



June 24, 2024

U.S. Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549  
[rule-comments@sec.gov](mailto:rule-comments@sec.gov)

Re: Securities and Exchange Commission [Release No. 34-100277; File No. PCAOB-2024-02] Public Company Accounting Oversight Board; Notice of Filing of Proposed Rules on A Firm's System of Quality Control and Related Amendments to PCAOB Standards

Dear Office of the Secretary:

The Pennsylvania Institute of Certified Public Accountants (PICPA) appreciates the opportunity to provide input on the changes approved by the Public Company Accounting Oversight Board (PCAOB) on May 13, 2024 (File No. PCAOB-2024-02) and filed with the Securities and Exchange Commission (SEC) on May 24, 2024, in Release No. 34-100277. The PICPA is a CPA association of about 20,000 members working to improve the profession and better serve the public interest. Founded in 1897, the PICPA is the second-oldest CPA organization in the United States. Membership includes practitioners in public accounting, education, government, and industry. The PICPA's comments are included below.

We support rigorous audit quality and the modernization of audit standards that will achieve that end. Thus, we believe that the proposed standards should be weighed against the overall objective of improving audit quality and the expected costs. We are concerned that this proposal not only will not improve audit quality, but also will reduce competition, increase audit fees, and introduce conflicts with international standards. In particular, it includes a concerning number of prescriptive requirements that would compound greater enforcement actions without any offsetting benefits.

We believe that the proposed standard will increase the barriers of entry for small firms to take on audits of small publicly held companies or broker dealers by requiring them to comply with a "design only" requirement even when the firm is inactive. This will incentivize firms to de-register. We believe that it is important for firms of all sizes to be able to register with the PCAOB and participate in the

capital markets. We are concerned that increasing the barriers of entry for small firms will likewise impact the ability of start-up and emerging-growth companies to participate in the capital markets. We agree with the concerns expressed by PCAOB board member Christina Ho in her statement on the QC 1000 Adoption - Demise to Audit Competition on May 13, 2024.<sup>1</sup> in part that “the adopting release’s design-only requirement for firms that do not issue public company audit reports: (1) appears inconsistent with the statutory text of the Sarbanes-Oxley Act of 2002 (SOX); (2) appears inconsistent with what the PCAOB told Congress in 2023; and (3) imposes undue burdens on competition that will hurt smaller public companies (including emerging growth companies), investors, and the competitiveness of audit marketplace.” That the PCAOB is moving forward with these requirements without scoping out inactive firms is surprising. As Ho further explained, “While SOX Section 103(a)(2)(B) does apply to ‘every’ registered public accounting firm, it applies only ‘with respect to the issuance of audit reports.’”

We believe that it is appropriate and necessary for the SEC to deny the approval of this release until this requirement is removed and replaced with an alternative in which an inactive firm would not have to design its quality control system until after it decided to accept an engagement with a public company, broker, or dealer. Encouraging firms to de-register is not helpful to the markets. Rather, it would reduce competition and drive-up audit fees. More importantly, requiring these firms to provide this information when they are not performing audits does not help achieve higher audit quality.

Additionally, the proposed standard adds burdensome prescriptive requirements (e.g., specified quality responses, use of Sept. 30 as the quality control period, etc.) and conflicts with international and AICPA standards in several key aspects, including the definitions used. This could impact the evaluation and synthesis of findings, resulting in firms potentially having differing conclusions on the quality control systems depending on which standards they are using. We noted that several changes were made to these definitions during the PCAOB’s deliberations. However, concerning differences remain. This lack of harmony between standards will potentially result in firms having to maintain two separate quality control systems. In addition to being costly in training, practice aids, and implementation, these differences could cause confusion among practitioners and key stakeholders, specifically audit committees.

While incremental difference could be appropriate and reasonable, this proposal’s overly prescriptive guidance -- including the specified quality responses and the pre-defined quality control period -- is

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<sup>1</sup> [Statement on the QC 1000 Adoption – Demise to Audit Competition, Christina Ho, Board Member, May 13, 2024](#)

not scalable and will not improve audit quality, but it will increase compliance costs in the capital markets and multiply enforcement opportunities. This is not in the public interest or the interest of the capital markets. Specifically, per the comments from board member Ho in her dissent, “ The adopting release clearly states that QC 1000 has a higher documentation standard than SOX Section 404.” How is this justifiable? There is no evidence to suggest that audit quality would improve. Furthermore, to our knowledge there aren’t any crises that would require this draconian approach. The costs will disproportionately impact smaller firms, who are incapable of supporting this level of effort.

We agree with the response and recommendations to the original exposure document from The Center for Audit Quality: “Instead of including prescriptive specified quality responses, we recommend that the standard include more specified quality objectives. Including specified quality objectives will achieve the PCAOB’s objective of ensuring that firms identify risks and develop appropriate responses, while providing firms more flexibility to tailor the response, as necessary based on their size, complexity, risk, and nature of their engagements. We believe that this would reduce barriers to entry by promoting scalability and will lead to improvements in audit quality. Further, we believe that adding incremental quality objectives will not detract from or preclude alignment with the International Auditing and Assurance Standards Board’s (IAASB) recently revised quality management standard, International Statement on Quality Management (ISQM 1), at a foundational level.”

We further note that specifying the quality control date would override many firms’ efforts to align quality with compensation. Specifically, many firms align their quality control period with their fiscal year end to emphasize the role of quality in a partner’s performance and compensation. With this in mind, requiring firms to change their quality control period would be costly and would not necessarily improve audit quality. We also conceptually disagree that all engagement deficiencies are quality control deficiencies. A root cause analysis is required to assess whether a simple mistake is in fact a quality control deficiency.

Separately, we do not support the proposed requirement that firms issuing audit reports for more than 100 issuers should be required to incorporate an external oversight function for its quality control system, EQCF, which was not included in the original proposal. This requirement would extend beyond the PCAOB’s area of regulatory oversight to the firm’s entire quality control system including non-publicly held entities. Firms are already subject to many levels of external and internal oversight through PCAOB inspections, peer review, concurring review, and internal monitoring. We do not

believe that this additional cost and layer of oversight is necessary to improve audit quality and presents concerns regarding the confidentiality of PCAOB Part II inspection findings.

Finally, the proposal introduces new terminology “applicable professional and legal requirements,” the intent of which is unclear. Additional guidance is needed to articulate the extent to which the auditor is to evaluate legal requirements. The purpose of the requirement is likewise unclear and will likely cause significant additional cost and effort to avoid exposure to additional legal liability without contributing to audit quality enhancements.

The PCAOB’s proposal would become effective Dec. 15 of the year after the SEC’s approval or as early as Dec. 15, 2025. We believe that this timing is overly aggressive. Firms need time to evaluate the differences between their existing quality systems and the proposed standard. Practice aids will need to be overhauled, professionals will need additional training; and technology platforms revised.

We do not believe that the additional costs arising from an increase in the burden on inactive firms to comply with a “design only” requirement, the overly prescriptive requirements, the conflicting requirements with international standards, the implementation timing, and the addition of the EQCF requirement are appropriate. Nor do we believe, most importantly, that these requirements will improve audit quality. We believe a more rigorous economic analysis is needed before this proposal is approved. This analysis should take into consideration the cumulative effect of the additional incremental requirements. We request that the SEC not approve the proposal and require the PCAOB make further revision and re-exposure.

We appreciate your consideration of our comments, and we are available to discuss any of these comments with you at your convenience.

Sincerely,



Allison M. Henry, CPA  
Vice President - Professional & Technical Standards  
PICPA

cc:

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