



July 2, 2024

Vanessa A. Countryman, Secretary  
Securities and Exchange Commission  
100 F Street NE, Washington, DC 20549–1090

Re: Public Company Accounting Oversight Board; Notice of Filing of Proposed Rules on Proposed Rules on a Firm’s System of Quality Control and Related Amendments to PCAOB Standards [Release No. 34–100277; File No. PCAOB– 2024–02]

To Whom It May Concern:

Better Markets<sup>1</sup> appreciates the opportunity to comment on the above-captioned Proposed Rules on a Firm’s System of Quality Control and Related Amendments to PCAOB Standards adopted by the Public Company Accounting Oversight Board (“PCAOB” or “the Board”).<sup>2</sup>

We are pleased that the PCAOB has adopted improvements to auditing quality control standards. We agree with the Board that updated quality control standards are long-overdue, but we are disappointed that the Proposal does not sufficiently ensure high-quality audits or adequate transparency and accountability.

Audit firms are essential gatekeepers in our financial system, maintaining investor confidence and market stability. It is the PCAOB’s duty to ensure these firms can fulfill their role, primarily through robust quality control standards. The PCAOB must issue standards that maximize audit quality and accountability, rigorously applying these principles throughout the audit process. Effective quality control standards must also counteract economic incentives that can undermine audit quality, such as conflicts in an issuer-pays business model and profit-driven cost minimization.

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<sup>1</sup> Better Markets is a non-profit, non-partisan, and independent organization founded in the wake of the 2008 financial crisis to promote the public interest in the financial markets, support the financial reform of Wall Street, and make our financial system work for all Americans again. Better Markets works with allies – including many in finance – to promote pro-market, pro-business, and pro-growth policies that help build a stronger, safer financial system that protects and promotes Americans’ jobs, savings, retirements, and more.

<sup>2</sup> Securities and Exchange Commission, *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*, 89 FED. REG. 49588 (June 11, 2024), <https://www.federalregister.gov/documents/2024/06/11/2024-12692/public-company-accounting-oversight-board-notice-of-filing-of-proposed-rules-on-a-firms-system-of>.

Therefore, to ensure PCAOB standards maintain accuracy and reliability, firms' quality control systems must be required to seek a higher performance than mere compliance and operate with transparency to ensure accountability.

Evidence shows that enhanced quality control standards are necessary and that the new standards must be rigorous. Indeed, the PCAOB's recent Staff Inspection Briefs indicate that significant improvements to firms' quality control systems are necessary and long overdue.<sup>3</sup> Moreover, the deficiencies that inspection staff describe do not simply involve arcane, highly technical issues that could trip up even the most experienced, ethical auditor — they involve foundational issues of critical importance to a high-quality audit.<sup>4</sup> Recurring deficiencies related to auditor independence and professional skepticism are particularly concerning, further highlighting the need for improved standards.<sup>5</sup>

While we welcome the Board's proposed enhancements to quality control standards as an important first step, we believe that the current Proposal sets the bar too low to adequately address these deficiencies. By not focusing on audit quality and accountability, we fear the Board's updated standards would only marginally improve the status quo, where quality control standards permit firms to operate without adequate regard to the quality of their audits or accountability to the investors that rely on their work.

The PCAOB should eventually revisit this Proposal with a clear objective to prioritize audit quality and accountability. This includes realigning quality control standards to incentivize higher performance beyond mere compliance and reconsidering the lack of meaningful disclosure about a firm's quality control system. The simple truth is that trust and accountability are only made possible with adequate transparency. We commend the Board for striving to enhance these important quality control standards, but we urge the Board to continue seeking further improvements going forward.

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<sup>3</sup> See, e.g., PCAOB, *Spotlight Staff Outlook for 2021 Inspections*, at 6 (April 2021), <https://bit.ly/3ZSMPUE> (“In our inspections, we continue to identify deficiencies that suggest some firms may not have appropriate quality control systems in place to prevent and/or detect violations of applicable independence rules.”).

<sup>4</sup> See, e.g., PCAOB, *Spotlight: Staff Update and Preview of 2021 Inspection Observations*, at 13 *et seq.* (December 2022), <https://bit.ly/3J37Lm7>. For example, the report states: “Independence is a critical element to be addressed by an audit firm’s QC system and remains an area for improvement.” *Id.* at 19.

<sup>5</sup> See, e.g., PCAOB, *Staff Inspection Brief 2016* (“Inspections staff continues to observe situations in which auditors seek to obtain only evidence that would support significant judgments or representations made by management, rather than to critically assess the reasonableness of management’s judgments or representations . . . .”); PCAOB, *Inspections Outlook for 2019*, at 2 (December 6, 2018), <https://bit.ly/3D64mir> (“These recurring deficiencies suggest that some firms and their personnel either do not sufficiently understand applicable independence requirements or do not have appropriate controls in place to prevent violations.”).

We hope these comments are helpful as the Commissions reviews the PCAOB's Proposed Rules.

Sincerely,



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