Crowe LLP
Independent Member Crowe Global

February 1, 2023

By email: comments@pcaobus.org

Ms. Phoebe W. Brown
Office of the Secretary
PCAOB
1666 K Street NW
Washington, DC 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 46: *A Firm's System of Quality Control and Other Proposed Amendments to PCAOB Standards, Rules, and Forms* (PCAOB Release No. 2022-006)

Dear Ms. Brown:

Crowe LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the Board) proposed new quality control standard and other amendments to PCAOB standards, rules, and forms.

General Observations

We strongly support the PCAOB's efforts to improve audit quality by updating the existing quality control (QC) standards. There have been significant changes in internal control, governance, and enterprise risk management since the PCAOB's existing QC standards were adopted. In addition, many firms have made substantial improvements to their QC systems over the years, in part due to the recent adoption of the International Auditing and Assurance Standards Board's (IAASB) quality management standards. It is important for the PCAOB's standards to keep pace with these changes to support the performance of high-quality engagements for the benefit of investors.

Consistent with our comments on the PCAOB's concept release, we support the PCAOB using the IAASB's International Standard on Quality Management 1 (ISQM 1) as a basis for the PCAOB's new quality control standard. ISQM 1 is a comprehensive, risk-based standard that incorporates many improvements to quality management since the PCAOB's QC standards were adopted. The Board's consideration of and, to the extent possible, alignment with ISQM 1 and the AICPA's Statement on Quality Management Standards No. 1 (SQMS 1) is critical to promote consistency. As the Board noted in its concept release, "it would not be practicable to require firms to comply with fundamentally different QC standards. Unnecessary differences in QC standards could even detract from audit quality by diverting firms' efforts from focusing on matters of fundamental importance to effective QC systems." We commend the Board for following a consistent structure as ISQM 1 and SQMS 1 and for using a similar reasonable assurance objective in its proposed standard, QC 1000.

We have concerns, however, about the prescriptive nature of certain elements of QC 1000. We understand the need for the PCAOB QC standard to include requirements specific to firms performing engagements under PCAOB standards, such as the proposed quality objectives and quality responses related to Securities and Exchange Commission (SEC) and PCAOB independence rules. We note, though, that some incremental required quality objectives or quality responses proposed in QC 1000 will limit its scalability

and risk-based nature and introduce difficulty, and potential conflicts, in complying with multiple sets of QC standards. A prescriptive approach for all firms, or one based on thresholds that were designed for another purpose, does not recognize the diversity in the size, complexity, and circumstances of all registered public accounting firms. In addition, certain requirements will increase the effort required to implement the PCAOB QC standards in a way that may not be cost effective and will not have a direct impact on improving engagement quality. In the remainder of this letter, we discuss specific concerns and observations where we believe differences will not result in improved engagement quality, such as the definitions of QC deficiency and major QC deficiency, and the evaluation, reporting, and document completion dates.

We remain committed to the highest standards of quality in our work. A strong QC system, grounded in comprehensive, risk-based QC standards that can be effectively and consistently applied throughout the firm, will enhance our ability to achieve that commitment to quality.

Specific Areas of Comment

Definitions

We have significant concerns about certain definitions in proposed QC 1000. As discussed further below, we believe the definitions will not focus the firm's attention on the most important areas. The differences in definitions are likely to drive inconsistencies with evaluations conducted pursuant to ISQM 1 and, as discussed in our comments related to the proposed amendments to PCAOB Auditing Standard (AS) 1301, *Communications with Audit Committees*, will lead to extensive communication to audit committees that may obfuscate critical information. The definitions are fundamental to the effective operation of a QC system. They will affect the firm's design and operation of its QC system, the firm's evaluation of its QC system, and ultimately what is reported to audit committees, the PCAOB, and other stakeholders. We strongly recommend the PCAOB evaluate these definitions in light of comments received to ensure the QC system, its evaluation, and resulting reporting are clear, able to be applied consistently, and support quality engagements.

Quality Risks

We do not agree with how proposed QC 1000 addresses the risk of intentional misconduct in the definition of quality risks.

We agree that these risks need to be considered and are supportive of explicitly including risk of intentional misconduct in the definition of quality risks. The proposed threshold for considering risks of intentional misconduct (i.e., every act of intentional misconduct that could adversely impact the achievement of one or more quality objectives), however, is too low. Consistent with other risks, the threshold of "reasonable possibility of occurring" should also apply to risks of intentional misconduct by firm personnel and other participants.

By including in the definition of quality risks any risk of intentional misconduct that has a reasonable possibility of adversely affecting the firm's achievement of one or more quality objectives – even those risks that are not reasonably possible of occurring – firms will need to identify, assess, and implement quality responses for a multitude of risks that are unlikely to ever occur. This is not a beneficial use of firm resources and is unlikely to improve the overall quality of a firm's engagements. Rather, it will divert firm resources away from risks that have a higher likelihood of occurring. While the proposal states 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," it will not meaningfully improve overall quality to focus on larger risks that have limited likelihood of occurring.

We strongly recommend the PCAOB align its consideration of intentional misconduct with AS 2110, *Identifying and Assessing Risks of Material Misstatement*, which requires auditors to identify risks of material misstatement whether due to error or fraud that have a "reasonable possibility of occurring." This approach would also be consistent with ISQM 1, pursuant to which firms consider the likelihood of a risk of intentional misconduct that could adversely impact the achievement of quality objectives occurring. Firms would be able to concentrate quality responses on those risks that have at least a reasonable likelihood of

occurring and focus their efforts to prevent and detect intentional misconduct that could adversely impact the achievement of one or more quality objectives.

QC Findings

We disagree that all engagement deficiencies are QC findings. Engagement deficiencies could involve a wide range of matters. Not all matters identified as engagement deficiencies, however, are indicative of a reduced likelihood of the firm achieving the reasonable assurance objective or one or more quality objectives or of the firm not complying with requirements of this standard. By requiring all engagement deficiencies to be QC findings, without consideration for the facts and circumstances of the engagement deficiency, the PCAOB has incorporated an unnecessary degree of prescriptiveness into the proposed QC standard.

For example, as part of its monitoring of completed engagements, a firm may identify an engagement deficiency related to a single engagement team not including every matter that should have been analyzed as a potential critical audit matter (CAM) in its documentation. Upon evaluation of the deficiency, the firm may determine that the engagement team was aware of the requirements in the standard, that the firm's methodology appropriately reflected the requirements, and that the required standard workpapers clearly prompted the engagement team to document every matter that should have been analyzed as a potential CAM. In this case, it appears reasonable for the firm to conclude this engagement deficiency is not a QC finding.

This prescriptive requirement precludes any consideration of the facts and circumstances of the individual engagement deficiencies and may result in a number of items that would not – individually or in combination with other QC findings – rise to the level of a QC deficiency. We strongly encourage the PCAOB to adopt a risk-based approach to identifying which engagement deficiencies are QC findings.

QC Deficiency and Major QC Deficiency

We also have significant concerns about the definitions of QC deficiency and major QC deficiency.

In proposed QC 1000, the PCAOB's definition of a QC deficiency incorporates the concept of "reduced likelihood" of achieving the objectives of the QC standard. The term "reduced likelihood" is unclear and may create challenges and inconsistencies in its application. We strongly encourage the PCAOB to align its definition of QC deficiency with the definition of a deficiency pursuant to ISQM 1. The definition in ISQM 1 is directed at the fundamental elements of the QC system (i.e., establishing quality objectives, identifying and assessing risks, and developing responses to the quality risks) and prompts a comprehensive evaluation of the identified findings. We believe the ISQM 1 definition is clear, easy to apply, and will result in identification of all deficiencies that need further consideration. Additionally, if the PCAOB proceeds with a different definition, it is likely that firms will reach different conclusions about which QC deficiencies exist in its PCAOB QC system compared to its ISQM quality management system. This will create unnecessary challenges and complexities in complying with both sets of standards.

We also have significant concerns about the PCAOB's proposal that a major QC deficiency would exist if there was a severely reduced likelihood that the firm did not achieve a single quality objective. A firm would be required to conclude that its QC system was ineffective if a major QC deficiency existed at the evaluation date. The overall objective of the QC system, however, is to achieve the reasonable assurance objective. It seems inconsistent and overly prescriptive for a firm to be required to conclude that its QC system was ineffective because an individual quality objective was not met, when the firm had in fact achieved the reasonable assurance objective.

Also, consistent with our concern that the concept of "reduced likelihood" is unclear, "severely reduced likelihood" is also unclear and may cause some challenges and inconsistencies in application. ISQM 1 indicates that the quality management system is not effective if a deficiency or deficiencies are "severe and pervasive." This consideration appropriately reflects the overall objective of the system and which deficiencies would indicate that the system is not operating effectively. We strongly recommend the PCAOB incorporate the concepts of "severe and pervasive" into its definition of a major QC deficiency, so that a major QC deficiency is truly indicative of those instances when the QC system is not supporting the firm in achieving the reasonable assurance objective.

If the PCAOB does not align its definitions of QC deficiency and major QC deficiency with ISQM 1, we believe firms may reach a different conclusion on the effectiveness of their QC systems under the different standards. This may lead to misunderstanding and confusion if a firm reports different conclusions about its QC system to different stakeholders, depending on the standards about which the firm was reporting. It would be easy to avoid this outcome if the PCAOB aligns its definitions with the existing IAASB standards.

Annual Evaluation of the QC System (paragraph .77)

We do not support the proposed evaluation date of November 30. We strongly recommend the PCAOB allow firms to select an annual evaluation date that is most appropriate based on the firm's individual facts and circumstances.

Internal monitoring and external inspections are particularly impactful to a firm's evaluation of its QC system and therefore, firms should have the opportunity to consider those activities, among other factors, when selecting an evaluation date. While a firm can adjust its internal monitoring schedule to some extent, the firm likely has limited input into timing of external inspections. When completing its evaluation, the firm would be required to determine whether there are unremediated QC deficiencies or major QC deficiencies. A factor in determining whether major QC deficiencies exist would include the severity and pervasiveness of unremediated QC deficiencies. If a firm's external inspections are ongoing close to the evaluation date, or even conclude shortly before the evaluation date, there is a higher likelihood that the firm will be in a position to report unremediated QC deficiencies or even major QC deficiencies. While the nature of the engagement deficiencies may not be substantially different from another firm whose internal monitoring or external inspections occurred earlier in the year, the other firm would have had more time to conduct a robust root cause analysis, design and implement remedial actions, and observe the implementation of some of those actions. The PCAOB should not prescribe an evaluation date without consideration of the effect it will have on the conclusion by firms with different monitoring and inspection cycles.

In addition to internal monitoring and external inspections, fiscal year end, performance review and compensation cycles, and client deadlines, among other factors, could be considered when determining the appropriate evaluation date.

Firms can select their own evaluation date under ISQM 1, which many firms have already implemented. If the PCAOB dictates November 30 as the evaluation date, some firms will conduct multiple evaluations in a year. This difference is unnecessary and creates additional work for firms without a commensurate benefit to audit quality.

For these reasons, we strongly encourage the PCAOB to allow firms to select their own evaluation date.

Reporting on the Annual Evaluation (paragraph .79)

Reporting Date

We also do not support reporting to the PCAOB on January 15. The months of December and January are generally a key period for firms to focus on performing high-quality audits. Firms often concentrate on providing important updates to their audit practice in preparation for audits of calendar year-end companies during this time, as well as performing remediation and monitoring activities. A reporting deadline of January 15 would divert firm resources away from these necessary activities to conduct the evaluation and prepare the necessary reporting and documentation. We believe the Board should carefully consider these factors when considering the evaluation and reporting dates.

Regardless of the evaluation date, we believe firms need at least 60 days to compile the information for the PCAOB Form QC. A 60-day timeline would be consistent with the timeframe provided to large accelerated filers to report their conclusion on internal control over financial reporting. During the time between the evaluation and reporting dates, the firm will be evaluating any QC deficiencies, gathering information about remedial actions taken or planned to be taken, and potentially assessing the implementation of remedial actions. Depending on the number of QC deficiencies and when they were identified, this may involve a substantial effort by the firm. Additionally, if the firm identified a QC deficiency close to the evaluation date, it would need to conduct its root cause analysis before determining the planned remedial actions that need

to be reported in Form QC. A robust root cause analysis is important to designing meaningful, responsive remediation. Allowing a firm at least 60 days to provide information to the PCAOB will enable a firm to have the time to appropriately evaluate and respond to QC deficiencies.

Reporting to the PCAOB

In the release, the PCAOB states that annual reporting to the Board would provide the PCAOB with important information about firm QC systems in a timely and structured way and that that data collected by the PCAOB would inform the inspections process. The release also notes, however, that the proposed requirement may result in increased litigation risk to the extent that information reported to the PCAOB would not be subject to privilege under Section 105(b)(5) of the Sarbanes-Oxley Act. We strongly recommend that the Board consider requesting the information proposed to be in Form QC through the inspection process. The inspection request could be made at any time during the year so as to facilitate the PCAOB's inspections, while allowing for consistent treatment of information under Section 105(b)(5) of the Sarbanes-Oxley Act.

Alternatively, the Board could modify Form QC to remove Part II and the related exhibits and instead, request this information from firms as part of the inspection process. This approach would allow for detailed information about deficiencies in the QC system and the firm's remediation of those deficiencies to be privileged under Section 105(b)(5) of the Sarbanes-Oxley Act, while retaining certification of the individual(s) assigned ultimate responsibility and authority and operational responsibility and authority for the firm's QC system in a Form QC to meet the Board's stated belief that a formal reporting process may result in enhanced accountability of firm leadership for QC.

Proposed Amendments to AS 1301

We support the proposed requirement to report the conclusion of the most recent evaluation of our QC system to the audit committee, but do not support the proposed requirement to provide the audit committee with a brief overview of remedial actions taken and to be taken. In the proposing release, the Board notes that the requirement is to report "a brief overview of remedial actions for any QC deficiencies that were unremediated at the time of the firm's evaluation." In the proposed amendments, however, the requirement does not specify that the report of remedial actions relates only to unremediated QC deficiencies. As we noted in our comments about the definition of QC deficiencies and the firm's evaluation of the QC system, there may be potentially a large number of items that a firm identifies as unremediated QC deficiencies as of the evaluation date. Accordingly, the firm would be reporting a significant amount of information to the audit committee. We are concerned that the volume of information may detract from the most important issues about which the auditor needs to communicate with the audit committee.

We recommend the auditor communicate the conclusion of the firm's most recent annual evaluation of its QC system to the audit committee, along with information about major QC deficiencies. We considered the existing requirements for issuers to report material weaknesses in internal control over financial reporting in making this recommendation. As registrants are required to disclose all material weaknesses to investors and other stakeholders, auditors should disclose to the audit committee – the group that represents investors – information about major QC deficiencies that resulted in the QC system not being effective as of the evaluation date. This would be consistent with the reporting structure established by the SEC and would allow the auditor to focus his or her communications based on the areas of most significance to the audit committee.

Roles and Responsibilities (.11 - .17)

Proposed QC 1000 identifies that one individual should be assigned to the specified roles. We strongly recommend, however, that the standard not preclude a firm from identifying more than one person in certain roles (e.g., operational responsibility, ethics and independence, remediation and monitoring). Depending on the size, structure, or circumstances of the firm, the firm may be forced to identify someone with less knowledge or skills related to a particular topic because the firm can only name one individual to a role. For example, depending on the firm's structure and the design of its monitoring and remediation programs, it may be most effective for the firm to identify one individual as responsible for monitoring and another as responsible for remediation activities. Similarly, while ethics and independence are closely related, each topic requires different – and potentially extensive – knowledge. Depending on the firm's clients, structure,

and other circumstances, a firm's QC system may benefit from having one individual assigned operational responsibility for ethics and another individual assigned operational responsibility for independence. Additionally, a firm's organizational structure may split engagement performance responsibilities and QC system responsibilities. In order to identify one individual to assign overall operational responsibility, the firm may have to re-organize its structure in a way that may negatively impact audit quality.

We acknowledge the scalability the PCAOB incorporated into proposed QC 1000 by allowing firms to identify one individual to more than one role (pursuant to the note to paragraph .12). However, depending on structure, size, and nature of the firm and its engagements, as well as the scope of responsibilities for certain of these roles, scalability should also allow the firm to have more than one individual identified for the operational roles identified in paragraph .12. We observe that this would be consistent with the provision in paragraph .11 that notes that if a firm has co-principal executive officers, each of the co-principal executive officers would serve in the role of the individual assigned ultimate responsibility. A provision to allow the assignment of more than one individual to the roles identified in paragraph .12 should be that the firm should clearly identify the assignment of responsibilities between the individuals.

In addition, we recommend splitting the responsibility for supervising the design, implementation, and operation of the firm's monitoring and remediation process from the responsibility for supervising the annual evaluation of the QC system. We believe it could present a conflict if the individual responsible for monitoring the annual evaluation process was also responsible for supervising the annual evaluation. While firms could be allowed to elect to use the same individual, they would have the ability to choose to identify a separate individual to focus on the annual evaluation.

Finally, we encourage the PCAOB to amend paragraph .11 to acknowledge that the principal executive officer can rely on information provided to him or her by the QC system and that the performance of his or her responsibility is governed by a good faith standard.

Communication of Firm-Level or Engagement-Level Information (paragraph .53e)

We are committed to providing accurate and useful information to external parties, whether that information is provided in our periodic audit quality report, to audit committees, or on our website. We agree that the firm should have policies and procedures around information disclosed about the firm and its engagements so that the information is complete, accurate, and not misleading.

We noted that the PCAOB currently has a project on its research agenda related to firm and engagement performance metrics that is considering a need for guidance, changes to PCAOB standards, or other regulatory actions in light of the increased disclosure and demand for firm and engagement metrics. Chair Williams has previously remarked that she intends to move this project to the PCAOB's standard-setting agenda this year. We believe investors, auditors, and other stakeholders would be best served by the Board taking a holistic approach to future requirements or standards related to firm and engagement performance metrics. The need for, and nature of, specific requirements within the quality control standard should not be evaluated in isolation from consideration of more targeted standard setting. As such, we strongly recommend the Board consider this proposed quality objective as part of its separate project on firm and engagement performance metrics.

With respect to the proposed quality objective in paragraph .53e, we have concerns about its potential scope and the practical implications for complying with it. The proposed quality objective relates to any firm-level information, which may include information that does not relate to the firm's PCAOB engagements. If the Board were to continue with a requirement related to firm- and engagement-specific information separate from a standard-setting project, we believe this proposed requirement should be directed at metrics related to engagements performed under PCAOB standards and that would be subject to the firm's QC system. Additionally, the proposed quality objective applies to any form of communication. It may not be practicable to communicate in reasonable detail how a metric was determined in all situations (e.g., if the metric is provided in a speech). Firms should be allowed to present the information about how a PCAOB engagement-related metric was determined and, if necessary, how it changed, in a single, publicly available location (e.g., on the firm's website).

Communicating Policies and Procedures to Other Participants (paragraph .55)

Under proposed QC 1000, a firm would need to design, implement, and operate its QC system relative to both firm personnel and other participants. Other participants is defined very broadly, including accounting firms, accountants, and other professionals or organizations, other than firm personnel, who either assist with performing the firm's engagements or design, implement, or operate the firm's QC system. Given the range of individuals or organizations that would be considered other participants, their relationship to the firm, and the work they perform on behalf of the firm, it is important that the requirements related to other participants are risk-based so the quality responses are appropriately tailored to the firm's facts and circumstances.

We noted the required quality response in paragraph .55 directs the firm to "communicate in writing its policies and procedures related to the operation of the firm's QC system and the performance of its engagements to firm personnel and other participants in a manner that is reasonably designed and implemented to enable firm personnel and other participants to understand and carry out their responsibilities relating to activities within the firm's QC system and the performance of its engagements…". As it relates to other participants, there is a clear link between the quality objective in paragraph .53g and this required quality response. We believe the quality objective is sufficient, and this prescriptive quality response is not needed.

The firm will need to identify quality risks specific to its facts and circumstances related to the quality objective in paragraph .53g and develop and implement quality responses to mitigate those quality risks. The specific quality responses the firm develops in consideration of its risk assessment will be more detailed, targeted, and responsive than the proposed quality response in paragraph .55. Accordingly, we do not believe the required quality response in paragraph .55 is necessary or meaningful.

Oversight Function for the Audit Practice (paragraph .28)

We support the proposed quality response to incorporate an oversight function for the audit practice that includes at least one person who can exercise independent judgment about matters related to the QC system at those firms that issue audit reports with respect to more than 100 issuers. We agree that, based on the size, complexity, and nature of the firm, a firm may benefit from an external perspective.

While some firms have already implemented a form of independent oversight, others will need to design and implement the oversight function, including identifying and onboarding the individual(s) to serve in that oversight function. As this may take some time, we recommend the PCAOB provide a longer implementation period relative to this requirement, so firms have sufficient time to thoughtfully implement it.

Firm and Personal Relationships with Restricted Entities (paragraph .34a)

We have concerns about the prescriptive nature of the proposed quality response for firms that issue audit reports with respect to more than 100 issuers to have an automated process for identifying direct or material indirect financial interests that might impair the firm's independence. The size of a firm's client base is one factor to consider in determining the appropriate quality response; however, the nature and circumstances of the firm and the firm's clients are also important factors that should be taken into consideration. The firm's structure, industries served, and number of managers and partners, among other factors, will also affect the risk of timely identification of personal financial interests that may impair independence. We strongly recommend that the PCAOB retain the existing SEC requirements in Regulation S-X Rule 2-01(d)(4), 17 C.F.R. § 210.2-01(d)(4). We believe the current threshold of 500 issuers would more accurately identify firms whose size, clients, and structure are at a level where an automated process would be a reasonable and appropriate quality response.

Communication of the List of Restricted Entities (paragraph .34b)

The note to paragraph .34b requires firms to communicate changes to the list of restricted entities to firm personnel and others performing work on behalf of the firm who are subject to independence requirements monthly. We believe a more risk-based requirement would be appropriate for communicating information about restricted entities to others performing work on behalf of the firm. Based on a firm's operations and clients, a firm may conclude the level of risk of an independence violation for others performing work on behalf of the firm is lower than the risk of an independence violation of firm personnel and scale its communications commensurately. This assessment may be supported by the fact that others performing work on behalf of the firm are only covered persons as members of the audit engagement team. While the level of risk may be lower for others performing work on behalf of the firm compared to firm personnel, the operational effort to track and communicate changes to the list of all restricted entities to others performing work on behalf of the firm on a monthly basis may be higher than the effort related to the communication to firm personnel. As such, we recommend the Board allow firms to take a risk-based approach when determining the scope and frequency of its communications about changes to the list of restricted entities.

Consultations and Differences in Professional Judgment (paragraph .42b-c)

We agree with the proposed quality objectives related to consultations and differences in professional judgment. We note, however, that paragraph .42b(1) states the engagement partner must agree with the consultation conclusion. There may be instances in which the engagement partner, after adhering to the firm's consultation policies and procedures, has a difference in professional judgment. We recommend the PCAOB clarify that, if the engagement partner does not agree with the conclusions arising from the consultation (paragraph .42b(1)), that item is treated as a difference in professional judgment pursuant to paragraph .42c.

Appendix K requirements

We support the proposal to eliminate the current Appendix K requirement. As proposed, QC 1000 would allow firms to identify and assess quality risks related to staff being knowledgeable of, and complying with, PCAOB and SEC requirements and develop appropriate quality responses to address such risks. As such, specified quality responses to carry forward the Appendix K requirements are not needed.

Monitoring In-Process Engagements (paragraph .63)

We agree with the proposed requirements related to monitoring in-process engagements, including the requirement for firms that issue audit reports with respect to more than 100 issuers to monitor in-process engagements. In-process monitoring, which can take many forms, assists firms in timely detecting engagement deficiencies and can help prevent future deficiencies.

Form QC

Amendments

We note the instructions to proposed Form QC provide guidance about when an amendment should be filed. The instructions, however, do not provide any indication about whether the firms should take into consideration the potential significance of the information that was incorrect or omitted. For example, in connection with preparing the current year's evaluation, a firm identifies that it omitted one of the specified quality responses to which an unremediated QC deficiency relates from its prior year communication to the PCAOB. Absent any indication of significance or materiality, firms may believe they should file an amendment for any and all errors or omissions. Guidance about the significance of matters that would warrant an amendment would make sure firms don't submit unnecessary forms to the PCAOB.

Certification

To improve the clarity and scope of the certification, we propose the Board make the following modifications:

> I, [identify the certifying individual], in my capacity as the individual ~~who have been~~ assigned [ultimate/operational] responsibility and accountability for [Firm]'s quality control system…

Proposed Amendments to AS 2901

Overall, we agree with the proposed amendments to retitled AS 2901, *Responding to Engagement Deficiencies After Issuance of the Auditor's Report*. The requirements are clear and appropriately stated to direct an auditor's response to engagement deficiencies identified after issuance of the auditor's report.

Effective Date

Based on our experience with ISQM 1, thoughtfully and thoroughly implementing a new quality management system is a significant undertaking that involves a large number of people across the firm. Implementing a new PCAOB QC system will also involve a significant effort as we evaluate the final standards, consider differences between the PCAOB, IAASB, and AICPA standards, and design and implement new policies and procedures. We strongly encourage the PCAOB to allow for at least 18 months after approval by the SEC for firms to implement the new QC standards.

While many firms implemented ISQM 1 in 2022, there are firms that have not yet adopted a quality management system. Those firms will be adopting SQMS effective December 15, 2025. As such, those firms do not have the benefit of an existing quality management system on which to base their PCAOB QC system. In order to facilitate the implementation of the PCAOB QC standards, particularly for those smaller firms, we recommend the PCAOB establish an effective date that is no sooner than December 15, 2025.

We believe it is critical for the PCAOB to identify a measurement date for those requirements that are tied to a threshold (e.g., more than 100 issuer audit reports). Consistent with the SEC's rules whereby issuers determine their filing status, and consequently the need for compliance with section 404(b) of the Sarbanes-Oxley Act, as of the end of the second fiscal quarter, the PCAOB should identify when firms should determine which requirements apply to their QC system for purposes of the next evaluation. Certain requirements – such as implementing independent oversight or an automated process for identifying financial interests – will take time and resources to implement. Identifying the date when firms will conclude which requirements they need to comply with will lead to more effective implementation of those requirements.

Similarly, the PCAOB should clarify when the firm's evaluation of its QC system needs to include the QC system of a newly acquired firm. It will take time for a firm to integrate an acquired firm into its QC system and to evaluate the operation of the QC system at that firm. Consistent with the SEC guidance that provides issuers may exclude acquired business's internal control over financial reporting from its assessment of internal control for up to one year or for one assessment, we recommend the PCAOB include a similar provision that permits a firm to exclude an acquired firm from the evaluation of its QC system for up to one year.

Implementation Guidance

We strongly encourage the PCAOB to actively engage with audit firms during the implementation period. Establishing a working group or task force, similar to the PCAOB's approach to implementation of the CAM requirements of AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion,* will benefit all stakeholders. The outreach conducted by the PCAOB staff related to CAMs led to timely guidance to support the overall effective implementation. Given the pervasive nature of the QC standards, and fundamental role that the QC system plays in supporting quality engagements, investors and other stakeholders would benefit from the effective implementation of the new QC standards.

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We appreciate the opportunity to share our perspectives on the Board's proposed quality control standards and related proposed amendments to other PCAOB standards, rules, and forms. We would be pleased to discuss our comments with the Board or its staff. If you have any questions, please contact Jennifer Kary, Managing Partner Firm Quality.

Sincerely,

Crowe LLP

Crowe LLP