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To: Comments
Subject: Comment on Docket 046: Quality Control

Thank you for the opportunity to comment on your Quality Control Concept Release. Given the persistence of audit deficiencies and the apparent failure of typical remedies for such, it is appropriate and timely for the PCAOB to address the topic of quality control standards.

Under Proposed ISQM 1, a firm would be required to establish the following quality objective related to firm governance and leadership:

“The firm’s culture promotes a commitment to quality, including recognizing and reinforcing the importance of professional ethics, values and attitudes throughout the firm and emphasizing the responsibility of all personnel for quality relating to the performance of engagements or activities within the QC system.”

This suggests that a firm’s culture should be consistent throughout the firm. However, most registrant entities are audited by firms that obtain a majority of their revenues from non-audit and non-attest services. And the proportion of their revenues coming from audit and attest services continues to shrink. They are consulting firms, firms that also perform audits, some of which are subject to PCAOB oversight. Consulting firms have and need a culture that is different in important ways than what is needed by audit firms. For example, consulting firms promote customer management satisfaction and sales of consulting services. Consulting firm culture is consistent with the fact that customer management is the client. Consulting firm culture includes no responsibility for public users of financial reports. Even with respect to quality (whatever that is) the culture of a consulting firm includes that quality is judged by the customer entity’s management. These are critical differences in culture suggesting that at least some important aspects of the culture of a consulting firm are not appropriate for the culture of an audit/attest function within a consulting firm and the personnel who perform and assist in the performance of audits. The culture adopted and taught within the audit/attest practice of a firm performing audits must be consistent with primacy of the public interest and the PCAOB’s definition of audit quality.

The need for the differentiation in aspects of culture has ramifications in other components of a system of quality management such as resources employed in engagements and the evaluation and hiring or promotion of personnel. Also, failure to differentiate aspects of culture would likely lead to the continued failure to identify true root causes of identified deficiencies.

Further, to “promote a commitment to quality,” it seems necessary to define quality in terms that are meaningful and measurable. The construction of substantial new regulatory standards

and firm management systems to promote an undefined notion seems unfocused and unwise. While it is clear that the lack of definition of “quality” by the auditing profession has been purposeful, it is not clear that maintenance of this illogical condition while devoting resources to drafting a risk-based QC standard is helpful or appropriate for the PCAOB.

Regards,

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