



National Association of State Boards of Accountancy

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March 11, 2020

Ms. Phoebe W. Brown, Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Via email: comments@pcaobus.org

Re: *Concept Release – Potential Approach to Revisions to PCAOB Quality Control Standards*

Dear Members of the Public Company Accounting Oversight Board (PCAOB):

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to offer comments on the *Concept Release -- Potential Approach to Revisions to PCAOB Quality Control Standards* (the Concept Release). NASBA's mission is to enhance the effectiveness and advance the common interests of the Boards of Accountancy that regulate all Certified Public Accountants (CPAs) and their firms in the United States and its territories which includes all audit, attest and other services provided by CPAs. State Boards are charged by law with protecting the public.

In furtherance of that objective, NASBA offers the following general suggestions in addition to responses to several of the requests for comment as presented in the Concept Release.

General Comments

We agree that effective quality control systems are crucial for consistent high-quality audits. We agree that aligning PCAOB quality control (QC) standards with the proposed international standard for firms' quality management systems, ISQM 1, is the most effective approach. Aligning standards allows CPAs and firms to adopt responses to be utilized across engagement teams and within their networks/affiliations. From the perspective of the State Boards' charge to be regulators protecting the public interest, the consistency among the standards is beneficial in regulatory and enforcement matters involving CPAs and firms.

We are supportive of a risk-based approach designed to focus firms' attention on proactively identifying and responding to quality risks that may affect engagement quality for their size of practice. We also support principles-based standards, as opposed to more prescriptive rules-based standards, as that approach would help with the scalability of QC standards for smaller firms.

We recommend the Board consider formatting the QC standard to follow that of standards issued by the U.S. Auditing Standards Board and the IAASB, i.e., with requirements and application material sections. Application guidance could improve the scalability of the standard for smaller firms by providing examples on how to adopt various components of the QC standards and clarifying documentation expectations. Such guidance would also help regulators understand how the standard is to be applied.

Finally, from the State Boards' perspective as regulators of the profession, there are potentially diverse results from the proposed enhancements to QC standards. While some State Boards specifically reference PCAOB standards, other State Boards cite, adopt, or refer to quality control for CPA firms. The degree and specificity vary. Some states expressly adopt or incorporate by reference the AICPA's QC standards. Some expressly reference QC compliance in their peer review rules. Others require network firms to follow common quality control policies. Because of the variety of State Boards' requirements, the local regulatory effects of even more nuanced changes to QC standards might be magnified, thus making it more difficult for State Boards to incorporate changes to PCAOB standards.

Response to Specific Questions Presented in the Concept Release

Section IV. B. The Firm's Risk Assessment Process:

19. Are the principles-based requirements sufficient to prompt firms to appropriately identify, assess, and respond to risks, or is supplemental direction needed? If supplemental direction is needed, what requirements would assist firms in identifying, assessing and responding to risks?

We believe that supplemental direction is needed. It would be helpful for the PCAOB to issue guidance, including illustrative QC policy documents, especially for the envisioned incremental content for PCAOB audits. The guidance should include illustration of how the content could be scaled for audits of less-complex entities.

20. Should a future PCAOB QC standard specify certain quality risks that must be assessed and responded to by all firms? If so, what should those risks be?

We support the idea of establishing a baseline of quality risks that must be assessed and responded to by all firms as long as the requirement is scalable (i.e., some firms could have less of a response to certain quality risks). A starting point could be the quality risk factors in the final IAASB standard. Although those quality risk factors are not intended to be quality risks in and of themselves, they are factors that a firm considers that may adversely affect the achievement of a quality objective, when identifying its quality risks. The Board could then consider whether modifications are appropriate based on whether the factors are adequately focused on the needs of investors.

A factor that State Boards encounter in disciplinary proceedings is whether the CPA firm had adequate industry or subject matter expertise, which could be identified in the standard as a risk factor.

Section IV. D. Acceptance and Continuance of Clients and Engagements:

24. Is the approach to acceptance and continuance of clients and engagements appropriate (i.e., use of ISQM 1 requirements as a starting point, with incremental or alternative requirements)? Are changes to the approach necessary for this component?

We are concerned with the potential incremental requirement for PCAOB standards identified in the Concept Release to consider risks associated with the engagement and to identify matters that could significantly affect the conduct of the engagement and assess whether the firm can develop responses. The concern is whether there will be a requirement related to identifying material misstatements. Requiring the auditor to identify risks of material misstatement is impractical at this stage, since risk assessment procedures have not yet been performed. We believe that the ISQM 1 Exposure Draft reflects the appropriate level of work effort regarding client acceptance/continuance decisions.

Section IV. E. Engagement Performance:

27. Should a future PCAOB QC standard expressly address the use of other audit participants? If so, should the scope of the requirements include affiliated and non-affiliated entities and individuals, including specialists and service delivery centers? Should we consider any changes to the scope of the potential requirements described? If so, what changes would be necessary?

We believe the QC standard should address the use of other audit participants. However, the IAASB requirements should be appropriately modified in situations in which the group auditor makes reference to component auditors, to be consistent with current PCAOB auditing standards.

Section IV. F. Resources

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?

We believe any requirement should be more principles-based and broader than what is being proposed. Some of the most effective training is on-the-job training and not course-based training. The requirement should focus on the competency of the individuals assigned to the engagements without requiring a minimum number of hours in a specific industry.

35. Should a future PCAOB QC standard expressly address the use of emerging technology in QC systems or engagements? Should a future PCAOB QC standard expressly require firms to design

and implement controls to prevent unauthorized access to technology and data? Are there any other requirements we should consider related to the use of technology on engagements?

If a future PCAOB QC standard expressly addresses the use of emerging technology, we would encourage the standard to be broad and not too prescriptive so that it is not likely to become outdated. As firms begin using artificial intelligence and other emerging technologies, firms will likely face challenges in having the ability to properly apply the QC standard. Also, any standard that is developed should consider how a quality control standard could encompass technology developed internally or by third parties that engagement teams will be utilizing.

If the Board were to move forward with standard setting in this area, it should consider potential unintended consequences that may result from expressly requiring firms to “design and implement controls to *prevent* unauthorized access to technology and data.” We believe preventing all breaches is not possible and encourage the Board to include the concepts of both prevention and *detection* to fully capture the risk and response.

In addition, if firms concentrate on complying with some of the data privacy requirements, for example, the QC standard could end up covering more than audit quality and diffuse its focus.

Section IV. H. The Monitoring and Remediation Process:

42. Should a future PCAOB QC standard provide additional direction regarding determining appropriate monitoring procedures, appropriate root cause analysis, and remediation of QC engagement deficiencies? If so, what type of direction is needed?

We agree additional direction in each of these areas would be appropriate. We are supportive of the root cause analysis as a good principle – not just identifying deficiencies but discovering the cause, whether it be the wrong personnel assigned to engagement, lack of training, etc.

44. Should a future PCAOB QC standard establish requirements for internal inspection selection criteria? Should a future PCAOB QC standard specify minimum or cyclical thresholds for inspections of completed engagements by the firm? If so, what should the threshold(s) be (e.g., one engagement for each engagement partner, and/or the audit of each issuer, broker, and dealer on a specified basis)? Should we require selection of engagements for internal inspection to include either random selection or an element of unpredictability?

We believe requirements for internal selection of engagements should be established. We are supportive of a requirement for the inspection of completed engagements for each engagement partner on a cyclical basis.

However, as firm’s continue to develop more real-time audit tools and incorporate the use of artificial intelligence, quality control standards will need to evolve from a “look back” methodology to a more real time monitoring, including preventative concepts that may be introduced.

Section VI. Scalability

Application guidance will be critical to address the concerns of scalability. However, the size of a firm and the number of PCAOB audits are not the only factors. The proportion of the PCAOB audits to the size of the practice within a firm is also a relevant factor.

Smaller firms could face challenges in the areas of monitoring and remediation as well as in finding resources to mitigate risks. The application guidance should provide examples tailored for smaller firms and how the firms would look to adopt various components of the QC standards. The guidance could be positioned as examples and templates but emphasize that modifications should be made to address the specific firm quality management system. There should be multiple examples to assist in identifying and assessing quality risks.

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We appreciate the opportunity to comment on the Concept Release.

Very truly yours,



Laurie J. Tish, CPA
NASBA Chair



Ken L. Bishop
NASBA President and CEO