Proposal eschewed a quality-based objective, contending it would not “be clearly understood or consistently interpreted, either across firms or over time, because there is no universal definition of what ‘audit quality’ means beyond compliance with applicable requirements.” We find this view contrary to investors’ interests.