

March 16, 2020

SENT VIA EMAIL: comments@pcaobus.org

PCAOB Office of the Secretary
1666 K Street, NW
Washington, DC 20006-2803

RE: PCAOB Rulemaking Docket No. 46

Dear Office of the Secretary:

We appreciate the opportunity to share our views and provide input on the Public Company Accounting Oversight Board's (PCAOB or the Board) potential approach to revisions to PCAOB quality control (QC) standards as outlined in its Concept Release *Potential Approach to Revisions to PCAOB Quality Control Standards* (the "Concept Release").

Moss Adams LLP is the largest accounting and consulting firm headquartered in the western United States, with a staff over 3,500, including about 350 partners. Founded in 1913, the firm serves public and private middle-market business, not-for-profit, and governmental organizations across the nation through specialized industry and service teams.

We support the Board's efforts to consider revising PCAOB QC standards as a way to strengthen auditing practices and continuously improve audit quality. We believe a firm's system of quality control is foundational to audit quality. We agree it is appropriate to revise existing PCAOB QC standards, which were originally developed and issued by the AICPA and adopted as interim standards in 2003,¹ to reflect the experience of the Board and its Staff as well as developments in the profession.

In addition to providing general observations, we have included additional detailed responses to certain of the Board's questions in the Appendix.

General Observations

- **Common Framework.** We support the risk-based approach to quality control outlined in the International Auditing and Assurance Standards Board's (IAASB) proposed *International Standard on Quality Management 1* (ISQM 1) as a basis for a future PCAOB QC standard.

While the operations of Moss Adams are primarily located in the United States, we consider and have designed our system to adhere to the QC standards of the IAASB. We agree with the PCAOB's statements that "it would not be practicable to require firms to comply with fundamentally different QC standards" and "unnecessary differences in QC standards could even detract from audit quality by diverting firms' efforts from focusing on matters of fundamental importance to effective QC systems."

¹ See PCAOB Rule 3400T, *Interim Quality Control Standards*. See also PCAOB Rel. No. 2003-006, *Establishment of Interim Professional Auditing Standards*. The AICPA has subsequently updated their QC standards.



We therefore support the Board's collaboration with standard setters such as the IAASB, AICPA and those in other jurisdictions who are contemplating updates to their quality control standards. We believe this collaboration is important to promote consistency of the requirements of quality control standards and minimize unnecessary differences or incremental effort that do not benefit audit quality. We encourage the PCAOB to continue to monitor the IAASB's work as it moves towards the finalization of the proposed ISQM 1 and then conduct additional outreach, as necessary, on areas of significant change in the final standard that could influence the PCAOB's direction.

- **Risk-based scalable approach.** We support the objective of the Board for future PCAOB QC standards to be scalable. Moss Adams represents one of 12 accounting firms that are inspected on an annual basis. However, the size, breadth and scope of differences between our firm and the other annually inspected firms as well as the nearly 1,900 other registered accounting firms is immensely different.² Accordingly, a principles and risk-based approach is critical to achieve the objective of the standard being scalable. Therefore, while QC standards are important and foundational to audit quality, a risk-based approach allows for scalability to all of these entities including our firm. Specifically, ISQM 1 as proposed with the requirement to identify and assess a firm's unique quality risks allows for flexibility such that firms can implement appropriate responses, which may minimize costs, including allocation of time and resources, that do not have a commensurate benefit.
- **Reasonable assurance.** We support the objective of current QC standards to provide a firm with reasonable assurance that its personnel comply with professional standards applicable to its accounting and auditing practice. Accordingly, we believe it continues to be appropriate for the objective of proposed ISQM 1 and a future PCAOB QC standard to require the system of quality control to provide reasonable and not absolute assurance. To this end, it is not reasonable for a system of quality control to be designed to achieve absolute assurance. Instead, a robust monitoring and remediation process can provide continuous feedback to enable firms to make improvements when necessary as issues come to their attention (e.g., having considered the root cause of issues or other matters that have come to the firm's attention through monitoring).
- **Collaborative implementation.** The evolution of quality control standards will require firms to make significant investments in documenting their risk assessment process and responses to assessed quality risks, as well as firm methodologies, including tools and templates. We believe there is a benefit to using certain aspects of the auditor's reporting model experience as a model for successful standard-setting and collaborative implementation. A critical success factor for implementing the standard was the time firms had leading up to the effective date to perform a "dry run" of the requirements. Additionally, the process undertaken by the PCAOB to review firm methodology and perform targeted inspections of audit reports of June 30, 2019 issuers (initial adopters) and provide feedback to firms was invaluable to support successful implementation.
- **Performance Measures.** The PCAOB has inquired about the use of certain specific performance measures in a future PCAOB QC standard. We believe that more research may provide insight into what quantifiable or qualitative performance measures are indicators of audit quality, however, currently we do not believe prescribed quantifiable performance measures are necessary or practicable for firms of all types and sizes. Although we support the principle of using quantifiable performance measures to monitor audit quality, we believe that each firm should determine the best measurement to assess whether they are meeting the achievement of a quality objective and its related risk factors. While there may be commonality between some measures, different firms may choose to monitor different measures, depending on their unique quality risks and responses. Additionally, qualitative measures are often important to forming a view as to audit quality and a focus on quantitative measures only could have unintended consequences. Until such time that research is able to support the use of certain prescribed measures, we believe firms should be able to use their discretion as to what measures are

² As of the date of this letter, in accordance with the PCAOB website <https://pcaobus.org/Inspections/Pages/InspectedFirms.aspx>, twelve firms provide audit reports for more than 100 issuers and are therefore annually inspected and just over 1,860 public accounting firms are registered with the PCAOB.



part of their overall system of quality management in light of their assessed risks and the responses they have developed.

- **Timing.** Moss Adams will require sufficient time for thoughtful and careful implementation of proposed ISQM 1 and any subsequent PCAOB QC Standards. We believe being thoughtful and deliberate about implementation and execution is critical to generating the intended transformational benefits of an enhanced QC standard.

Certain aspects of the proposal may take more time during implementation, some of which include:

- Making necessary organizational changes,
- Designing, implementing, and refining the risk assessment approach,
- Designing, implementing, and refining the information and communication requirements,
- Designing, piloting, refining and implementing an enhanced monitoring and remediation process, and
- Designing, piloting, refining and implementing the overall evaluation of the system of quality management. This requirement in particular will require time for us to test and refine new processes.

As discussed earlier, while Moss Adams primarily operates in the U.S. market, we design our QC systems and methodologies in consideration of being in compliance with IAASB standards. Therefore, while we anticipate working towards a goal of complying with the new proposed ISQM 1 requirements in the timeline as stated by the proposed standard to the extent possible, in certain cases we may determine it appropriate to delay finalizing certain aspects of our quality controls pending finalization of any future PCAOB QC Standards. This would allow us to be more efficient in addressing any differences in the resulting standards. Considering this, we believe it will be critical to allow for an appropriate amount of time to implement any new PCAOB QC Standard regardless of any timeline requirements within the proposed ISQM 1.

We appreciate the opportunity to comment on the potential approach to revisions to PCAOB QC standards as outlined in the Board's Concept Release. In the attached Appendix we have responded in more detail to select questions included in the Concept Release. As the Board gathers feedback from other interested parties, we would be pleased to discuss our comments or answer any questions that the Board may have regarding the views expressed in this letter. If you require further information regarding our response, please contact Michael Spencer, Partner in our Professional Practice Group, at 408-916-0589 or by e-mail at Michael.Spencer@mossadams.com.

Sincerely,

Moss Adams LLP

Appendix

Q. 3. Are the reasons provided for differences between ISQM 1 and a future PCAOB QC standard appropriate? Are there other potential reasons for differences that we should consider?

Unique factors inherent in the legal and regulatory framework of the US Market may necessitate differences between the proposed ISQM 1 and a future PCAOB QC standard; however, we believe these differences would be minimal because a firm's risk assessment process should take into account the legal and regulatory framework in which it operates. We encourage the Board to minimize unnecessary differences and maintain an appropriate principles-, integrated risk-based approach. Undue prescription in the PCAOB's quality control standards could result in increased litigation exposure, conflicts with national law or regulation, including due to confidentiality restrictions, or other unintended consequences.

Q. 5. To the extent that audit firms are already updating or making enhancements to their QC systems to align with international developments, can you characterize the nature and extent of those changes and related efforts? What benefits do you anticipate from updates to QC systems?

Moss Adams is in the early stages of re-evaluating and re-designing its system of quality management taking into account the proposed ISQM 1 standard. We anticipate this to involve very significant efforts that will require use of significant resources in the various functions and service lines.

Q. 11. Should a future PCAOB QC standard have additional or alternative requirements for firms that audit brokers and dealers? If so, what?

The principles of any risk based system of quality management should have broad applicability across all engagements and allow firms to tailor elements of its system to address any specified risks based on the unique operating characteristics of a given industry. We do not believe a future PCAOB QC standard needs to have additional or alternative requirements for firms that audit brokers and dealers.

As it specifically relates to broker-dealers subject to the PCAOB's inspection authority, we would expect that the design attributes of responses would consider the risk characteristics of such entities, including: (1) type - clearing broker-dealers (responsible for protection of customer cash and/or securities) vs. introducing broker dealers (claim exemption from customer protection rules); and (2) nature of customer-related activities (clearing of retail customer account activity, margin lending, etc.). We would expect such risks would be largely consistent with the risk considered by the PCAOB when it developed its current attestation standards for broker-dealers (AT1 and AT2).

Q. 14. Would more clarity in the assignment of firm supervisory responsibilities enhance supervision and positively affect QC systems and audit quality?

Given the diversity in the size and structure of firms and differences in operating policies and procedures we do not believe an incremental provision requiring firms to "make explicit assignments of supervisory responsibilities at successive levels within the firm up to a firm's chief executive officer or equivalent" is necessary.

We believe the proposed requirements of ISQM 1 are sufficient to promote clarity within a firm about where significant supervisory responsibilities rest.³ Allowing the individual responsible for the system of quality

³ Proposed ISQM 1 paragraph 25 and related paragraphs.

control the flexibility to implement and operationalize an appropriate supervisory structure will enable the QC standard to be scalable and achieve the desired outcome of accountability.

Q. 17. 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?

We do not believe such a provision should be required as we are concerned this would limit the scalability of a future PCAOB QC standard. Independent oversight may be an appropriate response for some firms based on their risk assessment; however, such a requirement may not be necessary or effective for all firms. Further, independent oversight may take various forms including independent advisors who are not board members.

Q. 26. Should a future PCAOB QC standard expressly address firm responsibilities and actions to support and monitor the appropriate application of professional skepticism and significant judgments made by engagement teams? If so, how?

Many aspects of the firm's system of quality control support and monitor the appropriate application of professional skepticism and significant judgments made by engagement teams including that of the engagement quality reviewer. We do not believe any incremental or alternative requirements are needed that would expressly address firm responsibilities and actions in this area. Based on a firm's risk assessment, certain controls may be implemented (for example, required consultations on certain complex matters) that address significant judgments and allow the firm to evaluate the application of professional skepticism.

Q. 29. Should a future PCAOB QC standard require firms to adopt engagement monitoring activities (e.g., performance measures, engagement tracking tools, or reviews of in-process engagements) that would prompt them to proactively prevent or detect engagement deficiencies? What are examples of less formal, but effective, engagement monitoring activities that could be adopted by smaller firms?

Monitoring reviews of in-process engagements and specific quantifiable performance measures are both tools available to firms to monitor the system of quality management and can have many benefits in the conduct of an audit. However, we are not supportive of requiring specific monitoring activities for all firms and all engagements. Requirements that are prescriptive are not consistent with a risk-based approach that provides sufficient scalability and flexibility. Further, such prescriptive requirements may not be as effective, as monitoring mechanisms continue to evolve.

In addition to monitoring controls, requirements of PCAOB Auditing Standard 1220, *Engagement Quality Review*, provide an appropriate evaluation of the significant judgments made by the engagement team prior to report issuance.

Q. 32. Should a future PCAOB QC standard continue to expressly address technical training on professional standards and SEC requirements? Are there other subjects for which training should be expressly required? Which firm personnel should be covered by the training requirements? Should the standards set minimum requirements for the extent of training? If so, what should those requirements be based on?

There are many important contributors to an individual's overall competence and capability to consistently perform quality audits, including technical training, professional education, continuing professional development, work experience, coaching, etc. The requirements of proposed ISQM 1 provide for a

framework to achieve the broad objective of developing and maintaining appropriate competence and capabilities to perform quality audits.

We support the need for effective technical training due to the rigorous requirements of professional standards. It is appropriate for future PCAOB QC standards to require at least annually training on professional standards and SEC requirements for *certain* firm personnel who participate in engagements under PCAOB standards or are assigned to QC roles that relate to compliance with professional standards and SEC requirements. Based upon the varying composite and structure of a Firms public versus private practice, we believe it would be appropriate to tailor these requirements with a focus on those in a supervisory role as scheduling and assignment to private and public engagements will vary widely at the staff level.

We do not support prescriptive requirements related to industry training. This is because not all businesses clearly fall within a particular industry. Further, a properly implemented system of quality control could identify industry-specific considerations as a quality risk and an appropriate response can address the need for specific training. There are also other mechanisms a firm can employ to ensure the appropriate industry expertise is brought to an engagement where it is necessary to do so, including assignment of the engagement leader and engagement quality reviewer and use of specialists.

Q. 37. Should a future PCAOB QC standard expressly address how the firm's incentive system, including compensation, incorporates quality considerations? If so, how?

We agree a firm's incentive system, including compensation, can impact audit quality. We consider the proposed ISQM 1 paragraph 38(d) requirement to establish and achieve the following objective that, *Personnel demonstrate a commitment to quality through their actions and behaviors, develop and maintain the appropriate competence to perform their roles, and **are held accountable through timely evaluations, compensation, promotion and other incentives***, to be sufficient.⁴

Q. 39. Should a future PCAOB QC standard require public disclosure by firms about their QC systems? If so, what should be the nature and timing of such disclosures (e.g., information about the firm's governance structure)?

We do not believe a future PCAOB QC standard should require public disclosures by firms about their QC systems. We support a voluntary and flexible approach as a market driven solution to addressing stakeholder needs and do not believe any future PCAOB standard should require public disclosures by firms about their QC systems.

Q. 46. Should firms be required to report to the Board on their annual evaluations of QC system effectiveness? If so, what should be included in the report? Should firms be required to disclose any performance measures that were important to their conclusion about their QC system's effectiveness? Should firm reports be publicly available (see also Question 39)?

We do not support a requirement to report to the Board on a firm's annual evaluation of QC system effectiveness. We believe as part of proposed ISQM 1, a firm would be required to make an annual evaluation, the documentation of which would be available to the PCAOB in connection with its inspection process. It is unclear what the objective or benefit of additional reporting to the Board would be, and the unintended consequences that could be created.

As previously described, we do not support requiring disclosure of performance measures given the diversity in practice as well as a need for further research to determine causation.

⁴ See also ISQM 1 paragraphs A122 and A123.

We are not supportive of firm reports, should they be required, being made publicly available. Public disclosure may not be consistent with Rule 4009, *Firm Response to Quality Control Defects*. We support the principle that the firm should have the flexibility to determine when it is appropriate to communicate with external parties. This allows firms to provide context related to their QC system report and its interaction with PCAOB Part II inspection reports, if applicable. The needs of external parties vary, and firms should have the ability to tailor communications based on the demand of such parties.

Q. 51. Should a future PCAOB QC standard specify roles and responsibilities of firm personnel in relation to the firm's QC system?

We do not believe a future PCAOB standard should specify roles and responsibilities other than the individual(s) responsible for independence quality controls due to the complexity and importance of independence rules. Prescribing specific roles and responsibilities may limit the scalability of a future PCAOB QC standard. As long as a firm meets the objectives and requirements of a future PCAOB QC standard, it would be beneficial for firms to have flexibility in establishing roles and responsibilities within their organization.

In addition, we encourage the Board to consider whether *all* firm personnel should be responsible for adhering to appropriate standards of conduct, communicating and appropriately responding to information in support of the effective operation of the firm's QC system or the performance of engagements in accordance with PCAOB standards, maintaining the competencies needed to fulfill the roles and responsibilities to which they are assigned, and properly supervising others, in roles that involve supervision. Firms have various organizational structures and many firm personnel who do not participate in PCAOB audits. Therefore, it may be appropriate to modify the scope of such responsibilities to certain firm personnel.

Q. 57. Are there aspects of the approach described in this concept release that would disproportionately affect smaller firms? If so, which areas, and what steps could the PCAOB consider to mitigate those effects?

As we have noted in response to certain questions, overly prescriptive requirements in general may disproportionately affect smaller firms and may have an adverse effect on the firm's risk assessment process.

Q. 58. Should we have additional, more specific requirements regarding certain components or areas (e.g., governance and leadership) for larger, more complex firms or based on the nature of engagements performed by the firm (e.g., broker and dealer engagements or engagements for issuers in specialized industries)? If so, what should those be?

We discourage the Board from adding more specific requirements regarding certain components for larger, more complex firms. It may be challenging for firms – as they grow in size or change their practice – to comply with changing requirements. This complexity could have a negative impact on audit quality. A principles-based, risk-based approach that firms of different sizes can implement allows for appropriate flexibility and scalability.