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July 2, 2024

By email: rule-comments@sec.gov

U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

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:

Forvis Mazars ("Forvis Mazars" or "the Network") appreciates the opportunity to share our perspective and submit comments on the SEC's Release No. 34-102777 relating to QC 1000, A Firm's System of Quality Control (the "QC Standard"). Forvis Mazars is a leading global professional services network operating under a single brand with two members: Forvis Mazars, LLP in the United States and Forvis Mazars Group, SC, an internationally integrated partnership operating in more than 100 countries and territories.

The Network continues to be an active participant in many profession-wide endeavors, including, but not limited to, participating on various U.S.-based and international committees, task forces, and working groups such as those of the Center for Audit Quality (the "CAQ") and the American Institute of Certified Public Accountants (the "AICPA"). We have again worked with the CAQ as it developed its response to the QC Standard. Our comments below are intended to supplement the views expressed in the CAQ's comment letters as well as views we expressed in our original comment letter response to the PCAOB's proposed QC Standard.[1]

Our responses are also framed by our experiences serving primarily middle-market public issuers and include our observations and concerns regarding the potential implications the QC Standard could have for firms below the top six Global Network Firms (GNFs), whereby the size of their domestic and international PCAOB audit practices are significantly smaller than their private company audit practice.

General Views

We understand that the Securities and Exchange Commission (the "SEC" or "Commission") shall approve a proposed rule of the Public Company Accounting Oversight Board (the "PCAOB" or

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[1] FORVIS' response to the PCAOB's proposal, A Firm's System of Quality Control and Other Proposed Amendments to PCAOB Standards, Rules, and Forms, February 1, 2023 (link).

"Board") if it finds that the rule is consistent with the requirements of the Sarbanes-Oxley Act ("SOX") and the securities laws or is necessary or appropriate in the public interest or for the protection of investors.

While we are supportive of the Board's efforts in advancing the quality control standards and creating a more modernized approach, we continue to have concerns regarding certain aspects of the QC Standard that may be inconsistently aligned with the above-noted criteria and could potentially have unintended negative consequences to the profession, including significant costs without notable improvement to audit quality. Accordingly, we do not support the SEC approving the QC Standard as currently constructed. In particular, we have concerns in the following areas, all of which are expanded upon further below:

- External QC Function
- Roles and Responsibilities of Outside Advisors
- Evaluation Date
- Design-Only Firm Requirement
- Conforming Amendments to AS 2901
- Adoption Time Frame

External QC Function

It should be noted that the QC Standard increased the requirements related to the External QC Function (EQCF) from the proposed requirement to have an independent board member to now require an outside party potentially evaluating a firm's testing of its system of quality control. The creation of such a requirement is a significant pivot from the original PCAOB proposal and by law should go through appropriate due process, including soliciting stakeholder feedback.

We are concerned that this new requirement did not go through such appropriate due process, allowing stakeholders to provide feedback, including feedback on any potential unintended consequences. For example, it is unclear how the EQCF would function within a firm's system of quality control. More specifically, it is unclear from the QC Standard what the EQCF's authority regarding access to information within the firm would be and whether such access could potentially violate certain laws and regulations. For example, if the role requires firms to share nonpublic information with the external person, such as PCAOB Part II inspection findings, this could potentially violate the Sarbanes Oxley Act. We strongly recommend the Staff of the SEC require the PCAOB to evaluate these concerns prior to inclusion of this provision within the QC Standard.

Role and Responsibilities of Outside Advisors to Firms' Quality System or Engagements

Subsequent to the SEC's approval of the QC Standard, it is imperative that sufficient implementation guidance is provided by the PCAOB to ensure effective/consistent adoption throughout the profession. One area in particular that guidance is needed is clarification around the definition of "firm personnel."

We note that the definition of "firm personnel" includes a definition of professional staff which in turn is defined, in part, as "employees and non-employee contractors and consultants who work under the firm's supervision" (see definition at QC1000.A5). Further, we note that certain mandatory quality objectives and quality responses of the QC standard appear to establish, without much specificity, the need for this supervisory-level collaboration and exchange of information between the firm and such "non-employee contractors and consultants" (see example the quality objective at QC1000.53g. and the related mandatory quality response at QC1000.54, including footnote 38 which references the supervision and review provisions of AS 1201.08-.13).

Therefore, we ask the Board to provide further clarity on how these requirements relate to non-employee professionals or organizations, *i.e.*, network resources and external advisors, that assist the firm with the design, implementation, and operation of the firm's system of quality control, including the extent to which these providers would be expected to be directly supervised by the firm.

Appropriate Evaluation Date

It is unclear how a fixed evaluation date annually of September 30 for a firm's QC system is beneficial to investors/stakeholders. Furthermore, requiring a mandatory evaluation date does not allow firms the appropriate flexibility to align testing of the system of quality control with other required standards or with each firm's unique fiscal year-end process which includes many activities related to the system of quality control. During the September 30 period, many firms are mid-inspection cycle, which could result in the monitoring and remediation efforts likely crossing reporting periods.

We continued to believe the prescribed evaluation date is an unnecessary difference between QC 1000 and other quality management standards that would cause additional work, time, and cost for firms implementing the QC Standard. As quality control standards are intended to improve audit quality, we believe setting a September 30 cutoff could have a negative impact to audit quality; therefore, we strongly recommend that the QC Standard allow firms to select their own evaluation dates.

Design-Only Firm Requirement

We note that as a condition of registering with the PCAOB, SOX Section 102(b)(2)(D) requires that a registered PCAOB firm, regardless of whether they are serving public company issuers, provide a statement of the quality control policies for its accounting and auditing practices.

The PCAOB in its adopting release to implement this requirement (PCAOB Release No. 2003-007 at page A3-xlix) reiterated its proposing explanation of this requirement as follows:

> As explained in the proposing release, the description should be in a clear, concise, and understandable format and should convey the scope and the key elements of the applicant's quality controls for its accounting and auditing practice. A description that addresses all of the elements of quality control covered **by the professional quality control standards the firm is subject to** will be sufficient. **Technical descriptions and detailed explanations of procedures are not required**. [Emphasis added]

The design requirement in paragraph .06 of the QC Standard goes beyond these expectations. We agree that in light of recent developments regarding firms' system of quality management under other professional frameworks, it is reasonable for the PCAOB to clarify or update its own expectation of a firm's statement of quality control policies that is filed with the PCAOB in conjunction with the firm's initial or continuing registration.

We however ask that in doing so the SEC and PCAOB continue to reflect the spirit and intent of the explanation included in the Form 1 adopting release. Specifically, we ask that the PCAOB limit its requirement for firms that are only required to design a system of QC but not implement or operate that system because they have no engagements currently that must comply with the PCAOB's requirements (in accordance with paragraph .07) to a description that:

- Addresses all the elements of quality control covered by the professional quality control standards the firm is currently subject to for the type of engagements they currently perform, *e.g.*, ISQM1 or SQMS 1
- Excludes technical descriptions and detailed explanations of quality control procedures

Conforming Amendments to AS 2901

As a conforming amendment to the QC Standard, AS 2901, *Responding to Engagement Deficiencies After Issuance of the Auditor's Report*, would now require all engagement deficiencies (including any PCAOB inspection finding) to be remediated.

As mentioned in our previous comment letter response,[2] we agree with the principle behind this change to AS 2901 as it is intended to promote audit quality. However, we are concerned that requiring all engagement deficiencies, including PCAOB inspection findings, could have a negative impact on the PCAOB's comment form process and will take away the value in responding to comment forms and related dialog between firms and the PCAOB, which is a meaningful element of the inspection process.

It is in the best interest of investors and stakeholders for the inspection process to lead to an overall increase in audit quality. With this goal, it is essential to differentiate between deficiencies that are most significant where remediation is necessary to preserve quality and instances of good-faith disagreements between a firm and the PCAOB where errors are isolated and do not rise to the level of a firm-level QC finding. 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.

Sufficient Adoption Time

The QC Standard, and conforming amendments, will take effect on December 15, 2025, with the initial evaluation of the QC system to be performed as of September 30, 2026, and initial reporting to the PCAOB by November 30, 2026.

It is to the benefit of investors and the public that there is sufficient time to design and implement the new System of Quality Management. While providing sufficient time to comply is a key theme

[2] Ibid.

throughout the new standard, the standard itself has a very short implementation window, *i.e.*, 18 months from today. Given that the design of the system sets the foundation for future years, there is expansive value in the thoroughness and preciseness of the design of the system and time spent upfront. However, we are concerned that without sufficient time, there is risk that quality responses for many firms, regardless of size and composition, will not be fully implemented and/or not operating effectively and the overall system design does not meet the high standards of the PCAOB at the adoption date.

In the context of the QC Standard, firms with over 100 issuers would be required to use an automated independence system. In implementing any new system, sufficient time is needed to vet suitable vendors and ensure firms select a tool that is fit to their purpose, and also deploy the tool through adequate customization and proper training. If the adopting dates for the QC Standard remains unchanged, this could result in firms implementing systemwide changes without performing sufficient due diligence which seems to go against the PCAOB objectives of the standard where quality is key. This coupled with the number of other PCAOB adopting standards requiring effectiveness during a similar time frame, we are concerned that firms, particularly firms below the top six GNF, will have difficulties adopting. Consistent with the previous comment letter that one of our Network's member firms provided to the PCAOB, we believe a minimum of 24 months is needed between the approval of a standard by the PCAOB and the date that the system of QC meeting all the requirements of the QC Standard is required to be implemented.

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In closing, Forvis Mazars is supportive of the PCAOB's effort to advance the quality control standards and believe our suggestions above will only further enhance the QC Standard. We appreciate the opportunity to comment and are pleased to discuss any questions the PCAOB and SEC may have concerning our comments. Because Forvis Mazars is in a unique position in that (1) Forvis Mazars, LLP recently exceeded 100 issuers, and (2) Forvis Mazars Group, SC includes a number of potential "design-only" firms, we believe our perspective on issues concerning scalability, costs, scope, and effective date is critical.

If you have any questions related to this response and would like to discuss further, please email Will Neeriemer, Chief Quality Officer, at Will.Neeriemer@us.forvismazars.com; Jeff Rapaglia, National SEC Services Partner, at Jeff.Rapaglia@us.forvismazars.com; Jennifer Coulot, Head of Forvis Mazars Group, SC U.S. Desk, at jennifer.coulot@mazars.fr; or Toby Akrab, National Financial Reporting Partner — Professional Standards Group, at Toby.Akrab@us.forvismazars.com.