

August 29, 2024

By email: rule-comments@sec.gov

U.S. Securities and Exchange Commission
100 F Street, NE
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:

This comment letter is a supplement to the Center for Audit Quality (CAQ) comment letter submitted to the U.S. Securities and Exchange Commission on July 2, 2024, (original comment letter)¹ in response to the final standard (Final Standard or Adopting Release) adopted by the Public Company Accounting Oversight Board (PCAOB or the Board) on May 13, 2024 (File No. PCAOB 2024 – 02) and filed with the U.S. Securities and Exchange Commission (SEC or Commission) on May 24, 2024, in Release No. 34-100277.

PCAOB Comment Letter to the SEC

In our original comment letter we stated, “...we have specific concerns and questions about the Final Standard, particularly the External Quality Control Function (EQCF), that we believe requires further consideration by the PCAOB before a final quality control standard can be approved by the SEC.”² The CAQ thanks the PCAOB for considering the concerns and questions we and other commenters raised, and for taking the time to respond to several issues within their August 16, 2024 comment letter to the SEC.³

While the PCAOB comment letter addresses and provides additional clarity on several of our questions, a question arises – on which we ask the Commission to provide clarity for stakeholders – as to how the Board’s comment letter should be construed vis-à-vis the PCAOB’s Final Standard and Adopting Release. We believe the Board’s comment letter can be viewed as equally authoritative as the Final Standard and Adopting Release but would appreciate clarity on this point.

¹ See the CAQ’s July 2, 2024, [comment letter](#). We continue to echo the comments and concerns raised in our July 2nd letter.

² Ibid.

³ See the PCAOB’s August 16, 2024, [comment letter](#).



CAQ

As noted above, we appreciate that the Board’s comment letter addressed some areas that lacked clarity under the Final Standard.⁴ However, the Board’s comment letter did not address certain other key matters raised by commenters.⁵ Moreover, the Board’s comment letter raises some additional questions.⁶

While we would have appreciated these types of issues and information to have been included as part of the PCAOB’s standard-setting process, we also view the PCAOB comment letter as a welcome first step in the Board providing additional information that will support the successful implementation of the Final Standard, a mutually shared goal. We appreciate the PCAOB’s statement, *“The PCAOB anticipates its staff will issue such guidance and will engage in other activities to support firms’ implementation efforts. The PCAOB also anticipates that following the implementation of QC 1000, the PCAOB or its staff will provide information regarding good practices observed in connection with QC 1000.”* Providing this guidance and clarity in conjunction with and in advance of the PCAOB staff inspecting compliance with the new requirements will enable PCAOB inspections staff, audit firms, third parties (i.e., EQCF participants) and other stakeholders to have clarity on what was intended or expected under the Final Standard. The CAQ stands ready to engage in a dialogue with the PCAOB and share questions and concerns we are observing as audit firms – and any third parties who may potentially serve as an EQCF – are preparing to implement the Final Standard.

⁴ For example, the PCAOB comment letter states the Board believes those serving in an EQCF role would meet the definition of an “associated person” and, as a result, “[I]t necessarily follows that as ‘associated persons,’ the individuals who serve in the ECQF role could be held accountable if they violate the laws, rules, or standards applicable to them that the PCAOB is responsible for enforcing.” As noted in the Board’s comment letter, this would include a prohibition against negligently contributing to a firm’s violation of PCAOB rules and standards under amended PCAOB Rule 3502, as approved by the Commission on August 20, 2024, assuming the ECQF member “directly and substantially” contributed to the firm’s violation.

⁵ For example, the PCAOB’s authority to compel disclosure of information afforded confidential and privileged by The Sarbanes-Oxley Act (e.g., Part II of PCAOB Inspection Reports). See pages 2-4 of the CAQ’s [comment letter](#), pages 2-6 of PwC’s [comment letter](#), page 2 of Forvis Mazars’ [comment letter](#), pages 4-5 of the U.S. Chamber of Commerce’s [comment letter](#), page 3 of BDO’s [comment letter](#), and page 2 of RSM’s [comment letter](#). We believe the point raised in these comment letters is not addressed by the fact that firms can voluntarily disclose this information to its partners and employees, independent contractors or anyone at all at its own discretion. Our objection is in the PCAOB requiring disclosure to individuals a firm is not otherwise even required to employ or contract. In addition, the Board does not address concerns raised by commenters about the new EQCF requirements being stated by the Board to be analogous in some ways to an Engagement Quality Reviewer. See page 4 of PwC’s [comment letter](#) and page 3 of EY’s [comment letter](#). The PCAOB comment letter does not address this comment.

⁶ In addition to our question as to how to view the Board’s comment letter vis-à-vis the Final Standard and Adopting Release, it is not clear how to square the Board’s stated belief that requiring the EQCF will “improve audit quality” and “drive improvements in a firm’s QC system” with the view that EQCF members would only be considered “supervisory persons” if the EQCF had the “responsibility, ability, or authority to affect the conduct of...associated persons....” (see pages 6 and 12 of the PCAOB comment letter).



The CAQ, again, appreciates the opportunity to comment on the Final Standard, we look forward to future engagement. As the Commission continues to gather feedback from other interested parties, we would be pleased to discuss our comments or answer questions from the Board regarding the views expressed in this letter. Please address questions to Dennis McGowan (dmcgowan@thecaq.org), Vanessa Teitelbaum (vteitelbaum@thecaq.org), or Erin Cromwell (ecromwell@thecaq.org).

Sincerely,

A handwritten signature in black ink that reads 'Dennis McGowan' in a cursive script.

Dennis McGowan, CPA
Vice President, Professional Practice
Center for Audit Quality

cc:

PCAOB

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