

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

Sent by email:
comments@pcaobus.org

Brussels, 16 March 2020

Subject: Accountancy Europe's comments to the PCAOB Concept Release on *Potential Approach to Revisions to PCAOB Quality Control Standard*

Dear Sir or Madam,

Accountancy Europe is pleased to provide you with its comments on the PCAOB Concept Release on *Potential Approach to Revisions to PCAOB Quality Control Standards*.

We agree that there is a need for revising the PCAOB Quality Control standards, taking into account the significant changes to the business environment and auditing practices since they were adopted. We also welcome the PCAOB's sensitivity for the alignment with the IAASB quality standards to the maximum extent possible. This will enhance both the quality of audits and the acceptance of audit work globally.

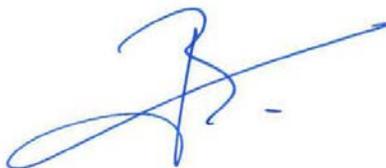
We would like to encourage the PCAOB to avoid unnecessary divergence from IAASB standards on quality. If this is not done the firms will have to comply with two different sets of standards and the benefits of having the proposed ISQM-1 as the starting point will be cancelled out.

We have chosen to restrict our response to the first four questions which address global aspects. For further information on this Accountancy Europe letter, please contact Noemi Robert on +32 (0) 28 93 33 80 or via email at noemi@accountancyeurope.eu; or Harun Saki on +32 (0) 28 93 33 85 or via email at harun@accountancyeurope.eu.

Sincerely,



Florin Toma
President



Olivier Boutellis-Taft
Chief Executive

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 51 professional organisations from 35 countries that represent close to **1 million** professional accountants, auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18).

ANNEX – RESPONSES TO THE SPECIFIC QUESTIONS

Question 1: Should PCAOB QC standards be revised to address developments in audit practices and provide more definitive direction regarding firm QC systems? Are there other reasons for changes to the QC standards that we should take into account?

- (1) Yes, we believe that the PCAOB should revise QC standards to address developments in the business environment and audit practices. The business environment is becoming increasingly complex and stakeholders' expectations from the audit are escalating. The audit profession has a vital role to play in sound functioning of the markets and is constantly adapting its practices as urged by these developments and valid expectations of the stakeholders.
 - (2) We would like to stress that to strive to establish a more definitive direction may entail a few risks. Updated QC standards should provide a clear direction which also has sufficient room for flexibility. Rather than being prescriptive and compliance-based, it should lead the firms to a risk-based approach focussing on achievement of the quality objectives.
 - (3) We think that a prescriptive list of requirements to be applied in all situations will most probably result in a "check the box approach" that will increase costs but not necessarily improve quality. The strength of a quality management approach lies in the firm giving serious thought to quality in determining the risks that it needs to address in its individual circumstances.
 - (4) We also would like to state that recent revisions of the international standards on auditing resulted in a significant amount of additional documentation for the auditors. We are sceptical whether more documentation will help enhance quality in all cases.
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Question 2: Is it appropriate to use ISQM 1 as the basis for a future PCAOB QC standard? Are there alternative approaches we should consider?

- (5) Yes, we find it quite appropriate that the PCAOB is taking the proposed ISQM-1 as the starting point. This will contribute to global consistency of the quality management systems in audit firms. Proposed ISQM 1 takes a risk-based approach, which we welcome, as it lays the foundations for proportionate and scalable standards on quality management.
 - (6) It is our understanding that risk-based approaches are already used by the large audit firms for managing their quality systems. The focus has moved away from purely detective measures to an approach that is a combination of detective and preventive measures. The firms' new systems are designed to be more flexible and more responsive to risks. It is important, therefore, that the issue of proportionality for Small and Medium Practitioners (SMPs) is properly addressed.
 - (7) We don't see any alternative approach that would be more appropriate.
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Question 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?

- (8) Yes, the reasons mentioned in the concept release for the potential differences with ISQM 1 seem appropriate. We also welcome the PCAOB's broad intent to avoid unnecessary differences and believe that the PCAOB should thoroughly consider the necessity for any differences, particularly when establishing incremental quality objectives. In this regard, we are not fully convinced that incremental objectives are needed in the areas of training requirements (within the Resources component), firm's incentive systems (within the Resources component), quantifiable performance measures (within the Firm's Risk Assessment Process component) and the assignment of firm supervisory responsibilities (within the Firm Governance and Leadership component).
 - (9) If the objectives are established with too much granularity this will hinder the futureproofing of the standard. Similarly, instead of repeating requirements in other standards or rules, the PCAOB may consider referring to those relevant authorities in the QC standards. This will reduce the risk of the QC standards becoming outdated as a result of amendments in other standards or rules.
 - (10) The PCAOB should also consider whether some of the specific emerging risks and problems particular to the audit of U.S. issuers, observed through the PCAOB's oversight activities, can be addressed by providing guidance rather than creating additional requirements.
 - (11) Finally, the retention of requirements in current PCAOB standards should not necessarily be seen as a given when developing a future QC standard; instead a case by case evaluation is recommended.
 - (12) We don't see any other reason for diverging from the finalised ISQM 1.
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Question 4: Are there other developments affecting audit practices we should consider addressing in a future PCAOB QC standard?

- (13) The IAASB is in the process of revising the standard on Quality Management for an Audit of Financial Statements (ISA 220) and proposed a new standard on Engagement Quality Reviews (ISQM-2). We believe the final versions of these standards should also be considered by PCAOB while revising its standards on quality control.
- (14) EU Audit Reform brought new requirements for the audit firms carrying out the statutory audit of public-interest entities. Accordingly, the annual transparency reports have to be published by these audit firms. A description of the internal quality control system of the firm and a statement by the administrative or management body on the effectiveness of its functioning are included in transparency reports. We see that in the EU, these reports have been a useful source of information for the stakeholders and they are usually among the most downloaded documents of the audit firms.