March 16, 2020

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

Re: PCAOB Release Number 2019-003

Dear Ms. Brown,

This letter is being submitted by Financial Executives International’s (FEI) Committee on Corporate Reporting (CCR) in response to the Public Company Accounting Oversight Board’s (PCAOB or “the Board”) Concept Release Potential Approach to Revisions to PCAOB Quality Control Standards.

FEI is a leading international organization of more than 10,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives, and other senior-level financial executives. The Committee on Corporate Reporting (CCR) is a technical committee of FEI made up of 45 Chief Accounting Officers and Corporate Controllers from Fortune 100 and other large public companies, representing approximately $10.8 trillion in market capitalization. CCR reviews and responds to pronouncements, proposed rules and regulations, pending legislation, and other documents issued by domestic and international regulators and organizations such as the PCAOB, SEC, and FASB.

This letter represents the views of CCR and not necessarily the views of FEI or its members individually.

Executive Summary

CCR appreciates the Board’s efforts to obtain input from stakeholders regarding potential revisions to PCAOB quality control standards. CCR believes that quality control within firms is vital to ensuring high-quality audits and protecting investors. The auditing environment is dynamic and always changing, and we commend the PCAOB for its efforts to evolve and modernize its standards. While CCR companies will not be required to directly implement the changes outlined in the Concept Release, we are often affected by internal changes within firms and believe that certain elements of this Concept Release will impact preparers and encourage the PCAOB to consider the cost to preparers as they perform any cost-benefit analyses for purposes of drafting a proposed standard. CCR is supportive of the Concept Release and the PCAOB’s focus on quality control. Below we outline certain suggestions as the PCAOB drafts a proposed standard.
Alignment with ISQM 1

We support the PCAOB aligning its quality control standards with the proposed international standard for firms’ quality management systems (ISQM 1). We support the risk-based approach in the proposed ISQM 1, and we believe it would be beneficial to all stakeholders if firms under PCAOB jurisdiction follow the same standards as firms in international markets to the greatest extent possible. We believe this will lead to efficiency and consistency in audits across the globe and would be particularly beneficial to global firms and multinational corporations. The foundational nature of quality control systems makes it impractical for firms to comply with multiple different quality control standards. Differences in standards may even distract from audit quality by diverting auditor attention to reconciling disparate quality control systems. We understand that because of U.S. federal securities laws, SEC rules, and other regulations the PCAOB quality control standard may not be identical with ISQM 1, however, we recommend that the PCAOB remain consistent with ISQM 1 wherever possible.

Measuring Quality Control

While we believe it is important for firms to focus on quality control and to internally evaluate the success and failures of their quality control systems, we have concerns with quality control standards being overly prescriptive regarding how and what firms measure related to quality. There are many factors that contribute to quality control within an organization and a quality audit – many of which are difficult to measure. Additionally, metrics may vary depending on the firm’s scale, results of firm’s risk assessment procedures and its individual audit engagements. We are concerned that if the PCAOB implements prescriptive rules and quantitative measures of quality, then firms and individuals may focus on improving those specific metrics rather than seeing the quality control system as a risk-based collection of quantitative and qualitative factors. A focus on specific metrics has the potential to negatively impact a particular audit by increasing the effort in one area of the audit regardless of whether it is the most at risk or relevant area to the company. This could also lead to an increased and undue burden on clients as they comply with requests from auditors in areas that may not benefit the client’s business. We encourage the PCAOB to focus on a principles-based approach as it revises the quality control standards.

In-Process Reviews

Many firms currently have the practice of in-process internal reviews of audits. We acknowledge that there are benefits to these types of reviews and that, when a risk-based approach is used, they can increase the quality of audit procedures within firms. However, we believe that if there are prescriptive requirements for in-process reviews, it could result in unintended consequences and an undue burden on clients, particularly in cases where in-process reviews occur close to company filing dates. We recommend that the PCAOB avoid extensive and
prescriptive requirements in this area as these reviews could unexpectedly increase costs or result in delayed filings, solely due to matters that are out of the control of the client.

The Concentration of Quality Control Leadership

We believe that it is essential for firm leadership to have a strong commitment to quality control and establish an effective leadership structure with appropriate reporting protocols. We agree with many of the proposed requirements in the Concept Release that discuss specific actions that should be taken at a leadership level to improve quality within the firm. However, we also think it is important that auditors at the engagement level continue to have control over how they conduct individual audits and the quality of those audits. We are concerned that the proposed requirements in the Concept Release, specifically those that focus on the top levels of leadership within firms, will lead to auditors feeling the need to consult more decisions with firm leadership that should be made at the engagement level. Given the unique factors surrounding each engagement, we believe that it is important that engagement leaders feel comfortable making decisions related to quality without having to consult top leadership. We are concerned that prescriptive changes to the quality control standard will lead to more engagement partners deferring decisions up to leadership which will increase audit time and costs for preparers and may have the potential to decrease the quality of the audit by requiring decisions to be made by people that are removed from the engagement.

Evolving Audit Environment

The audit environment is very dynamic and changing quickly. As audit clients, we observe the increasing use of technology, service delivery centers, and specialists in audit services. The use of these audit tools is meant to increase the quality and efficiencies of audits. We believe that these are important tools that will become even more prevalent in audits. We recommend that the PCAOB carefully consider these tools as it develops its quality control and other standards. We encourage the PCAOB to closely evaluate how firms can ensure quality control over these tools including proper training, governance, and leadership. When it comes to technology, it is especially important that the PCAOB address data security and maintenance. As the use of technology increases, firms will collect growing amounts of sensitive client data that must be protected. It is also important that the PCAOB consider ways to ensure that quality control standards are applied in the same manner at service delivery centers as in the rest of the firm. While we do encourage the PCAOB to monitor these tools, we recognize that the tools are meant to increase efficiencies and think it is important that PCAOB standards not inhibit those efficiencies. We also believe it is important that PCAOB quality control standards not stifle the optimal use of these tools with overly prescriptive standards that may discourage firms from using the tools. When developing standards over this area, we recommend that the PCAOB consider what is truly essential from a quality control perspective rather than including standards for a variety of specific use cases.
Training

The Concept Release highlighted the use of training in many different areas. As preparers, we think it is critical that firms continuously train their people. We support the PCAOB requiring initial and on-going training in areas such as audit requirements, new accounting standards and SEC requirements, emerging tools, technology, and independence and ethics for all levels of audit staff.

Firm Governance - Independent Oversight

We acknowledge the role that audit firm governance plays in contributing to audit quality and that this is an area where the profession continues to evolve. In this regard, some firms have established external oversight of their audit practice through independent directors or independent advisory bodies. It is likely too soon, however, to know which type of independent oversight mechanism, if any, is most effective in promoting quality audits. Thus, at this time, we would not support either a required certain composition of a firm oversight body, or requirements for the duties of those providing oversight. On the other hand, we would support disclosure of the composition and activities of the firm's governance structure, such as in the audit quality reports the largest firms now issue annually, in order to allow the market to drive best practice in this area.

Conclusion

CCR appreciates the Board’s effort to obtain input from stakeholders regarding potential revisions to the PCAOB’s quality control standards. We are supportive of many of the potential revisions in the Concept Release. We also recommend that the PCAOB do a careful cost-benefit analysis of any changes to its quality control standards, not only analyzing the potential costs to firms, but also potential costs to preparers and investors that may result from changes in audits. We stand ready to assist the PCAOB in this effort.

Sincerely,

Prat Bhatt

Prat Bhatt
Chairman, Committee on Corporate Reporting
Financial Executives International