Mazars USA LLP
135 West 50th Street
New York, New York 10020

Tel: 212.812.7000
www.mazars.us

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By Email: comments@pcaobus.org

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
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; PCAOB Rulemaking Docket Matter No. 046

Dear Office of the Secretary:

Mazars USA LLP ("Mazars USA") welcomes the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the Board) proposed Quality Control standard (proposed standard or QC 1000) and related amendments. Mazars USA appreciates the PCAOB's work to enhance the quality of audit engagements through the revision of existing PCAOB quality standards.

Mazars USA has over 100 partners and 900 professionals across the United States and is an independent member firm of the Mazars Group, an organization with over 1,200 partners and 30,000 professionals in over 90 countries around the world, and a member of Praxity, a global alliance of independent firms. As a member of an international network, we strive for continuous improvement by collaborating with our other member firms to set high standards for audit quality throughout the Mazars Group, Mazars USA has a unique perspective that may differ from our international counterparts due to the U.S. regulatory and litigation environment and variations in our client population.

Our view on the proposed standard is driven by our position in the U.S. marketplace as a medium sized public accounting firm servicing mostly small to mid-size public and private businesses in a variety of industries and as a member firm in a global network. We are fully committed to the highest levels of audit quality in the execution of our audits and appreciate the efforts the PCAOB invested in the detailed proposal.

As expressed in our comment letter to the PCAOB's concept release in March 2020, we fully supported the PCAOB's decision to use the International Auditing and Assurance Board's (IAASB) then proposed International Standard on Quality Management (ISQM) 1 (ISQM1) as the starting point for potential changes to the PCAOB's QC standards. Consideration of and collaboration with the IAASB and the American Institute of Certified Public Accountants (AICPA's) Statement on Quality Management Standards No. 1 (SQMS1), will promote greater consistency in the design, implementation, and operation of effective and efficient principles-based quality management systems across networks and the profession.

The recurring themes that we express in many of our responses to the questions in the following section center around the opportunity to set quality management standards that are principles-based, scalable, and aligned with the recently effective quality management standards of the IAASB and those adopted by the AICPA. We encourage the PCAOB to avoid potential revisions that are too prescriptive in nature and/or create unnecessary differences with the IAASB's or AICPA's quality standards. Foundational consistency with the existing quality standards will allow firms to successfully adopt the PCAOB's proposed standard, by leveraging the time and resources already invested in upgrading their QC systems.

We understand the objectives of the proposed standard includes clarifications, enhancements and new requirements as compared to the existing PCAOB QC standards. We have not responded to each question asked in the proposal. Rather, we have concentrated our comments on the areas for which we have significant concerns related to the scalability and other aspects of the proposed standard, thus resulting in unnecessary incremental effort in the design, implementation, and operation of a principles-based quality management system. We worry about unintended consequences generated by some of the differential requirements, making it impossible for the majority of the registered firms subject to the PCAOB's standards to fully comply with the proposed standard for a variety of reasons and potentially creating barriers to entry or failures in adopting the proposed standards and inconsistent enhancement to quality. Based on the scalability data provided in Section III of the proposed standard, there are about 1700 registered firms, of which 49% have not performed an engagement under PCAOB standards for an issuer or breaker-dealer in the last five (5) years. Currently, 14 firms of the approximately 700 firms that performed an engagement in 2021 under the PCAOB's standards are annually inspected by the PCAOB leaving a significant number of firms and networks with an impractical and insurmountable cost to comply with proposed QC 1000.

Questions

Scalability

Q3. *Are the proposed definitions of "firm personnel," "other participants," and "third-party providers" sufficiently clear and comprehensive, or is additional direction necessary? Please explain what additional direction may be necessary.*

Response:
Firm Personnel – No, the definition of firm personnel is not sufficiently clear. The definition of firm personnel includes professional staff which refers to both employees and other individuals who work under the firm's supervision or direction and control and function as the firm's employees. The definition should not include non-employee contractors and consultants used in text of the diagram on page 46 of the proposed standard. Non-employee contractors and consultants should instead be included in other participants, as these differ from the other groups included in the definition of firm personnel, for example they would not be included in the firm's performance evaluation or promotion process.

We also have concerns about potential exposure and inconsistencies between QC 1000 proposed definitions and the definitions of employees within our federal, state and local tax and labor laws.

Lastly, the proposed definition of firm personnel also includes those who assist with the performance of the firm's engagements or the design, implementation, and operation of the firm's QC system. The definition should only include professionals who assist in these activities and should exclude the assistance from administrative personnel.

Other Participants – The firm's responsibility over other participants is not sufficiently clear. In the proposed standard other participants are included in the following objective:

"An effective QC system provides a firm with reasonable assurance that: a. The firm, firm personnel, and other participants: (1) Conduct engagements in accordance with applicable professional and legal requirements; and (2) Fulfill their other responsibilities that are part of or subject to the firm's QC system in accordance with applicable professional and legal requirements;"

Including other participants in the reasonable assurance objective is not consistent with ISQM1; ISQM1 only includes the firm and its personnel in this objective. Other participants should not be part of the firm's QC system or included in the reasonable assurance objective because they are already included in their own firm's QC system. Instead, there should be a separate quality objective relating to other participants, for firms to consider based on the nature of the involvement of the other participants in their engagements. Firms can then develop an appropriate response to address any quality risks arising from using the other participants in their engagements, which may include obtaining from other participants the most recent evaluation of their system

of quality control.

Q5. *Is it appropriate for the proposed standard to require firms that have not and do not plan to perform engagements pursuant to PCAOB standards to design a QC system in accordance with QC 1000? Why or why not? Would this requirement impose disproportionate costs on small firms? Please provide data or estimates, if available, on such costs.*

Response: No, the PCAOB standards should not require Firms that do not perform engagements pursuant to the PCAOB's standards to design a QC system in accordance with QC 1000. If the intent of this requirement is that CPA firms should be prepared in case, they may start performing engagements pursuant to the PCAOB standards, we believe it would be more appropriate to have a transition period for the registered public accounting firm to update their system of quality control to adhere to the incremental requirements of the PCAOB. Such firms should already have a foundational system of quality management designed in accordance with their jurisdictional regulator and standard setter akin with AICPA or IAASB. We believe there would be significant consequences if the PCAOB would require firms that have not performed engagements pursuant to the PCAOB standards to adopt QC 1000, including but not limited to incremental costs and time for firms that have no intention to perform PCAOB engagements in the near term as well as create possible barriers to entry.

Our view is as proposed the standard would impose disproportionate costs on small firms. We have not analyzed in detail the cost of each incremental requirement of the PCAOB's standard, and therefore do not have an estimate to provide of the disproportionate costs to smaller firms.

Q9*. We intend the proposed standard to be scalable for all firms based on their nature and circumstances. Are there additional factors we should consider so that the proposed standard is scalable for all firms? If so, what are those factors? Should the standard be revised to make it more scalable? If so, how?*

Response: While most of the proposed standard is scalable, there are certain sections and potential requirements in the proposed standard that are more prescriptive in nature, such as specified quality responses, which do not support the scalable and risk-based intent of the standard. We point out such instances in our responses throughout the letter along with practical alternatives for consideration.

As an alternative to specified quality responses, we suggest the PCAOB include additional specified quality objectives. This would give firms the opportunity to identify risks and design responses based upon the nature and circumstances specific to their firm, providing for appropriate flexibility and scalability. This approach will also accomplish the desired outcome of identifying and responding to quality risks.

Q12. *Are the proposed requirements related to roles and responsibilities described in the standard clear and appropriate? If not, how should they be clarified or modified?*

Response: No, the requirements related to roles and responsibilities are not clear and appropriate as currently proposed. We support the proposed standard's allowance for one individual to be assigned to more than one of the roles, this provides flexibility for smaller firms with limited qualified resources for these roles. However, paragraph .12 also indicates that the responsibility for each assigned role could only be assigned to one designated individual. We are concerned that there will be challenges for more complex firms with this limitation, and it may be beneficial in certain circumstances to share the responsibilities between two individuals. For example, for some firms it could be most sensible to assign the responsibility for independence in providing services to one person and for ethics and personal independence two a second individual. The same would apply to monitoring and remediation, for more complex firms it would better suit quality to have one individual responsible for monitoring and second for remediation. Therefore, we believe the standard should allow some flexibility to allow more than one individual to be assigned these roles, as appropriate based on the firm's nature and complexity. We suggest replacing the term "individual" with "individual(s)," in line with to the terminology used in ISQM1, to allow firms scalability in assignment of roles and responsibility.

Governance and Leadership

***Q22**. For the proposed specified quality response related to the firm's governance structure, is the threshold (firms that issued audit reports with respect to more than 100 issuers during the prior calendar year) appropriate? If not, what is an appropriate threshold?*

Response: No, we do not agree with the proposed threshold with respect to more than 100 issuers as we believe it is too low to make the standard truly scalable to firms of different sizes. The number of issuer clients should not be the only measure used when considering the threshold, consideration should also be given the size and complexity of the issuer clients in the firm's portfolio. While our firm is not close to the proposed threshold, we recommend the PCAOB focus on comments received from, and perform outreach to, firms close to and just above the threshold to better understand the impacts of this new requirement. We also request the PCAOB to consider the threshold established for certain QC requirements in SEC Regulation S-X Rule 2-01(d)(4) and increase the threshold to firms with more than 500 issuers.

***Q23**. Is the proposed specified quality response to incorporate an oversight function for the audit practice for firms that issue auditor reports with respect to more than 100 issuers appropriate? If not, why not?*

Response: No, we do not believe the threshold of more than 100 issuers is appropriate as described in our response to Q22 above. While we support an oversight function, we do not believe it would be cost effective, objective, or practical for firms in the 100-500 issuer range due to the nature and circumstances of the firm to implement and achieve the intended quality response. Once the threshold is adjusted, we could see a transitional requirement within the 100-500 range that recommends oversight in the form of an external advisor or similar.

Independence and Ethics

***Q28**. Is the proposed specified quality response to have an automated process for identifying direct or material indirect financial interests appropriate? If not, why not? Is the proposed threshold (firms that issued audit reports with respect to more than 100 issuers during the prior calendar year) appropriate? If not, why not?*

Response: The proposed specified quality response to have an automated process for identifying indirect financial interest is appropriate; however as noted in our responses to Q22 and Q23, the threshold should be set at 500 issuers, consistent with the threshold established for certain QC requirements in SEC S-X Rule 2-01(d)(4), and also take into consideration the feedback received from firms newly impacted by the proposed requirement. Firms with 100-500 issuers can automate the process by considering the quality risks and the nature and circumstances of their firm. For firms between 100-500 issuers, the main potential downside of an automated system is the associated time and significant incremental cost to develop an efficient and effective system. In addition to the actual cost for the software, there are costs and additional resource capacity considerations relating to the oversight of the automated system to ensure the data entered is correct and firm personnel are trained on using the system.

***Q29**. Is the proposed specified quality response related to communication of changes to the list of restricted entities at least monthly (and more frequently, if appropriate) to firm personnel and others performing work on behalf of the firm who are subject to independence requirements appropriate? Could communication to a more limited group accomplish the goal of alerting all individuals whose actions and relationships are relevant to independence. If so, to whom should changes be communicated?*

Response: No, we do not agree with the requirement to communicate changes to the restricted entities at least monthly. The standard should be scalable and allow firms to create their own quality response based on the facts and circumstances relative to their individual firm and business. For example, for larger firms there may not be a need to communicate changes monthly as their automated system achieves the goal of alerting individuals of changes that are relevant to them. In contrast, for small firms with infrequent changes there also may not be a need for this monthly communication. There will be some firms for which this method is the best way to alert individuals for the changes and they may elect to do such communications monthly.

We also do not agree that the changes to the list of restricted entities should be communicated to "others performing work on behalf of the firm." The appropriate audience for this communication is firm personnel, which matches to the population for which the firm is required to obtain an annual certification of independence. The goal of alerting others performing work on behalf of the firm of the independence requirements specific to the engagement in which they are performing services could be accomplished by requiring them to complete engagement specific independence certifications. Alerting them of additional firm clients to which they could not be covered members will not be relevant to their actions or relationships.

In addition to the questions posed in the independence section we would like to comment on the following:

"Obtaining certifications from firm personnel regarding familiarity and compliance with SEC and PCAOB independence requirements and the firm's independence policies and procedures (1) upon employment, (2) at least annually thereafter, and (3) upon any change in personal circumstances, such as role, geographic location, or marital status, that is relevant to independence; and"

We note the proposed standard expands on the existing requirements by requiring firms to obtain certifications every time firm personnel have a change in personal circumstances that is relevant to independence. We do not support this requirement as written.

We would encourage the PCAOB to only consider this requirement for Firms of over 500 issuers who already have an automated system. Additionally, the requirements should only pertain to manager level and above, and not all personnel. We would like to express that this requirement is quite onerous in terms of being able to obtain this data on a timely basis. Also, it would be helpful to have more clarity on the time between the changes in personal circumstances and when the independence certification is required. We would like to suggest as an alternative a semi-annual representation period instead of circumstance driven; in this case the longest period that may lapse between a change in circumstance relevant to independence and a certification is six months and would be less cumbersome than tracking each personal instance.

Engagement performance

Q35*. We are proposing to eliminate the current Appendix K requirement and rely exclusively on a risk-based approach. Should the standard include specified quality responses explicitly directed to non-U.S. firms that audit issuers? If so, what are they?*

Response: We support the proposal to eliminate the current Appendix K requirement and agree with the proposed risk-based approach, which is flexible so that it can be tailored based on relevant firm risks; for example, type of engagements, type of filing, and country performing the work. The standard should not include specified quality responses explicitly directed to non-U.S. firms that audit issuers.

Communication

Q41. *Is the proposed quality objective addressing the firm's external communications about firm-level and engagement-level information appropriate? If not, what changes to the quality objective are necessary?*

Response: No, we do not agree with the quality objective as written and recommend the words *"explains in reasonable detail how the metrics were determined and, if applicable, how the metrics or the method of determining them changed since performance metrics were last communicated"* be removed.

Many firms produce quality reports like transparency reports, voluntarily, which is outside the scope of the PCAOB requirements. Including a requirement for additional details in these reports may discourage smaller firms from including many quality metrics in their reports given limited time and resources available to produce the voluntary report. Having less metrics would be disadvantageous to the users of the voluntary reports who value and analyze the metrics in addition to the verbiage. Instead of requiring the details communicated, we would suggest requiring the support for the calculations of the metrics be maintained by the firm.

Alternatively, given the PCAOB's current research project to better understand the needs of stakeholders as it relates to firm and engagement level performance metrics, we recommend this entire quality objective be removed from QC 1000 and be considered separately in conjunction with the results of the research.

Monitoring and remediation

***Q47**. Is it appropriate to require monitoring of in-process engagements by firms that issue audit reports with respect to more than 100 issuers during a calendar year? If not, is there a more appropriate threshold?*

Response: No, the requirement is not scalable as currently written. While we agree that monitoring activities are very important to the proactive detection and prevention of engagement deficiencies, the design of such monitoring activities should be determined based upon the risk profile specific to each engagement and the quality objectives for the firm as a whole. We believe a more appropriate threshold in the monitoring of in-process engagements is 500 (instead of 100) issuers, consistent with the threshold established for certain QC requirements in SEC S-X Rule 2-01(d)(4). This would allow for greater scalability based on risk and number of engagements. Smaller firms may choose to perform in-process monitoring voluntarily as part of remediation and oversight

***Q52**. Are the proposed requirements for firms that belong to a network that performs monitoring activities appropriate? If not, what changes should be made?*

Response: Yes, from our view as a firm who is part of a network, we agree with the proposed requirements, including considering the results of previous monitoring activities performed by the network as a factor in determining the extent of the current year's monitoring activities. We also agree with the requirements for firms to perform their own monitoring activities rather than solely relying on the monitoring activities performed by the network.

***Q53**. Are the proposed definitions for "engagement deficiency," "QC finding," and "QC deficiency" sufficiently clear and appropriate? If not, what changes should be made and why?*

Response: No, the proposed definitions are not appropriate. The definitions in the proposed standard do not align with the definitions in ISQM1 and SQMS1, the consequences resulting from these differences will result in incremental time and effort for firms to evaluate findings and deficiencies under both standards or operating under two QC systems which is not practical nor scalable. Additionally, we are concerned that there could be different conclusions reached under the proposed standard and ISQM1, which would contribute to overall confusion both internally and externally to stakeholders (e.g., communications to the audit committees). Additionally, we do not believe that utilizing the definitions under QC1000 versus the definitions in ISQM1 will contribute to enhancements in audit quality. Therefore, we strongly recommend that the PCAOB align the definitions of QC finding and QC deficiency with ISQM1.

We also have the following specific observations pertaining to the clarity and appropriateness of the definitions:

- *QC findings* – We note the definition states that all engagement deficiencies would be considered QC findings. We recommend this portion of the proposed definition of QC finding be removed from the definition in the final standard as it removes the firm's ability to apply judgment in evaluating deficiencies and related root cause(s). We believe that engagement deficiencies may have different levels of severity and will not always equate to an issue with a Firm's system of quality control that would require firm level remediation.

- *QC deficiency* – We believe the use of the term "reduced likelihood" is confusing and recommend it be removed from the proposed definition. While the examples of reduced likelihood match up closely with ISQM1, we would recommend using similar verbiage as noted in ISQM1 to avoid confusion (e.g., reduce to an acceptably low level). The way the proposed definition is written seems to imply there could be items that should be considered a QC deficiency beyond what is determined in ISQM1 or SQMS1, but it is not entirely clear how to evaluate the threshold for reduced likelihood.

***Q55**. Should firm personnel be allowed to inspect engagements or QC activities in which they are involved? If so, please explain why and provide examples of mechanisms that could reduce to an appropriate level the risk that noncompliance with PCAOB standards or the firm's policies and procedures would not be detected.*

Response: We note that under the proposed standard self-assessments are not permissible. External inspections such as those from the PCAOB, AICPA Peer Review, and network monitoring are all mechanisms that reduce the risk of non-compliance to an appropriate level. Firms fear missing something in their reviews that is later picked up by the regulators or network. We agree that self-review should not be allowed for engagement inspections, since only a few engagements are selected for inspection. However, for QC activities in which the entire system of quality control is being tested, firm personnel should be allowed to inspect QC activities in which they are involved, so that the standard is scalable for smaller firms and to firms who are subject to network monitoring in addition to internal monitoring. Alternatively, the PCAOB can add a threshold of 500 issuers for firms that should not be allowed to inspect the QC activities for which they are involved.

***Q57**. Is November 30 an appropriate evaluation date for firms to conclude on the effectiveness of the QC system? Is there another specific date that would be more appropriate and if so, what date? Should firms be permitted to choose their own evaluation date?*

Response: No, November 30 is not an appropriate evaluation date. We would strongly suggest the PCAOB to consider aligning with what is included in ISQM1 and SQMS1, where each individual firm selects their evaluation date based on what makes sense with their business. Many firms and networks have already implemented ISQM1 and have elected an evaluation date that corresponds to their firm's fiscal year-end or another convenient annual date that is a natural cut-off for performance evaluations and compensation adjustments. We have concerns about firms duplicating efforts and ultimately reporting on two different evaluation dates which will not improve audit quality. Additionally, a November 30 evaluation date would create a challenge for many firms who may have recently completed external inspections but have not yet remediated any findings, which would add complexity in determining their overall evaluation. Further the period from December to January is an important period which firms utilize to prepare the audit practice with updates and guidance in preparation for business season as well as deliver on remediation action plans. If firms would have a competing priority preparing for the reporting date during this period, it could have a negative impact on audit quality. Lastly, having a prescribed evaluation date and different definitions (see response to Q53) are unnecessary differences between QC 1000 and the other adopted standards, and would increase costs and inefficiencies without incremental benefits to audit quality.

***Q58.** Is the proposed definition of "major QC deficiency" clear and appropriate? If not, what changes should be made and why?*

Response: No, the definition is not sufficiently clear and appropriate. The proposed standard defines a major QC deficiency as "an unremediated QC deficiency or combination of unremediated QC deficiencies, based on the evaluation under paragraph .78, that severely reduces the likelihood of the firm achieving the reasonable assurance objective for one or more quality objectives."

As noted in our response to Q53 the term "reduces the likelihood" is not clear, and we recommend updating the definition to a unremediated QC deficiency or combination of unremediated QC deficiencies, based on the evaluation under paragraph .78, that has a severe and pervasive effect and prevents the firm in achieving the reasonable assurance objective for one or more quality objectives. In addition to removing the words "reduces the likelihood", we have suggested adding the words severe and pervasive, so that a major QC deficiency is evaluated both on severity and pervasiveness as is the case with in ISQM1 and SQMS1.

***Q59.** Is it appropriate to include in the proposed definition circumstances when a major QC deficiency is presumed to exist? Are the circumstances described in the proposed definition appropriate? Should there be other circumstances that give rise to such a presumption? If so, what are they?*

Response: No, the standard should not include circumstances in which a major QC deficiency is presumed to exist, as each situation may be different, and the standard should allow judgement to be applied in performing a

proper evaluation. We suggest including the circumstances listed in the proposed definition as examples but not as presumed major QC deficiencies.

***Q61**. Should firms be required to report on the evaluation of the QC system to the PCAOB? If not, why not?*

Response: Yes, we agree that is appropriate for firms to report on their evaluation of the system of quality control to the PCAOB and keep this information nonpublic as suggested in the proposed standard.

***Q63**. Is the proposed date for reporting on the evaluation of the QC system (January 15) appropriate? Is there another specific date that would be more appropriate and if so, what date? Is 45 days after the evaluation date an appropriate reporting date?*

Response: No, at a minimum the reporting date should be 90 days from the QC evaluation date, particularly if all documentation needs to be complete and assembled by that date. From our experience it takes more than 45 days to thoroughly evaluate and document the results and remediation action plans after performing continuous monitoring activities. Additionally, we reiterate the importance for firms to have the ability to select their own evaluation date aligned with ISQM1 and SQMS1, as detailed in our response to question 57, with a reporting date 90 days thereafter. We would also like to point out that January 15 would be a particularly difficult date for many firms given the proximity to the year-end holidays with many firms being closed or people taking time off, plus January timing would impinge on firm's ability to communicate and train on quality reminders for the December 31 and beyond year-end audits.

***Q64**. Rather than reporting on Form QC, should firms report on the evaluation of the QC system, as of March 31 on a non-public portion of Form 2, which is due on June 30?*

Response: We support a separate Form QC, however, we do not agree with the timing. Please see our responses to questions 57 and 63, were we express our concern for firms complying with multiple standards to be obligated to operate on two systems with different reporting dates. It is essential to allow firms to choose their own evaluation date consistent with ISQM1 and SQMS1.

***Q66**. Are proposed Rule 2203A, Report on the Evaluation of the Firm's System of Quality Control, and the proposed Form QC instructions included in Appendix 2, clear and appropriate? If not, why not?*

Response: For the most part the proposed rules 2203A and the instructions in Appendix 2 are clear and appropriate, however we have the following comments**.** As it pertains to Part II regarding the overall conclusion on the effectiveness, please refer to our comments on the definitions on QC deficiencies in question 53 and major QC deficiencies in question 58. The overall conclusion would be appropriate if these definitions are revised. As it pertains to Part VI additional guidance would be helpful in clarifying when amendments are necessary, and if any thresholds can be applied.

Q69. In light of the legal constraints of Sarbanes-Oxley with respect to public reporting regarding QC matters, are there other public reporting alternatives that should be considered? What would be the potential costs and benefits of such alternatives?

Response: No, we do not believe there are beneficial public reporting alternatives; the only required QC matter reporting should be what is already required by Sarbanes-Oxley. We agree with explanation included in the proposed standard for keeping the reporting nonpublic.

***Q70**. Are the proposed amendments to AS 1301 that require the auditor to communicate to the audit committee about the firm's most recent annual evaluation of its QC system appropriate? If not, why not?*

Response: Yes, we support amendments to AS 1301 requiring communication with the audit committee regarding the conclusion of the firm's most recent annual evaluation of its QC system and agree it could encourage healthy dialogue between the auditor and the audit committee regarding significant QC matters. However, the communication requirement to communicate a brief overview of remedial actions should be limited to those related to major QC deficiencies. There may be decreased value if the final standard were to require

reporting a brief overview of remedial actions on all QC deficiencies. Focusing on the major QC deficiencies, which are most severe and pervasive to the firm's system of quality control, will draw the audit committees' attention to the findings that are most significant.

In addition, we recommend the updated AS 1301 specify that this communication is not required to be in made writing. Written communications would create a concern of confidentiality and would enable the client to make the information public.

Q71. *Are the proposed documentation requirements appropriate? If not, what changes should be made?*

Response: No, the proposed documentation requirements are not appropriate.

Documentation Completion Date – The QC documentation completion date as per the proposed standard is the same date as the reporting date (January 15th, as currently proposed). This does not allow for any additional time to assemble the documentation post the report date which is more stringent than the documentation completion requirements for audit engagements in AS 1215 *Audit Documentation*. We strongly request the PCAOB require the documentation completion date to be 45 days after the reporting date, consistent with the requirements of AS 1215, so that prior to the reporting date firms can focus their efforts on a proper evaluation of the system of quality control.

Documentation Retention Requirements – While we support the proposed standard's approach to documentation requirements as principles-based to provides for scalability, we believe that the documentation requirement of QC1000 should be similar with what is required in under Sarbanes-Oxley. The requirement as currently proposed to maintain all documentation evidencing the operation of the QC system is too general and would require firms to retain a large volume of documentation to support the effective operation of the firm's quality responses for each instance throughout the year.

We also request the PCAOB provide more clarity on the scope of the documentation that is expected to be retained for seven years. We believe a seven-year retention requirement is appropriate as it pertains to the core documentation that supports a firm's evaluation of its system of quality control and the related testing. However, if the documentation requirement is interpreted more broadly, we would disagree with the seven-year retention requirement and we believe it is too long and would result in excessive costs associated with buying considerably more storage space and extended licensing on the technology platform used. We also believe we should be cautious regarding maintaining sensitive information electronically longer than necessary to avoid heightened cyber security risk.

Q74*. Is the proposal to expand the scope of AS 2901 to include engagement deficiencies on ICFR audits appropriate? If not, why not?*

Response: Yes, we support the proposal to expand the scope of AS 2901 to include engagement deficiencies on ICFR audits. We believe that this will enhance audit quality and promote the public interest.

Q75*. Is it appropriate for remedial action to be required for all identified engagement deficiencies, not just in situations where the auditor's opinion may be unsupported? If not, why not?*

Response: No, from our experience remedial actions should be determined on a case-by-case basis, which allows firms to focus their time and resources on addressing the most severe deficiencies with a greater impact to quality. Automatically requiring remedial action for all engagement deficiencies without regard to severity may have an unintended effect of removing the emphasis from the most important remedial actions to improve quality.

Q93*. Would the effective date as described above provide challenges for auditors? If so, what are those challenges, and how should they be addressed?*

Response: Depending on the timing of when the standard is finalized, the effective date may be prior to that of the AICPA. This will create unnecessary challenges for firms that did not already adopt ISQM1 and would have to complete the design and implementation of their new system of quality management prior to the effective date

of the AICPA standards, in addition to the incremental requirements of the PCAOB. We suggest that the PCAOB propose an effective date that would be no sooner than December 15, 2025, to align with the effective date of the AICPA's new quality standards.

Overall, we support the proposed standard and believe it will result in high quality audits and strong convergence with the international standards implemented in many jurisdictions globally, and the new quality management standards of the AICPA. We have highlighted a few key concerns which primarily relate to scalability, significant differences as compared with other similar standards and certain dates, as summarized below:

- Scalability – we have identified that the threshold of 100 issuers is too low to support scalability as it relates to oversight in the governance structure, automated independence, and in process monitoring. We have recommended the PCAOB consider a threshold of 500 issuers consistent with the threshold established for certain QC requirements in SEC S-X Rule 2-01(d)(4).
- Differences to the other similar standards (ISQM1 and SQMS1):
  a) We have identified a few proposed definitions that are not consistent with other similar standards that we suggest changing or updating with additional clarity, including firm personnel, other participants, QC finding, QC deficiency, and major QC deficiency.
  b) Although not mentioned above, we note that the system of quality control is referred to as system of quality management under ISQM1 and SQMS1 and it would be preferable to have one system with the same name that complies under all relevant standards.
- Dates – We have expressed concerns regarding the following proposed dates:
  a) We do not agree with the proposed annual evaluation date of November 30 and the reporting date of January 15. We highlighted why prescribed dates would create challenges and have suggested allowing flexibility for firms to select these dates. In addition, we have noted concerns regarding the short amount of time between the evaluation date and reporting date and have suggested a 90-day window as an alternative.
  b) We do not agree with the documentation completion date being the same as the reporting date. We have requested the documentation completion date be 45 days from the reporting date consistent with the requirements of AS 1215.
  c) We have expressed concerns regarding the effective date and have suggested an effective date no earlier than December 15, 2025.
- Independence –
  a) We have offered an alternative to the circumstance driven independence certification proposed in the standard, including either adding a threshold, or updating the certification process to semi-annually.
  b) We have suggested not to include others performing work on behalf of the firm in the population to which the restricted list should be communicated for consistency with the population for which the firm is required to obtain an annual certification of independence. We have also shared our views on why we disagree with the monthly requirement for communication of the restricted list and why this frequency is not necessarily the best alternative for all firms.
- Other items – We have also expressed our concerns or disagreements with the following:
  a) Self-assessments - We have providing examples of mechanisms that could reduce to an appropriate level the risk of noncompliance with the PCAOB standards and have commented that self-assessment on the system of quality management should be permissible, particularly for smaller firms.
  b) External communications - We expressed our concerns with the proposed quality objective for addressing the firm's external communications about firm-level and engagement-level information, particularly relating to requirements around metric.

c) Amendments to AS 1301 - *we* have shared our views on why we believe this communication should be limited to a brief overview of remedial actions relating to major QC deficiencies and not all QC deficiencies.

d) Roles and responsibilities - we have noted instances where it may be beneficial to share certain responsibilities between two or more individuals, rather than limiting the assignment of a role to one designated individual.

e) Documentation Retention Requirements - we have commented on the broad scope of the documentation requirement and expressed concerns relating to the costs and risks of maintaining such a large volume of data for a seven-year period.

We applaud the PCAOB's thoughtful consideration of the unique aspects within the system of quality control and appreciate the opportunity to comment. We would be pleased to discuss our comments with you at your convenience.

Please direct any questions to:

- Toby Akrab, Partner, Quality & Risk Management (Toby.Akrab@Mazarsusa.com)
- Joe Lanza, Director, Quality & Risk Management (Joseph.Lanza@Mazarsusa.com)
- Wendy Stevens, Practice Leader, Quality & Risk Management (Wendy.Stevens@Mazarsusa.com)

Very truly yours,

Mazars USA LLP

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