



National Association of State Boards of Accountancy

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Office of the Secretary  
Public Company Accounting Oversight Board  
1666 K Street, NW  
Washington, D.C. 20006-2803

Via email: [comments@pcaobus.org](mailto:comments@pcaobus.org)

**Re: PCAOB Rulemaking Docket Matter No. 046 – A Firm’s System of Quality Control and Other Proposed Amendments to PCAOB Standards, Rules and Forms**

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

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to comment on the PCAOB’s Proposal, *A Firm’s System of Quality Control and Other Proposed Amendments to PCAOB Standards, Rules and Forms* (Proposal).

Founded in 1908, NASBA serves as a forum for the nation’s Boards of Accountancy (State Boards), representing fifty-five jurisdictions. NASBA’s mission is to enhance the effectiveness and advance the common interests of the State Boards 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 comments.

### **General**

NASBA commends the PCAOB for their efforts in modernizing the standards for quality control and for considering the recent work of other standard-setters in quality management. The consistency among the standards is beneficial in regulatory and enforcement matters involving CPAs and firms.

In areas in which the PCAOB has proposed requirements that go beyond the international and domestic quality management standards, we recommend that the PCAOB highlight the incremental requirements in the Introduction section of QC 1000 and provide appropriate guidance in those areas.

### **Risk-Based/Principles-Based**

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. We recognize that principles-based standards can be more challenging to enforce by regulators due to the greater level of judgment that can be implicit in their implementation; however, we believe that approach would help with the scalability of quality control standards for firms large or small.

### **Minimum Requirement to Design a System of Quality Control**

We believe the minimum requirement to design a system of quality control is appropriate for any registered firm, even if they are not currently performing engagements or assuming a minimal role in engagements.

### **Firm Governance**

We do not support the proposed incremental requirement for firms with greater than 100 issuers to include involvement of independent individuals in firm governance as proposed. There is no specificity on the role of the independent individual other than to provide for the ability to exercise independent judgment. Questions that arise include:

- What exactly does that mean?
- What authority do they have?
- Does their judgment automatically prevail?
- And, possibly of greatest importance, who is eligible to fulfill this role?

There is no requirement that this independent individual be a CPA, which could be problematic for disciplinary matters and State Boards due to a lack of jurisdiction.

From a regulatory perspective, we have considered this proposed requirement and the associated rationale. We do not believe that the need or advantage of this independent individual has been articulated to a sufficient degree and respectfully request that it be reconsidered before a final standard is issued.

### **Scalability**

Application guidance will be critical to address the concerns of scalability. We believe that the size of a firm and the number of PCAOB audits should not be the only factors to be considered. 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 include examples tailored for smaller firms and how the firms would look to adopt various components of the quality control standards.

## Transparency

Given the breadth and depth of the Proposal, it will be incumbent to consistently enforce the provisions of the quality control standard. There will be a need, whether through supplemental training or other guidance coming from the PCAOB staff, to communicate expectations from an inspection standpoint to better enable firms to comply with the standard and better enable regulators to provide the required oversight over these engagements.

## Reporting Requirements

We are concerned that, at least initially, the timeframe for reporting on Form QC may be too short. The mandated January 15<sup>th</sup> reporting deadline relating to an “as of” date of November 30<sup>th</sup> may be too short of a time period, regardless of firm size, to complete the reporting on Form QC in a robust fashion. Effective implementation of standards is in the public interest. If the January 15<sup>th</sup> reporting deadline is implemented, we recommend using either a September 30 or October 31 “as of” date.

## Definitions

We believe the definitions of terms used throughout the standard and in the appendix were understandable and appropriate. We specifically commend the retention of the notion of “reasonable assurance”.

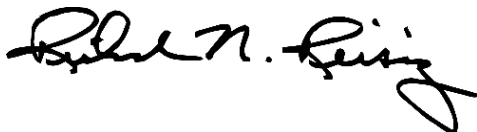
## Special Consideration for Emerging Growth Companies (EGC)

The data presented in the Proposal indicates that EGCs have a higher percentage of findings over other companies over a long period of time. From an investor/public protection standpoint, we believe that the Proposal should apply to EGCs, to the extent that such applicability is determined to be statutorily permissible.

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Again, we appreciate the opportunity to comment on the Proposal.

Very truly yours,



Richard N. Reisig, CPA  
NASBA Chair



Ken L. Bishop  
NASBA President and CEO