

Fact Sheet: Quality Control Concept Release

On December 17, 2019, the Public Company Accounting Oversight Board voted to issue a concept release on a potential approach to revising the PCAOB's quality control (QC) standards.

Details of the Concept Release

- The Board believes that effective quality control systems within an audit firm are crucial for consistent high quality audits and other engagements under PCAOB standards.
- The concept release outlines that the Board is considering an approach that would be based on the proposed international standard for firms' quality management systems, ISQM 1, with certain modifications.
- The concept release solicits public comment to inform the Board on the approach and what changes it might propose in the future to strengthen the PCAOB's requirements for audit firms' quality control systems.
- Our considerations for revising PCAOB QC standards have been informed by: (1) observations from our oversight activities, (2) information gathered through our outreach efforts, (3) relevant academic research and literature, and (4) developments and trends in internal control, enterprise risk management, quality management frameworks, corporate governance, and audit firm governance.

A system of quality control

- Under PCAOB standards, a system of quality control is broadly defined as a process to provide a firm with reasonable assurance that its personnel comply with professional standards applicable to its accounting and auditing practice and the firm's standards of quality. Registered firms are required to design and implement a system of quality control to provide this reasonable assurance.

International Auditing and Assurance Standards Board (IAASB)'s Proposed ISQM1

- The IAASB is in the process of updating its analogous firm-level QC standard and recently proposed International Standard on Quality Management 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements (Proposed ISQM 1 or the proposed standard).
- Proposed ISQM 1 is designed to focus firms' attention on proactively identifying and responding to quality risks that may affect engagement quality. The proposed standard includes specific requirements related to current developments not addressed in PCAOB QC standards.
- Many firms that follow PCAOB standards are also subject to other QC standards (including the IAASB's and the AICPA's standards), so they are required to implement QC systems that comply with both PCAOB standards and those other standards.
- We understand that the IAASB is in the process of considering comments and making revisions to Proposed ISQM 1. We will continue to monitor the IAASB's work as ISQM 1 is finalized.

Considerations for a Future PCAOB QC Standard

- We are considering using Proposed ISQM 1 as a starting point for a future PCAOB QC standard. Information gathered through our oversight, outreach, and research activities persuades us that our QC standard should be built on an integrated risk-based framework, as Proposed ISQM 1 is.
- Due to the foundational nature of QC systems, we believe that it would not be practical to require firms to comply with fundamentally different QC standards.

- 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.
- Although we would seek to avoid unnecessary differences between a future PCAOB QC standard and a finalized international standard, we anticipate that incremental or alternative requirements would be necessary to make our QC standard appropriate for firms performing engagements under PCAOB standards. Some of the key reasons for incremental or alternative requirements include to:
 - Align with U.S. federal securities law, SEC, and PCAOB requirements
 - Retain important topics addressed in our current standards that are not covered (or not covered as specifically) in ISQM 1
 - Address emerging issues we have observed in oversight
 - Provide more definitive direction to promote appropriate implementation in certain areas
- We believe that any future QC standard the PCAOB may adopt should be scalable, so a firm can tailor its QC system appropriately based on the firm's size and complexity and the nature of the engagements performed, commensurate with applicable risks to quality.

Specific Aspects of a QC System

- The concept release discusses the individual components of the QC system under Proposed ISQM 1.
- Specifically, the concept release discusses:
 - Firm Governance and Leadership
 - The Firm's Risk Assessment Process
 - Relevant Ethical Requirements
 - Acceptance and Continuance of Clients and Engagements
 - Engagement Performance
 - Resources
 - Information and Communication
 - The Monitoring and Remediation Process
 - Documentation
 - Roles and Responsibilities of Individuals
- The concept release also discusses potential differences between a future PCAOB QC standard and Proposed ISQM 1.

Background

- Our current QC standards were originally developed and issued by the American Institute of Certified Public Accountants (AICPA), before the PCAOB was established.
- The auditing environment has changed significantly since that time, including evolving and greater use of technology by firms in performing engagements and in relation to QC activities.
- Some firms have also significantly increased their focus on governance and leadership, incentive systems and accountability, and monitoring and remediation. Current PCAOB QC standards do not reflect these developments.

[Read the news release](#)

Read the concept release 

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