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July 16, 2024

Securities and Exchange Commission  
Office of the Secretary  
100 F Street, NE  
Washington, DC 20549

Via Email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov)

**Re: Securities and Exchange Commission Release No. 34-100277 (File No. PCAOB-2024-02), Public Company Accounting Oversight Board; Notice of Filing of Proposed Rules on A Firm's System of Quality Control and Related Amendments to PCAOB Standards**

Dear Office of the Secretary,

Grant Thornton LLP appreciates the opportunity to provide feedback on the final Quality Control Standard (QC 1000 or Final Standard) issued by the Public Company Accounting Oversight Board (PCAOB or Board). We support the Board's efforts to update its quality control standards, especially considering the significant changes in the auditing landscape over the past two decades. As an annually inspected firm with over 100 issuer audit engagements, Grant Thornton has reviewed the Final Standard, as approved by the Board, and would like to share observations and recommendations for the Securities and Exchange Commission's (SEC) consideration as it deliberates its approval of the Final Standard.

The audit process plays a critical role in maintaining investor confidence and ensuring the integrity of financial reporting. Clarity and consistency in standards are essential in fostering investor trust and understanding. While QC 1000 has a number of important components, we have specific concerns with the External Quality Control Function (EQCF) within QC 1000, as described in more detail below.

**External Quality Control Function**

While we acknowledge the Board's commentary on how the revisions associated with the new EQCF role were responsive to commenters, we believe the resulting requirement is significantly more prescriptive than what was originally proposed, and stakeholders did not have the opportunity to provide feedback on the newly introduced EQCF role included in the Final Standard. Further, we are concerned that the revisions are not sufficiently responsive to all substantive comments originally provided to the PCAOB because we foresee operational issues that remain unaddressed, which could impact the successful implementation of QC 1000. Our observations and related concerns are as follows.

- In the proposal, the PCAOB stated, “In addition, we believe firms with over 100 issuer clients typically have the resources to implement such structures, and based on our oversight activities, some firms already have non-employee governance structures.” While our firm has an Audit Quality Advisory Council (AQAC), it does not meet the EQCF requirements in the Final Standard. The external members of our AQAC serve as advisers to the firm’s Partnership Board, providing deep, practical, and objective advice on ways the Firm can continue to deliver high audit quality.

In our comment letter on the proposal, we emphasized that our AQAC met the *spirit* of the proposed requirements, but we asked for additional clarification to understand whether the existing structure fully aligned with the Board’s intended purpose. The additional requirements provided in the Final Standard, particularly regarding the necessary authority and review of all “significant judgments,” introduces prescriptive elements not included in the original proposal, for which our AQAC does not meet the spirit of the Final Standard. The new prescriptive elements could have significant implications on the implementation of the EQCF role.

- For an EQCF to effectively evaluate all significant judgments within a firm’s QC system, access to information and documentation, which may entail recent internal and external inspection data, is necessary. During the comment period, concerns were raised about requiring firms to share this type of information with external parties based on the privilege protections set out in the Sarbanes-Oxley Act and other relevant laws and regulations. This access would be crucial to determine whether all engagement deficiencies were identified and whether any resulted in matters more significant than a QC observation. The PCAOB acknowledged these privilege concerns, including whether or not firms would allow access to privileged information and, on page 192 of the Final Standard’s release text, clarified that the information obtained should be limited to the conclusion of the most recent QC system evaluation. If the information shared with the EQCF is restricted to overall conclusions, it remains unclear how the EQCF can perform a sufficiently comprehensive assessment and form an independent conclusion.
- Paragraph 28 in the Final Standard states that the EQCF cannot be a person or persons who are “partners, shareholders, members, other principals, or employees of the firm and who do not otherwise have a commercial, familial, or other relationship with the firm that would interfere with the exercise of independent judgment with regard to matters related to the QC System.” Footnote 189 on page 121 of the Final Standard’s release text, which references QC 1000.83b, includes expectations that the firm retain EQCF-related documentation. However, in the proposal, there were no explicit documentation requirements regarding the execution of the EQCF’s responsibilities, significant judgments made, and related conclusions reached by the firm. The Final Standard is unclear as to how the expected documentation of the EQCF should be incorporated into a firm’s QC system documentation, when the EQCF itself is not under direct supervision and review by the firm given their independent status.
- The Final Standard requires that the EQCF evaluate significant judgments made by the firm when assessing its QC system’s effectiveness. The timing of these significant judgments and conclusions is compressed around both the evaluation

date and reporting date, which will result in increased demand for appropriate resources in a shortened time period and potentially strain the supply of those resources. Identifying individuals with the necessary “experience, competence, authority, and time” for EQCF duties may be difficult given all firms will have the same reporting date. Such difficulties may be exacerbated by the ambiguity surrounding the breadth of the work and related documentation requirements. What’s more, the availability of qualified resources within a concentrated period of time for all firms could be problematic and impact the EQCF’s review quality.

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We believe that the issues highlighted above, along with any additional concerns raised by other stakeholders, should be thoroughly assessed and addressed before the SEC approves the Final Standard. We do not believe the EQCF role, as defined in the Final Standard, is sufficiently responsive to the initial feedback provided by stakeholders in the PCAOB’s comment letter process, and while a more prescriptive requirement resulted, we believe that significant ambiguity remains. Thus, we recommend that the PCAOB repropose the standard to allow sufficient stakeholder input on the important matters described herein, provide greater transparency regarding proposed changes, and facilitate a comprehensive understanding of expectations to ensure successful implementation of this critical standard.

Given the essential role of quality control in firms providing services that serve the public interest, we also request the PCAOB provide comprehensive and timely implementation guidance, complete with practical examples. This guidance will empower firms to successfully comply with the final requirements. We would be pleased to discuss our comments with you. If you have any questions, please contact Jeff Hughes, National Managing Partner of Assurance Quality and Risk, at 404-475-0130 or [Jeff.Hughes@us.gt.com](mailto:Jeff.Hughes@us.gt.com).

Sincerely,

/s/ Grant Thornton LLP