

August 20, 2024

Vanessa A. Countryman  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C.

Re: File No. PCAOB-2024-02  
Proposed Rules on a Firm's System of Quality Control and Related Amendments to PCAOB Standards

Dear Ms. Countryman:

I am writing with regard to the proposed PCAOB rules for a firm's system of quality control, QC 1000, that have been submitted to the Securities and Exchange Commission (SEC) for approval.

I have been a partner at one of the international auditing firms, during which time I performed audits, participated in the external and internal quality control process, as well as served in the National Office and as an SEC Review partner. I led an industry team for my firm. I have also served as a vice president and Chief Financial Officer of an international semiconductor company, as the Chief Accountant of the SEC as well as a Professional Accounting Fellow, and as a member of boards of directors and chair of audit committees of large and small public companies, as well as a director/trustee of institutional asset managers.

In the office of the Chief Accountant, I had responsibility for oversight of the auditing profession, and participated in reviews of audit work performed by the then Public Oversight Board (POB), the American Institute of Certified Public Accountants (AICPA) SEC Division for Firms including firm on firm peer reviews, as well as well as the establishment of professional standards by the AICPA Auditing Standards Board (ASB). I also actively participated in the meetings of the Blue Ribbon Committee on Improving the Effectiveness of Audit Committees, including its recommendation for defining the definition of an independent corporate board member.

I participated in the legislative process which resulted in the passage of the Sarbanes-Oxley Act of 2002 (SOX). This included participating in the drafting of legislation and testifying on several occasions before the U.S. Senate and U.S. House of Representatives regarding SOX.

In reviewing the comments received on QC 1000 by the SEC, the comments appear to reflect a lack of understanding of the circumstances and process which has led to the consideration and/or adoption of new QC rules by the PCAOB. My comments follow.

### **Summary of Comments**

A summary of the comments set forth in the remainder of this letter includes:

- Congress created the PCAOB with the passage of SOX in 2002. At that time, it directed the PCAOB to write quality control standards for the profession, as Congress determined the then existing standards had failed for several decades to consistently produce high quality audits.
- In 2004, the initial PCAOB adopted then existing AICPA quality control standards which had been written by the profession for its self-regulatory system. That system resulted in many failed audits which contributed to the corporate scandals at the turn of the century and subsequently. Those are substantially the same standards which still exist today, as a result of the PCAOB failing to update and modernize approximately half of its standards in the first 20 years of existence.
- The current PCAOB and its Chair, with the support of the SEC, has undertaken to fulfill the mandate Congress gave it as stated in SOX. That mandate stipulated the Board was to write professional quality control standards that would provide appropriate protections to the more than 100 million Americans who invest their hard-earned money in the capital markets. Prior to the current board being appointed, it has taken over two decades for the PCAOB to update and modernize about half of the standards it inherited from the profession in 2004. This Board is to be applauded for working to update the other half of the standards. Its efforts have included research and economic analysis, thorough ongoing outreach to the public, academics, and its advisory groups, round tables, issuance of concept releases with which it solicited public comments, issuance of proposed rules for which it again solicited public comments, and thoughtful consideration of those comments in developing final rules it has submitted to the SEC.
- Other entities have studied the quality and effectiveness of audits over the years. These have included:
  - The Panel on Audit Effectiveness whose chairman was a retired CEO of an international auditing firm.
  - The U.S. Treasury Advisory Committee on the Auditing Profession (ACAP) which included executives of public companies, corporate board members, investors, academics, as well as former chairmen of the SEC and Federal Reserve Board.
  - Unfortunately, the PCAOB has failed in past years to act on some of the recommendations to improve the quality of audits made by each of these groups.
- The PCAOB has been learning from the thousands of inspections of the audits it has performed, as has its counter parts in other countries.<sup>1</sup> Those inspections have identified consistent and

---

<sup>1</sup> International Forum of Independent Audit Regulators (IFIAR), Survey of Inspection findings, 2017, at <http://ifiar.org/?wpdmdl=7970>. Also see the IFIAR 2023 Survey (<https://www.ifiar.org/?wpdmdl=16740>) which states:

“Since first tracking this statistic in 2014, the percentage of audits with findings has declined from 47% to 32% as of the 2023 survey. The recurrence and level of findings reflected in the survey continue to indicate a lack of consistency in the execution of high-quality audits and the need for a sustained focus on continuing improvement. IFIAR encourages the GPPC networks and their member firms to continue implementing quality management activities to:

- Identify areas for improvement to the systems of quality control that support their audit practices;

recurring high levels of noncompliance with the PCAOB auditing standards, just as occurred with the corporate scandals of bygone years.<sup>2</sup> Despite the critical importance of audits which are fundamental to the efficient functioning of the capital markets, deficiencies have far exceeded what the public would find acceptable in products such as their cell phones, computers, automobiles, medical services or even the airplanes they fly on. In a recent PCAOB report it was found that on average, deficiency rates among the audits performed by the largest firms in the world, had “stabilized” at approximately 26 percent! Some firms had deficiency rates in excess of 50 percent.

- The creation of an independent External Quality Control Function (EQCF), whether as adopted by the PCAOB, or by establishing an independent governance board, is necessary in light of ongoing instances around the globe which suggest the firms suffer from a lack of ethics throughout the firms, including senior leadership. The firms have stated they are thought leaders when it comes to consulting regarding independent corporate governance for public companies. Two of the leaders of the biggest firms were members of the ACAP that recommended the PCAOB consider “firms appointing independent members with full voting power to firm boards and/or advisory boards with meaningful governance responsibilities to improve governance and transparency of auditing firms.”<sup>3</sup> However, the firms have failed to adopt the type of rigorous, independent boards and functions, the companies they audit have implemented.

### **Quality Control Standards for Auditors of Public Companies**

Since 1933, audits of public companies have been mandated by Congress. The oversight of audits was a system of self-regulation. However, Congress gave the SEC a role as well when it came to the oversight and regulation of the auditing profession.<sup>4</sup>

The disclosure to investors of material, high quality financial information, is the foundation upon which the capital markets rest. It is the responsibility of management to prepare such disclosures. But as the result of U.S. Senate Banking Committee Hearings in 1932 to 1934, Congress mandated such information, or lack thereof, be verified by INDEPENDENT auditors.<sup>5</sup>

Within a few years of being established, the SEC found the private sector audits were not always of sufficient quality. Related to the 1938 enforcement matter of McKesson & Robbins, the SEC found:

- 
- Perform root cause analysis and implement responsive actions;
  - Monitor the impact of such actions; and
  - Leverage the results to adjust or refine their improvement strategies”

<sup>2</sup> International Forum of Independent Audit Regulators, Survey of Inspection Findings, 2017.

<sup>3</sup> U.S. Treasury Department, Advisory Committee on the Auditing Profession Final Report, October, 2008. There was only one member of ACAP who dissented from the recommendations of the Committee.

<sup>4</sup> The Panel on Audit Effectiveness – Report and Recommendations August 31, 2000 states “...the SEC has the statutory authority to modify or supplement auditing standards, but it has looked to the ASB as the principal source of auditing standards.”

<sup>5</sup> See the 1934 Report on the Practices of Stock Exchanges, U.S. Senate Committee on Banking and Currency and Wall Street Under Oath, The Story of Our Modern Money Changers by Ferdinand Pecora, Simon and Schuster, NY, 1939 for a discussion of the hearings and testimony of Wall Street and company executives who mislead investors.

Their failure to discover the gross understatement of assets and of earnings is attributable to the manner in which the audit work was done. In carrying out the work **they failed to employ that degree of vigilance, inquisitiveness, and analysis of the evidence available that is necessary in a professional undertaking and is recommended in all well-known and authoritative works on auditing.** In addition, the overstatement should have been disclosed if the auditors had corroborated the Company's records by actual observation and independent confirmation through procedures involving regular inspection of inventories and confirmation of accounts receivable, **audit steps which, although considered better practice and used by many accountants, were not considered mandatory by the profession prior to our hearings.**<sup>6</sup> [*emphasis supplied*]

These findings were not dissimilar from the findings of the earlier U.S. Senate Banking Committee hearings.

The quality of the self-regulation of auditors and audits also became the subject of national attention once again in the 1960's and 1970's due to questionable audits of Equity Funding, the Penn Central Company, Continental Vending, National Student Marketing and others. This in turn led to Congressional investigations and hearings during the 1970's, in both the U.S. Senate and House of Representatives. Legislation was introduced at the time to create a Public Board to oversee the profession. This legislation later became part of SOX.

The AICPA began creating quality control standards for a CPA firm's accounting and auditing practice in the 1970's in response to negative publicity, reaction to ongoing congressional hearings, and concerns about the ability to maintain the system of self-regulation. In November 1979, to avoid further regulation, and congress adopting legislation establishing an oversight board, the profession adopted QC Section 10, System of Quality Control for a CPA Firm. The standard stated:

.02 In providing professional services, a firm has a responsibility to conform with professional standards...

.03 **A system of quality control for a firm encompasses the firm's organizational structure and the policies adopted and procedures established to provide the firm with reasonable assurance of conforming with professional standards...**

\*\*\*\*\*

.05 The system of quality control for a U.S. firm should provide the firm with reasonable assurance that the segments of the firm's engagements performed by its foreign offices...or foreign affiliates...are performed in accordance with professional standards in the U.S. [*emphasis supplied*]

Problems with the quality of audits continued well into the 1980's despite the establishment in the late 1970's of the profession's peer review program. That program specified a firm auditing public companies

---

<sup>6</sup> Securities Exchange Act of 1934, Release No. 2707, Accounting Series, Release No. 19, In the Matter of McKesson & Robbins, Inc., File No. 1-1425, Securities Exchange Act of 1934, Section 21 (a), Summary of Findings and Conclusions, p. 10.

would be required to have its public company audits inspected by a firm who was a “peer” – hence the name peer review. During this time period, the audits of savings and loans such as Lincoln, Silverado and Home State, as well as E.S.M. Government Securities, Drysdale Government Securities Corp., and ZZZZ Best were occurring.<sup>7</sup> Unfortunately, reports of the peer reviews amongst the large international firms never found a significant issue with one another’s audits prior to the establishment of the PCAOB and its inspections. It appeared to be a case of “you scratch my back and I’ll scratch yours.”

In decades leading up to 1997, when the corporate scandals were once again heating up and their stories were printed on the front pages of the nation’s newspapers, the AICPA ASB had adopted:

- QC 20 – System of Quality Control for a CPA Firm’s Accounting and Auditing Practice
- QC 30 – Monitoring a CPA Firm’s Accounting and Auditing Practice
- QC 40 – the Personnel Management Element of a firm’s system of Quality Control-Competencies Required by a Practitioner-in-charge of an Attest Engagement.

These are essentially the same auditing quality control standards that were effective and in place in the latter half of the 1990’s, when the corporate scandals began to emerge with cases such as, but not limited to: Cendant, Sunbeam, Waste Management and WR Grace. These initial scandals would be followed by Enron, WorldCom, Qwest, Adelphia, HealthSouth and many, many more.

The quality control standards had been written by, and for the profession. They were also reviewed by attorneys for the profession to minimize risk of litigation. And in the end, the auditors involved in corporate scandals such as Enron, Adelphia, Tyco, Parmalat, Waste Management, Global Crossing, WR Grace, Cendant, and others, were often found to have been aware of the errors in financial statements and/or disclosures, but failed to report them to investors, regulators or the public. Indeed, their systems of quality controls had failed to provide reasonable assurance the firms were complying with professional auditing standards.

The SEC issued its 1999 annual report to Congress as the corporate scandals were surfacing. In the report the SEC stated “firms with public company audit clients practicing before the Commission may lack sufficient worldwide quality controls to assure their independence under the applicable Commission and profession rules” and that there may be “systemic failure by partners and other professionals within certain firms to adhere to their own firm’s existing controls.” The report also stated the SEC had requested the POB to oversee the design and implementation of strengthened systems and to perform a comprehensive review of the firm’s compliance with applicable independence standards. Unfortunately, this did not occur due to the profession withholding its funding for the POB.

**The AICPA quality controls standards the profession had developed became a significant part of the Interim Standards the PCAOB adopted in 2004. Those standards had not been significantly changed or updated since they were originally written, or as they existed when they became interim PCAOB standards 20 years ago. They had not protected investors from substandard, poor-quality audits in the past, nor will they do so in the future.**

---

<sup>7</sup> See ON THE QUALITY OF INDEPENDENT AUDITS, Testimony before the Subcommittee on Oversight on Energy and Commerce of the U.S. House of Representatives and Major Issue for the CPA Profession and the AICPA, A Report by the AICPA Future Issues Committee. Both of these publications discuss the constantly recurring issues with respect to the quality of audits performed and the responsibilities of auditors.

**Now that the PCAOB has approved QC 1000, investors should ask of the profession and SEC, how much longer do we have to wait for adoption of appropriate and effective auditing quality control standards that will provide accountability for the profession? How much longer do we have to rely on standards that contributed to the corporate scandals 25 years ago? And how many more times do we have to suffer undue losses in our retirement funds due to a lack of reasonable action?**

Existing quality controls standards proved to be catastrophic as the capital markets around the globe lost trillions in value at the last turn of the century. The U.S. economy also subsequently went into a recession. Today the auditing firms fail to discuss the cost of these poor quality, ineffective control systems, with investors and the capital markets. They also fail to discuss their ongoing serious lapses in ethical behavior and shortcomings in audit firm quality control systems around the globe in recent years, such as in the U.S., Australia, China, U.K., Netherlands, and Canada.<sup>8</sup> Over the past 15 years, PCAOB audit inspection reports have consistently found audit firms are not complying with professional standards and have identified high rates of deficiencies, even exceeding 50 percent of the audits of a firm inspected by the regulator.<sup>9</sup> Cases have even been identified where firms have signed their audit

---

<sup>8</sup> For select examples of such matters, see PCAOB inspection reports and also:

<https://www.ft.com/content/bcadbdcb-5cd7-487e-afdd-1e926831e9b7>, EY and Wirecard: anatomy of a flawed audit, October 25, 2021;

<https://www.politico.com/news/2024/05/03/trump-media-audit-firm-sec-settlement-00155950>, Trump Media's audit firm barred from SEC practice over 'massive fraud', May 3, 2024;

<https://www.frc.org.uk/news-and-events/news/2024/04/sanctions-against-grant-thornton-uk-llp/>, Sanctions against Grant Thornton UK LLP, April 8, 2024;

<https://www.frc.org.uk/news-and-events/news/2023/10/sanctions-against-kpmg-llp-kpmg-audit-plc-and-two-former-partners/>, Sanctions against KPMG LLP, KPMG Audit plc and two former partners, October 12, 2023;

<https://www.sec.gov/newsroom/press-releases/2019-95>, KPMG Paying \$50 Million Penalty for Illicit Use of PCAOB Data and Cheating on Training Exams, June 17, 2019;

<https://www.canadian-accountant.com/content/practice/foreign-firms-punished-for-exam-cheating-pcaob>, April 15, 2024, As Big Four foreign firms punished for exam cheating, PwC Canada fines put into perspective;

<https://www.sec.gov/newsroom/press-releases/2022-114>, Ernst & Young to Pay \$100 Million Penalty for Employees Cheating on CPA Ethics Exams and Misleading Investigation Largest Penalty Ever Imposed by SEC Against an Audit Firm, June 28, 2022;

<https://www.reuters.com/business/finance/us-accounting-watchdog-hits-kpmg-netherlands-with-25-mln-over-exam-cheating-2024-04-10/>, KPMG, Deloitte affiliates hit with US penalties for exam cheating

April 10, 2024;

<https://www.ftadviser.com/regulation/2024/08/16/fca-fines-pwc-15mn-for-failing-to-disclose-suspected-fraud-at-lcf/>, FCA fines PwC £15mn for failing to disclose suspected fraud at LCF, August 16, 2024;

<https://www.investmentexecutive.com/news/from-the-regulators/nine-people-charged-kpmg-pays-us456-million-to-defer-tax-fraud-charges/>, Nine people charged, KPMG pays US\$456 million to defer tax fraud charges, August 29, 2005.

<https://www.sec.gov/newsroom/press-releases/2016-187>, Ernst & Young, Former Partners Charged With Violating Independence Rules, September 19, 2016.

These select examples are not intended to present a complete or exhaustive list of accounting firm shortcomings and failures.

<sup>9</sup> See BDO sinks to bottom of US audit quality league table, Financial Times, August 15, 2024 at:

<https://www.ft.com/content/3457990d-21cc-4051-894f-33891ae016171> and Big Four Audit Shortfalls Stabilize, Latest Inspections Show, Wall Street Journal, August 15, 2024 at: <https://www.wsj.com/articles/big-four-auditing-deficiencies-level-off-in-latest-inspections-962f3142>

Vanessa A. Countryman  
August 20, 2024

reports, which stated the audit had been completed in accordance with PCAOB standards, before the audit was completed.

### **The Panel on Audit Effectiveness**

As a result of the ongoing developments, toward the end of 1998, the POB, at the request of the SEC, established The Panel on Audit Effectiveness, a panel of eight persons, chaired by the former CEO of PriceWaterhouse. After inspections of dozens of audits, days of public hearings and receipt of public comments, and broad outreach, the Panel issued their recommendations in August 2000. The recommendations included, among others:

- The Auditing Standards Board should make auditing and quality control standards more specific and definitive; in certain specified areas, audit firms should review and, where appropriate, enhance their audit methodologies, guidance and training materials; and peer reviews should “close the loop” by reviewing those materials and their implementation on audit engagements then reporting their findings.
- Audit firms should put more emphasis on the performance of high-quality audits in communications from top management, performance evaluations, training, and *compensation* and promotion decisions

Unfortunately, the SEC urged the then “Big Five” CPA firms to agree to implementing the recommendations of the Panel on Audit Effectiveness. However, one firm objected. While some of the recommendations of the Panel were enacted, others to date have been ignored by the profession. Ultimately, after Enron and WorldCom and numerous other corporate scandals continued to surface, that fateful decision not to adopt the Panel’s recommendations contributed to the successful efforts of creating and enacting SOX.

### **Creation of SOX**

As a result of the ongoing corporate scandals at the end of the 1990’s into the first decade of the 2000’s, Congress finally decided to act with the passage of the Sarbanes-Oxley Act of 2002.<sup>10</sup> The legislative history for the Act includes Selected Floor Remarks by members of the U.S. Senate and House of Representatives including:

Remarks of Sen. Paul Sarbanes, Banking Committee Chairman, on July 8, 2002, Cong. Rec. pages S6330-6333.

Mr. Sarbanes: Title I creates a public company accounting oversight board. This Board is subject to SEC review and will establish auditing, quality control, ethics, and independence standards for public company auditors and will inspect accounting firms that conduct those audits. It will investigate potential violations of applicable rules and impose sanctions if those violations are established.

---

<sup>10</sup> In an overwhelming bipartisan vote, SOX was approved in the U.S. House of Representatives by a vote of 423 in favor. Just three members opposed and eight abstained. It passed in the Senate by a vote of 99 to 0, with one abstention. The accounting profession, accounting firms, and Chamber of Commerce had opposed SOX as it was debated by Congress.

Heretofore we have relied on self-policing of the audit process, private auditing and accounting standards setting, and, for the most part, private disciplinary measures. **But questionable accounting practices and corporate failures have raised serious questions, obviously, about this private oversight systems.** Paul Volcker stated:

Over the years there have also been repeated efforts to provide oversight by industry or industry/public member boards. **By and large, I think we have to conclude that those efforts at self-regulation have been unsatisfactory.**

That is obviously one of the reasons we are moving, in this legislation, to an independent public company accounting oversight board. We heard extensive testimony in favor of such a board. [*emphasis supplied*]

The legislative history for SOX, in the Senate Committee Report, discusses the recurring problems over the years, with respect to the quality of audits. In discussing Title I—Public company Accounting Oversight Board, it states:

The concerns of the Committee extend beyond the immediate allegations of wrongdoing, to fundamental principles on which the functioning of free markets and the protections of investors are based. Each of the country's federal securities laws—the 1933, 1934, 1935 and 1940 Acts—requires comprehensive financial statements that must be prepared, in the words of the Securities Act of 1933, by 'an independent public or certified public accountant...

**However, the franchise given to public accountants by the securities laws is conditional; it comes in return for the CPA's faithful assumption of a public trust. (The Supreme courts now-classic statement of that trust, in United States v. Arthur Young, 465 U.S.C. is discussed below.) The testimony heard by the Committee repeatedly indicated that a number of forces have undermined the fulfillment of this public trust over the years.** [*emphasis supplied*]

As a result of these concerns, Congress created the PCAOB, provided it with a clear and articulate mission, and empowered it to fix what had been found to be wrong with the profession, when it crafted SOX Section 101(a) which unequivocally states:

ESTABLISHMENT OF BOARD--There is established the Public Company Accounting Oversight Board, to oversee the audit of public companies that are subject to the securities laws, and related matters, **in order to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports) for companies the securities of which are sold to, and held by and for, public investors...**

SOX Section 101(c) DUTIES OF THE BOARD—**The Board shall**, subject to action by the Commission under section 107, and once a determination is made by the Commission under subsection (d) of this section—



(2) **establish or adopt**, or both, by rule, auditing, **quality control**, ethics, independence, and other standards relating to the preparation of audit reports for issuers in accordance with section 103;

\*\*\*\*\*

(5) **perform such other duties or functions as the board (or Commission, by rule or order) determines are necessary or appropriate to promote high professional standards among, and improve the quality of audit services offered by**, registered public accounting firms and associated persons thereof, or otherwise to carry out this Act, in order to protect investors, or to further the public interest;

(6) enforce compliance with this Act, the rules of the Board, professional standards, and the securities laws relating to the preparation and issuance of audit reports and the obligations and liabilities of accountants with respect thereto, by registered public accounting firms and associated persons thereof; [*emphasis supplied*]

SOX Section 102, REGISTRATION WITH THE BOARD, also states a CPA firm performing audits of public companies offering securities pursuant the federal securities laws, must register with the PCAOB. When registering, the firm must submit its statement of quality control policies to the Board. As such, a firm that does not audit public companies, can simply avoid any requirement to comply with the PCAOB quality controls standards by terminating their registration with the PCAOB. Approximately half of the CPA firms registered with the PCAOB do not perform any audits of publicly listed companies. SOX requires these firms (which are not required to register with the PCAOB) to have quality control system policies.

Section 102, SOX stipulates an auditing firm must file its quality control policies with the PCAOB when it registers with the Board. SOX states:

\*\*\*\*\*

(a) MANDATORY REGISTRATION.—Beginning 180 days after the date of the determination of the Commission under section 101(d), it shall be unlawful for any person that is not a registered public accounting firm to prepare or issue, or to participate in the preparation or issuance of, any audit report with respect to any issuer.

\*\*\*\*\*

(2) CONTENTS OF APPLICATIONS.—Each public accounting firm shall submit, as part of its application for registration, in such detail as the Board shall specify—

(D) a statement of the quality control policies of the firm for its accounting and auditing practices;

\*\*\*\*\*

(c) ACTION ON APPLICATIONS.—

(1) TIMING.—The Board shall approve a completed application for registration not later than 45 days after the date of receipt of the application, in accordance with the rules of the Board, unless the Board, prior to such date, issues a written notice of disapproval to, or requests more information from, the prospective registrant.

(2) TREATMENT.—A written notice of disapproval of a completed application under paragraph (1) for registration shall be treated as a disciplinary sanction for purposes of sections 105(d) and 107(c).

**U.S. Treasury Advisory Committee on the Auditing Profession (ACAP)**

Another important development was the appointment in 2007 by then U.S. Treasury Secretary Henry Paulson, Jr., of the ACAP. In 2008, the ACAP issued its recommendations including that the PCAOB consider the feasibility of requiring the disclosure of audit quality indicators. That recommendation has triggered the ensuing work of the PCAOB with regards to audit quality including research; outreach to its advisory groups, a 2015 release on indicators of or performance metrics for audit quality, at the firm and engagement level; a proposal in 2024 with respect to such indicators and performance metrics; the issuance of a concept release soliciting public comment in 2019 on a Firm's system of quality controls for audits it performs, and a proposal in 2022 for a new standard on a firm's quality control system that would ensure its audits are performed in accordance with the PCAOB's auditing standards; and a final QC 1000 standard approved in May, 2024.

Several of the ACAP recommendations addressed not only quality controls, but also transparency and governance. These are building blocks necessary for any effective quality control system. The ACAP recommendations are as follows:

**ACAP Recommendations**

**II. Co-Chairs Statement**

The Advisory Committee on the Auditing Profession, appointed by the U.S. Treasury Secretary Henry M. Paulson, Jr., was asked to examine comprehensively the condition and future of the auditing profession, with emphasis on the sustainability of a strong and vibrant profession. In conducting its work, the Committee recognized that the prospects for the auditing profession are directly related to the quality and effectiveness, as well as the perceived value, of independent audits. Ultimately, it is a combination of transparency and trust that enables our financial markets to function efficiently. A strong and vibrant auditing profession is a critical element of that regime and especially important to the U.S. capital markets where more than 100 million people invest their savings and retirement assets.

\*\*\*\*\*

At the same time, the Subcommittee on Concentration and Competition discussed enhancing audit quality as a key element in improving the viability and resilience of the auditing profession. The Subcommittee learned that auditing firms provide limited information on audit quality to the public, particularly to audit committees and investors. The Subcommittee recommended that the PCAOB consider the feasibility of developing and disclosing audit quality indicators so that more of such information can be developed and communicated.

\*\*\*\*\*

The Subcommittee on Concentration and Competition also noted the increasing globalization of the capital markets and the consequent increasing need for regulators and policy makers to collaborate at the global level to oversee auditing firms and monitor audit quality. The Subcommittee on Concentration and Competition recommended that the PCAOB continue to collaborate and cooperate with its foreign counterparts.

\*\*\*\*\*

Recognizing the recent improvements to public company corporate governance, the Subcommittee on Firm Structure and Finances recommended a series of initiatives to enhance transparency of the auditing profession. First, the Subcommittee recommended that the PCAOB and the Securities and Exchange Commission (SEC) consider the possibility of auditing firms' appointing independent members to firm boards or advisory boards.

.....

#### **VII. Firm Structure and Finances**

**Recommendation 3.** Urge the PCAOB and the SEC, in consultation with other federal and state regulators, auditing firms, investors, other financial statement users, and public companies, to analyze, explore, and enable, as appropriate, the possibility and feasibility of firms appointing independent members with full voting power to firm boards and/or advisory boards with meaningful governance responsibilities to improve governance and transparency of auditing firms.

\*\*\*\*\*

**Recommendation 7.** Urge the PCAOB to require that, beginning in 2010, larger auditing firms produce a public annual report incorporating (a) information required by the EU's Eighth Directive, Article 40 Transparency Report deemed appropriate by the PCAOB, and (b) such key indicators of audit quality and effectiveness as determined by the PCAOB in accordance with Recommendation 3 in Chapter VIII of this Report. Further, urge the PCAOB to require that, beginning in 2011, the larger audit firms file with the PCAOB on a confidential basis audited financial statements.

.....

## VIII. Concentration and Competition

### Recommendation 2.

(a) As part of its current oversight over registered auditing firms, the PCAOB should monitor potential sources of catastrophic risk which would threaten audit quality.

The PCAOB's mission is to oversee auditing firms conducting audits of public companies. Its audit quality-focused mission is intertwined with issues of catastrophic risk, as most often risks to firms' survival historically have been largely the result of significant audit quality failures or serious compliance issues in the non-audit services aspect of their business.

Sarbanes-Oxley provides the PCAOB with registration, reporting, inspection, standard-setting, and enforcement authority over public company auditing firms. Under its inspection authority, the PCAOB inspects audit engagements, evaluates quality control systems, and tests as necessary audit, supervisory, and quality control procedures. For example, in its inspection of an auditing firm's quality control systems, the PCAOB reviews the firm's policies and procedures related to partner evaluation, partner compensation, new partner nominations and admissions, assignment of responsibilities, disciplinary actions, and partner terminations; compliance with independence requirements; client acceptance and retention policies and procedures; compliance with professional requirements regarding consultations on accounting, auditing, and SEC matters; internal inspection program; processes for establishing and communicating audit policies, procedures, and methodologies; processes related to review of a firm's foreign affiliate's audit performance; and tone at the top.

The PCAOB also has authority to require registered auditing firms to provide annual and periodic reports. In June 2008, the PCAOB issued Rules on Periodic Reporting by Registered Public Accounting Firms requiring annual and periodic reporting...

The Committee therefore recommends that the PCAOB, in furtherance of its objective to enhance audit quality and effectiveness, exercise its authority to monitor meaningful sources of catastrophic risk that potentially impact audit quality through its programs, including inspections, registration and reporting, or other programs, as appropriate. The objective of PCAOB monitoring would be to alert the PCAOB to situations in which auditing firm conduct is resulting in increased catastrophic risk which is impairing or threatens to impair audit quality.

**Recommendation 3.** Recommend the PCAOB, in consultation with auditors, investors, public companies, audit committees, boards of directors, academics, and others, determine the feasibility of developing key indicators of audit quality and effectiveness and requiring auditing firms to publicly disclose these indicators. Assuming

development and disclosure of indicators of audit quality are feasible, require the PCAOB to monitor these indicators.

A key issue in the public company audit market is what drives competition for audit clients and whether audit quality is the most significant driver. Currently, there is minimal publicly available information regarding indicators of audit quality at individual auditing firms. Consequently, it is difficult to determine whether audit committees, who ultimately select the auditor, and management are focused and have the tools that are useful in assessing audit quality that would contribute to making the initial auditor selection and subsequent auditor retention evaluation processes more informed and meaningful. In addition, with the majority of public companies currently putting shareholder ratification of auditor selection to an annual vote, shareholders may also lack audit quality information important in making such a ratification decision.

The Committee believes that requiring firms to disclose indicators of audit quality may enhance not only the quality of audits provided by such firms, but also the ability of smaller auditing firms to compete with larger auditing firms, auditor choice, shareholder decisioning related to ratification of auditor selection, and PCAOB oversight of registered auditing firms. *[footnotes omitted]*

Over the years, investors have written to the SEC and PCAOB urging the outdated quality control standards from the last century be updated to provide reasonable protections to investors. Informed investors realize the PCAOB QC standards were written by the profession and their attorneys when the old and flawed, self-regulatory system based on peer reviews existed. They have not been updated to reflect:

- The establishment of the PCAOB by Congress.
- The change from peer reviews of audits of public companies to inspections by the PCAOB.
- Enhanced technologies including significant updates to databases and network communications and more recently Artificial Intelligence.
- Significant growth in the size of the audit firms, expansion of consulting and other non-audit services, as well as international expansion.
- Increased efforts by partners and leadership of firms to monetize their investment in a firm, just as occurred 25 years ago. This raises serious questions as to who controls and makes key decisions in a firm with respect to audit quality, compliance with auditor independence rules, compensation, and investments in the business.
- Consolidation and roll-ups of smaller firms into larger firms that may be obtaining financing from nontraditional sources, such as private equity funds.
- Firms establishing external QC advisory committees, albeit questions remain regarding such issues as (1) who sets their agendas, (2) what materials do they consider and review, (3) do they make recommendations to the firm, (4) what steps do they take to determine if their recommendations have been properly acted upon, and (5) do they issue transparent reports to the public, and if so, how often, with respect to their activities?

The PCAOB has two decades of firsthand experience performing inspections of audits of each of the audit firms, especially those performing audits annually of 100 or more public companies. During these inspections they observe the firms' QC systems, procedures, and policies.

The PCAOB has gone through an extensive process of outreach to both its Investor Advisory Groups (IAG) and Standards Advisory Groups (SAG or SEIAG) with respect to quality control standards. Members of the SEIAG include members of the "Big Four" as well as smaller firms.

Against this backdrop, the PCAOB issued its December 2019 QC Concept Release. In the release, the PCAOB observed some firms had appointed independent directors or established equivalent or alternative means of "external oversight," that such roles varied and "may or may not be within the firm's QC system," and that some non-U.S. jurisdictions required certain firms to have "independent directors." With that landscape in mind, the PCAOB sought feedback from its stakeholders on several related questions:

- Should a future PCAOB QC standard incorporate mechanisms for independent oversight over firms' QC systems (e.g., boards with independent directors or equivalent)?
- If so, what criteria should be used to determine whether and which firms should have such independent oversight (e.g., firm size or structure)?
- What requirements should we consider regarding the qualifications and duties of those providing independent oversight?

With respect to a firm's governance and quality control, the PCAOB Concept release states:

The firm's governance and leadership component establishes the environment in which the QC system operates. This component addresses the firm's culture, decision-making process, actions, organizational structure, and leadership. A firm's culture and tone set by leadership can promote the importance of quality and support the exercise of professional skepticism.

The PCAOB has long considered firm governance and leadership to be a crucial aspect of firms' QC systems. For example, PCAOB inspections have historically covered the firm's tone at the top, a foundational aspect of governance and leadership. SAG members have generally supported including requirements concerning firm governance and leadership in PCAOB QC standards.

The PCAOB also issued a proposed standard for a firm's System of Quality Control in November 2022. It stated:

Our observations have generally revealed that while some firms have made improvements to their QC systems, the progress has been uneven. Even taking that progress into account, in roughly a third of the issuer audits we inspected from 2018 to 2020, the auditor's opinion was not adequately supported. This suggests that there is significant room for improvement in QC systems' ability to provide reasonable assurance that firm engagements are performed in accordance with applicable professional standards and regulatory requirements.

...However, our inspections continue to identify deficiencies for some firms, suggesting that not all firms have made meaningful improvements in these areas. The following summarizes recent observations from our inspections and investigations of QC systems, including deficiencies and violations—instances of noncompliance with PCAOB requirements—and good practices that we believe support and strengthen QC systems. We have taken these observations into account in developing our proposal...

\*\*\*\*\*

We are proposing to require firms that issued more than 100 audit reports for issuers in the prior calendar year to establish a governance structure that incorporates an oversight function for the audit practice including at least one person who is not a partner, shareholder, member, other principal, or employee or has a commercial, familial, or other relationship with the firm that would interfere with the exercise of independent judgment with regard to matters related to the QC system. [*footnote omitted*]

### **Independent External Quality Control Function (EQCF)**

A lesson learned from the history of the past 100 years, is that a high-quality audit is all too often not reasonably assured, despite the statements in the independent auditor's report to investors. In the past decades, the following have been observed with respect to the accounting and auditing firms:

- A series of corporate scandals around the globe.
- Tax fraud including the largest tax fraud case brought by the U.S. Department of Justice that encompassed senior partners.
- Inspections of audits that have continuously identified audits in which the auditors had not complied with the PCAOB auditing and SEC independence standards, even though the reports of the auditors stated they had complied with these standards.
- Continuous high rates of inspection deficiencies that would be unacceptable to customers of other products.
- A lack of ethical behavior as massive cheating has occurred on continuing education required for meeting licensure requirements.
- Disclosure of confidential government information, so as to gain tax consulting engagements using the confidential information, and enhance profits.
- Colluding to steal data from the PCAOB.
- A government mandate that specifies a requirement for an independent audit and hiring of an auditor, the one professional a company must hire when selling securities to the investing public. Yet there is not readily available public data on which to base a decision on quality of the audits.
- SEC and Department of Justice (DOJ) Enforcement cases in which the settlements have required the CPA firm to retain an independent monitor to provide assurance the settlement agreements are complied with.
- As noted in the PCAOB comment letter of August 16, 2024, some foreign regulators have required CPA firms auditing publicly listed companies to implement independent boards of directors.

These instances are indicative of:

- Firms that do not have a commitment to a culture that puts a priority on the quality of the product it provides to its customer, the investor;
- The importance, or lack thereof, of ethical values and attitudes;
- The lack of responsibility, proper priorities and accountability for those associated with performing an audit engagement;
- Designing, implementing and monitoring a system of quality controls are weaknesses in the Firm's leadership and culture;
- The organizational leadership places a higher emphasis on retention of the annuity from a company's annual audit and potential nonaudit services, than it does on the performance of high-quality audits; and,
- A lack of the level of transparency and governance, unlike that which commonly exists amongst publicly listed companies who the CPA firm audits.

Unfortunately, these instances are also at odds with the discussion of the importance of leadership and governance set forth in the International Standard on Quality Management 1, issued in December 2020.<sup>11</sup>

The DOJ and SEC have required an independent monitor as part of settlement and deferred prosecution agreements for a reason. Indeed, as former Federal Reserve Chairman Paul Volcker stated, "There are some things you don't need a study for to figure out." Independence provides a basis upon which one party can trust another party. It is also the basis for high quality corporate governance in the United States. As that independence has been implemented, enhanced and monitored, it has led to investors relying to a greater extent on corporate boards.

Similarly, the PCAOB is correct in also requiring an independent quality control function. As the PCAOB has stated: "The PCAOB believes that an independent external oversight of a QC system is essential to driving audit quality in firms with large issuer audit practices...In connection with the PCAOB's oversight, certain firms have acknowledged the limitations of internal QC functions led by non-independent employees and have touted the benefits of independent review, which can help a firm identify areas of improvement in its QC system. Some firms already have embraced that approach by creating leadership or advisory roles for independent third parties."<sup>12</sup> [footnote omitted]

---

<sup>11</sup> The International Auditing and Assurance Standards Board (IAASB) identified concerns related to its then effective QC standard, International Standard on Quality Control (ISQC) 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements, and decided to take steps to improve the standard. In December 2020, the IAASB released a suite of new quality management standards, including International Standard on Quality Management 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements (ISQM 1), which became effective on December 15, 2022. [footnotes omitted]

<sup>12</sup> PCAOB Comment Letter to the SEC, Vanessa A. Countryman, August 16, 2024, page 3.



Vanessa A. Countryman  
August 20, 2024

In his former comments on the PCAOB Concept Release Potential Approach to Revisions to PCAOB Quality Control Standards, December 2019, PCAOB Board member Jay Brown also discussed the role and benefits of an independent quality control function. He stated<sup>13</sup>:

Audit firms have increasingly adopted these types of safeguards. In 2008, the Advisory Committee on the Auditing Profession, a bipartisan commission convened by Treasury Secretary Paulson, issued a report (ACAP Report) that recommended consideration be given to the addition of independent directors with "full voting power [on auditing] firm boards and/or advisory boards with meaningful governance responsibilities. . .". Since then, two of the largest audit firms have added independent directors to their boards. At least three others use advisory groups with independent members. A number of countries have adopted rules that require audit firms to have independent directors.

The contemplated revision to our QC standards provides an opportunity for a renewed examination of the role of these safeguards with respect to audit quality. Commercial incentives may sometimes conflict with the goal of audit quality. Independent oversight of firms' QC system can help mitigate these concerns.

For example, the Concept Release discusses the need to provide adequate resources for the design, implementation, and operation of a QC system. Safeguards, including an independent oversight mechanism, may provide investors and the public with greater confidence in the resource allocation decisions. The same may be true with respect to other aspects of quality control, including the annual review of the QC system, the effectiveness of remediation of QC concerns, and the integration of audit quality into the system of incentives and rewards for firm personnel.

Mr. Brown also encouraged responses to the questions the Concept Release asked with respect to the independent quality review function. The PCAOB's 2022 exposure draft also asked questions in this regard. Clearly anyone who read and responded to the Concept Release and exposure draft were aware that the PCAOB was moving to adopt such a function in its final rule.

In comment letters to the PCAOB on the Concept Release and exposure draft, there have been supporters and opponents of an independent function, with the audit firms, in general, opposing it. They have expressed concerns:

- That SOX does not permit disclosure of information to the independent person(s) involved with this role;
- That the person will be second guessing the firm with respect to assessments and judgments it has made;
- That a firm's quality control system is complex and involves numerous judgments as well as conclusions; etc.

I have been associated with the profession for almost 50 years in various capacities. During those years, I have often heard the profession argue "the sky is falling" when regulators, Congress, or investors

---

<sup>13</sup> Statement on Concept Release for Potential Approach to Revisions to PCAOB Quality Control Standards: The Role of Investors and the Public in the Revisions to PCAOB Quality Control Standards, J. Robert Brown, Jr. Board Member, December 17, 2019.

Vanessa A. Countryman  
August 20, 2024

request changes be made to the status quo. But to date, the sky has not fallen. In fact, the profession has grown larger and become much more profitable.

The PCAOB in its August 16, 2024 comment letter, has responded to the commenters opposing the EQCF. The PCAOB has pointed out the flexibility of its approach and how a firm implementing it can apply that flexibility. Based on my experience, I believe the PCAOB is correct and that its “minimalistic” approach to the EQCF should, and will ultimately, allay the concerns of audit firm commenters.

My concern, based on my experience as both an auditor inside one of the largest international firms, and as a former regulator, is the PCAOB describes an EQCF function in its comment letter, due to the flexibility and functions described, the EQCF person may not achieve the effectiveness and accountability that is necessary. I seriously question whether a single person will be able to fulfill their responsibilities inside a firm the size of one of the largest six CPA firms. And if not effective, then the function does raise a cost benefit issue. Why pay the cost for an ineffective outcome?

I believe a preferable approach to the PCAOB minimalistic approach is to adopt an approach of creating an independent board as proposed by the ACAP and used by the U.K. FRC, and the Japan Financial Services Agency.<sup>14</sup> As the SOX legislative history clearly discusses, SOX has pre-empted state law when it comes to the audits of companies selling their securities pursuant to the federal securities laws. In that respect, and as previously noted, it gives the PCAOB broad powers to protect investors when it comes to audits that are to provide investors with trust in the financial information they receive.

The SEC does have the authority to solicit comments on which approach to EQCF would be more appropriate. Or it could adopt the rule as approved by the PCAOB and instruct the PCAOB or SEC staff to undertake further research on a study of the effectiveness of both approaches. Certainly I believe the FRC and FSA would be most accommodating to the SEC in providing their experience with the governance and quality controls systems of the firms. Experience has indicated independent boards of public companies can be very effective, even when they have broad responsibilities such as assessing risks and controls of a public company. Certainly, since the PCAOB has noted the EQCF can be more than one person, and its effectiveness would likely increase with additional members.

In connection with the EQCF function, a question has been raised with respect to SOX and disclosure of information. SOX Section 2. Definitions, states in paragraph (a)(9):

(9) PERSON ASSOCIATED WITH A PUBLIC ACCOUNTING FIRM.—

(A) IN GENERAL.—The terms “person associated with a public accounting firm” (or with a “registered public accounting firm”) and “associated person of a public accounting firm” (or of a “registered public accounting firm”) mean any individual proprietor, partner, shareholder, principal, accountant, or other professional employee of a public accounting firm, or any other independent contractor or entity that, in connection with the preparation or issuance of any audit report—

---

<sup>14</sup> See the PCAOB Comment Letter to the SEC, August 16, 2024, footnote 11.

Vanessa A. Countryman  
August 20, 2024

- (i) shares in the profits of, or receives compensation in any other form from, that firm; or
- (ii) participates as agent or otherwise on behalf of such accounting firm in any activity of that firm.

I believe any person in the role of the EQCF will meet the definition of an associated person affiliated with the firm, especially in light of their duties, and the time they will need to fulfill those duties. As such, disclosure should not be an issue under SOX. It should also be noted that in circumstances such as this issue presents, firms typically require any such person to sign a confidentiality and non-disclosure agreement. For instance, the PCAOB discusses with its advisory groups, information it considers confidential. It requires members of those groups to sign a standard non-disclosure agreement.

It is also to be noted, that when the amended language regarding confidential information contained in a Report of the Board was inserted into SOX before the Senate Committee Markup, at the request of Senator Enzi who was negotiating with Senator Sarbanes on behalf of the large audit firms and profession, it was intended to prohibit the PCAOB from disclosing information it obtained regarding quality control deficiencies. The firms were to be given up to 12 months to rectify such deficiencies. (In fact at times, the PCAOB at times has given the firms YEARS to rectify their shortcomings, contrary to SOX.) The firms certainly could disclose that information to their audit committees if they chose to, but early on the profession chose to withhold that information from their audit committees.

I have found the concerns raised with respect to the EQCF “second guessing” the judgments made by either firm personnel involved with the QC system, or audit engagement team members, to be most interesting. This is because auditors do second guess judgments made by management every day of the year as they perform independent audits. In turn, those performing internal quality control reviews of audit engagements, also second guess the judgments made by the members of the engagement team. That is what they do!

Just because a professional makes a judgment, does not mean it is sound, well-reasoned, and the basis for it was properly documented. That is what one looks for, and should consider, when performing a quality control inspection of an audit. Did the auditor obtain sufficient and appropriate evidence to support the judgments made, was that evidence persuasive and provide adequate support for the audit opinion the independent auditor will provide to investors, regulators, and the public?

I also note the PCAOB and its staff have produced publications with guidance in response to questions professionals raise when implementing new standards to facilitate effective implementation. They have identified best practices to assist the firms in improving the quality of their audits. I believe these will greatly contribute to a reasonable and successful implementation of QC 1000, subsequent to its approval.

In light of the significance of this rule to both auditors and investors, I believe the SEC should not take “no” or “maybe” as an acceptable response by the PCAOB to the issue of performing a subsequent review of any final QC 1000 standard. Instead, the SEC should instruct the PCAOB to do so, if it fails to commit to such a review. I note the PCAOB will as a matter of course, be inspecting the firm’s quality control systems annually, and as a result, that would certainly help mitigate the costs and time necessary to undertake a review.

## Cost Benefit Analysis

Commenters have discussed the analysis of benefits and costs of QC 1000. As I have previously discussed, the costs of deficient failed audits, can and have been significant and even catastrophic to investors, employees, and the U.S economy. Indeed, the court has stated: "In our complex society the accountant's certificate[s] . . . can be instruments for inflicting pecuniary loss more potent than the chisel or the crowbar."<sup>15</sup>

Almost \$16.8 billion was paid for audit fees by publicly listed companies in 2022.<sup>16</sup> The question to be considered is not only the benefits and costs with regards to QC 1000 and its expected effectiveness. But also the underlying question in light of the continuing and ongoing failure of 26 percent of the audits performed by the largest audit firms to comply with PCAOB auditing standards. That question is whether there is a more cost-effective manner of obtaining the benefit of reasonable assurance that financial information investors receive is accurate. This is especially true, if as some in the profession assert, there is no significance in the audit report to investors.<sup>17</sup> If so, then it should be studied and considered.

Fortunately, many members of management take their responsibility for preparing accurate, timely and complete financial information in accordance with generally accepted accounting standards (GAAP), very seriously. As a result, a noncompliant audit when the financial statements are prepared in accordance with GAAP, does not alter the fact management has done its job providing investors accurate, timely, and complete information. But it does make one think about the \$16.8 billion.

The PCAOB issued a Staff White Paper, *The Impact of Quality Control System Remediation on Audit Performance and Financial Reporting Quality*, (White Paper) in November of 2022.<sup>18</sup> The White Paper found:

The economic analysis suggests that the proposed new QC standard [PCAOB QC 1000] could lead to: (1) greater compliance with professional standards; and (2) improved financial reporting quality.<sup>19</sup>

---

<sup>15</sup> United States v. Benjamin, 328 F.2d 854, 863 (2d Cir. 1964).

<sup>16</sup> 20 Year Review of Audit Fee Trends, 2003-2022, Ideagen, July 2023.

<sup>17</sup> <https://www.cpajournal.com/2024/08/02/the-value-of-audited-financial-reports/>

The Value of Audited Financial Reports, The CPA Journal, May June 2024. As stated in this article "...the judicial context of a class action lawsuit, which asserted that BDO had committed fraud, or at least negligence, in its audit of the now-defunct AmTrust. BDO's defense was that the audit opinion has no significance to investors (<https://tinyurl.com/bdtur53>)."

I am not aware of any of the audit firms auditing 100 or more public companies which are publicly disputing BDO's defense. It does raise the question of if the audit opinion has no significance, then why are publicly listed companies paying almost \$17 billion in fees and receiving nothing of significance in return? See also <https://www.sec.gov/newsroom/press-releases/sec-suspends-former-bdo-accountants-improperly-predating-audit-work-papers>, SEC Suspends Former BDO Accountants for Improperly "Predating" Audit Workpapers.

<sup>18</sup> Public Company Accounting Oversight Board, Staff White Paper, *The Impact of Quality Control System Remediation on Audit Performance and Financial Reporting Quality*, November 2022.

<sup>19</sup> Public Company Accounting Oversight Board, Staff White Paper, *The Impact of Quality Control System Remediation on Audit Performance and Financial Reporting Quality*, November 2022, p.3.

Vanessa A. Countryman  
August 20, 2024

The White Paper presented analysis and findings showing after audit firms satisfactorily remediated PCAOB Part II QC<sup>20</sup> deficiencies experienced reduced rates of PCAOB Part 1.A<sup>21</sup> deficiencies in subsequent inspections.<sup>22</sup> Firms which successfully remediated Part II QC deficiencies also experienced significantly lower rates of Part I.A deficiencies in subsequent inspections<sup>23</sup> than the audit firms which had not successfully remediated Part II QC deficiencies.<sup>24</sup>

The White Paper also presented analysis and findings showing audit firms which satisfactorily remediated PCAOB Part II QC deficiencies experienced reduced rates of subsequent issuer client restatements.<sup>25</sup> Firms which successfully remediated Part II QC deficiencies also experienced significantly lower rates of subsequent issuer client restatements than the audit firms which had not successfully remediated Part II QC deficiencies.<sup>26</sup>

\*\*\*\*\*

## Conclusion

In conclusion, I strongly support the SEC and PCAOB acting in the best interest of investors and the capital markets by developing auditing and quality control standards that will result in high quality audits. I encourage the SEC to approve a new PCAOB Quality Control Standard consistent with the preceding comments. The SEC approving two PCAOB proposals updating audit standards regarding general responsibilities of the auditor and use of technology-assisted analysis when performing an audit, as well as the PCAOB ethics rule governing the liability of an associated person were welcomed developments today.

---

<sup>20</sup> Deficiencies presented in Part II of a firm's Inspection Report includes criticisms of and potential defects in, a firm's QC system. If a firm does not address to the Board's satisfaction the deficiencies presented in Part II of the report within 12 months of the issuance date, Part II of the firm's inspection report is made public. See Section 104(g)(2) of the Sarbanes-Oxley Act of 2002 as amended.

<sup>21</sup> Deficiencies identified in Part I.A of PCAOB Inspection Reports are deficiencies in issuer audits reviewed by the PCAOB that were of such significance the Board believed the firm, at the time it issued its audit report, had not obtained sufficient appropriate audit evidence to support its opinion the issuer's financial statements and/or internal control over financial reporting.

<sup>22</sup> Public Company Accounting Oversight Board, Staff White Paper, The Impact of Quality Control System Remediation on Audit Performance and Financial Reporting Quality, November 2022, p.3.

<sup>23</sup> Public Company Accounting Oversight Board, Staff White Paper, The Impact of Quality Control System Remediation on Audit Performance and Financial Reporting Quality, November 2022, p.3.

<sup>24</sup> The White Paper described Part II QC deficiencies for inspected audit firms. Those firms either remediated the deficiencies in a "satisfactory" manner or: remediated the deficiencies in an "unsatisfactory" or "partial" manner, did not respond to the PCAOB, withdrew its PCAOB registration.

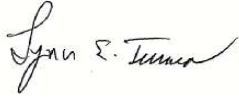
<sup>25</sup> Public Company Accounting Oversight Board, Staff White Paper, The Impact of Quality Control System Remediation on Audit Performance and Financial Reporting Quality, November 2022, p.4.

<sup>26</sup> Public Company Accounting Oversight Board, Staff White Paper, The Impact of Quality Control System Remediation on Audit Performance and Financial Reporting Quality, November 2022, p.4.

Vanessa A. Countryman  
August 20, 2024

I would be happy to answer any questions you may have.

Sincerely,

A handwritten signature in black ink that reads "Lynn E. Turner". The signature is written in a cursive style with a large initial 'L'.

Lynn E. Turner

cc: Mr. Gary Gensler, SEC Chair  
Ms. Erica Y. Williams, PCAOB Chair  
Mr. Paul Munter, SEC Chief Accountant