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July 16, 2024

U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

Re: SECURITIES AND EXCHANGE COMMISSION [Release No. 34-100277; File No. PCAOB-2024-005] 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:

RSM US LLP (RSM, "we") appreciates the opportunity to provide input on the final standard adopted by the Public Company Accounting Oversight Board (PCAOB) *on A Firm's System of Quality Control and Related Amendments to PCAOB Standards* (Final Standard) and filed with the Securities and Exchange Commission (SEC or the Commission). RSM is a registered public accounting firm serving middle-market issuers, brokers and dealers.

We have seen firsthand that the auditing environment has changed significantly since the current PCAOB quality control (QC) standards were issued. Because a firm's QC system lays the foundation for audit quality, it is important that the related standards provide a comprehensive framework that reflects the many developments in the profession. We therefore agree that the current PCAOB QC standards adopted in 2003 should be revised and that a shift to a principles-based, risk-assessment-driven QC design is appropriate. While we are encouraged that the Final Standard adopts many enhancements to promote audit quality, we are concerned that significant issues raised by commenters on the Proposed Standard¹ have not been fully addressed in the Final Standard. As such, we respectfully request that the SEC consider additional modifications and opportunities for stakeholder comment.

Our concerns with the Final Standard are summarized in two broad categories—concerns regarding the statutory authority for certain requirements and the notice and comment process and concerns regarding effective implementation.

Statutory Authority and Notice and Comment

Design-Only Requirement. We share the concerns of PCAOB Board Member Christina Ho, as addressed in her remarks on May 13, 2024, particularly related to the design-only requirement for firms that do not issue public company audit reports. We encourage the SEC to evaluate whether the design-only requirement is inconsistent with the text of the Sarbanes-Oxley Act of 2002 (SOX).² A potential solution could be for firms to be required to design, implement and test the effectiveness of their system of quality control in compliance with QC 1000 prior to being engaged to issue public company audit reports rather than upon registration with the PCAOB.

¹ PCAOB Release No. 2022-006, November 18, 2002, PCAOB Rulemaking Docket Matter No. 046, *A Firm's System of Quality Control and Other Proposed Amendments to PCAOB Standards, Rules, and Forms*.

² "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.'" Christina Ho, Board Member, Statement on the QC 1000 Adoption – Demise to Audit Competition, May 13, 2024.

External Quality Control Function (EQCF). The Proposed Standard included a requirement for an oversight function of the audit practice for certain firms. Our comment letter³ on the Proposed Standard requested additional clarity on the responsibilities of this oversight function as well as a connection to quality objectives and quality risks. The Final Standard creates a new function that is fundamentally different from what was included in the Proposed Standard. Stakeholders were not provided the opportunity to comment on this different function or weigh in on the added economic burdens it imposes.

Further, we are concerned that the EQCF would not be able to perform their duties absent access to the firm's PCAOB Part II inspection findings and communications with PCAOB inspection teams. The SEC should consider whether SOX restrictions on public disclosure of Part II inspection findings and confidentiality of communications with inspection teams create complexities for effectuating the PCAOB's intention with respect to the EQCF's role.

Effective Implementation

We believe there are two potential modifications that would help firms effectively implement the Final Standard. As addressed in more detail below, firms would benefit from flexibility in the timing of the QC evaluation required by the Final Standard and implementation guidance illustrating the differences in the application of quality control standards issued by the International Auditing and Assurance Standards Board (IAASB), the American Institute of Certified Public Accountants (AICPA) and the PCAOB.

Fixed evaluation date of September 30. The Final Standard acknowledges that one commentor supported the proposed November 30 evaluation date,⁴ while many commenters suggested that firms should be permitted to choose their own evaluation date.⁵ The PCAOB chose a fixed evaluation date of September 30. As stated in our comment letter on the Proposed Standard, we are concerned that requiring a fixed evaluation date that is different from other applicable QC standards or a firm's fiscal year end may create unnecessary complexities in implementation of the Final Standard and add unnecessary costs not commensurate with a benefit to audit quality. The unnecessary added logistical and economic costs of a fixed evaluation date should be further evaluated prior to finalizing a required fixed date.

Implementation Guidance. The Final Standard contains many differences from *International Standard on Quality Management 1 (ISQM 1)*, as issued by the IAASB, and *Statement on Quality Management Standards No. 1 (SQMS 1)*, as issued by the AICPA's Auditing Standards Board. Because most firms that provide audits under PCAOB standards also comply with ISQM 1 and (or) SQMS 1, there will be challenges for firms to determine how to apply the standards concurrently. For example, the Final Standard provides explicitly that the evaluations of deficiencies and the overall evaluation of the system of quality control is intentionally different than that of the ISQM 1 system of quality management. For example, on page 246:

However, since the nature of the two evaluations is inherently different (e.g., the determination of major QC deficiencies, the differing definitions of QC deficiency under QC 1000 vs. deficiency under ISQM 1), we believe that there would always be some differences between the evaluation required under QC 1000 and the evaluation required under ISQM 1.

If the Commission adopts the Final Standard, the Commission should encourage the PCAOB to issue implementation guidance. Firms would benefit from guidance to illustrate situations in which these intentional differences will be encountered by firms and how such differences are intended to be implemented both through responses as well as documentation. Further, we respectfully request the

³ [29_RSM \(pcaobus.org\)](https://www.pcaobus.org/29_RSM)

⁴ PCAOB Release No. 2024-005 page 245

⁵ PCAOB Release No. 2024-005 pages 245–246

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Commission engage with the PCAOB to establish a consultation process to ensure the highest standards of audit quality are enabled through this implementation.

We are supportive of the PCAOB's strategic priority to modernize its standards, including the standard on quality control. However, given the concerns above, we respectfully request that the Commission not adopt the Final Standard as currently proposed. We request that the items outlined above be further evaluated for compliance with the requirements of SOX, and that the Commission consider stakeholder commentary on the EQCF function and other requirements affecting implementation of the Final Standard.

We would be pleased to respond to any questions the SEC or its staff may have about our comments. Please direct any questions to Sara Lord, Chief Auditor, at 612.376.9572.

Sincerely,

RSM US LLP

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