



---

## Feedback from stakeholders on proposed audit quality standards

---

**Arianna S. Pinello**

Florida Gulf Coast University, Florida, USA  
apinello@fgcu.edu

**Adrian Valencia (Corresponding author)**

Florida Gulf Coast University, Florida, USA  
avalencia@fgcu.edu

with Graduate Students at Florida Gulf Coast University, Florida, USA:

**Jules Patrick Abel Mama**, jpabelmama@yahoo.com

**Tyler Waller**, tswaller98@gmail.com

**Marcia Zubietta**, mzubietta5752@eagle.fgcu.edu

---

### Abstract

*The American Institute of Certified Public Accountants (AICPA) and the Public Company Accounting Oversight Board (PCAOB) established audit quality control standards to ensure that audit engagements comply with both professional standards and the firm's standard of quality. However, existing standards have not kept pace with auditing advancements over the years. To remedy the problem, in December 2019, the PCAOB issued a concept release proposing a potential approach to revising its quality control standards. Similarly, in February 2021, the AICPA issued an exposure draft to address the way CPA firms manage quality for their auditing and accounting engagements. This paper provides an overview of both proposals and analyzes comment letters submitted to both governing bodies on these proposals. Our results suggest that large CPA firms supported the proposals, while smaller firms and individual CPAs opposed them. The feedback from smaller firms and individual CPAs strongly suggests that the proposals are not scalable, and the proposed standards would significantly increase the cost of their audit engagements.*

**Keywords:** AICPA, PCAOB, IAASB, Audit Quality Standards

**JEL Classification:** M41; M42

---

### **Suggested Citation:**

Pinello, A.S., Valencia, A., Mama, J.P.A., Waller, T. & Zubietta, M. (2025). Feedback from stakeholders on proposed Audit Quality Standards. *International Journal of Accounting, Business and Finance*, 3 (2), 1-19. <https://dx.doi.org/10.55429/ijabf.v3i2.111>

---

## **1. Introduction**

A high-quality audit increases the reliability of the financial statements reported by audit clients. The purpose of the audit is to validate the users' confidence in the financial statements (Limani & Meta, 2021). Investors, lending institutions, and other users of financial statements alike should feel confident that the audited financial statements are free of material misstatements. According to Limani and Meta (2021), quality means ensuring that all the right steps are taken consistently during the audit. Because of the public interest in the services provided by audit and assurance services firms, the American Institute of Certified Public Accountants' (AICPA) Principles of Professional Conduct provide that a CPA firm shall have a system of quality control in place (PCAOB, 1997). Similarly, the International Auditing and Assurance Standards Board (IAASB) states that the public interest is served by the consistent performance of quality engagements (IAASB, 2020). Per the IAASB, the design, implementation, and operation of the system of quality management enables the consistent performance of quality engagements by providing the firm with reasonable assurance that the objectives of the system of quality management are achieved. Aobdia (2020) documents an association between inferior audit quality and performance-related deficiencies in quality



control. Additionally, audit firm-level quality control deficiencies undermine the quality of audits performed on all engagements (Ahn, Akamah, & Shu, 2021).

Over the years, advances in technology have drastically changed how firms perform audits, but quality control standards have not addressed these changes. Both the Public Company Accounting Oversight Board (PCAOB) and the AICPA started projects to revise their quality control standards. Specifically, in December 2019, the PCAOB issued a concept release proposing a potential approach to revising its quality control standards, and in February 2021, the AICPA issued an exposure draft proposing changes to its quality control standards. At the present time, the PCAOB continues deliberations on quality control while the AICPA has issued four final standards.<sup>1</sup> Because many registered firms that are required to comply with the PCAOB and AICPA standards also must comply with the IAASB standards (PCAOB 2019), both the PCAOB and the AICPA used as the basis for their revised guidelines the IAASB's recently approved International Standard on Quality Management (ISQM-1). ISQM-1 replaced the previous "Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements". ISQM-1 is designed to strengthen firms' quality management systems.

Both the AICPA and the PCAOB asked the public to comment on their proposed revisions, through a series of questions regarding scalability, implementation, and whether the proposed standards would satisfy the overall goal of improving quality control within the firms. A total of 36 comment letters were submitted by the end of the submission period for the PCAOB's call for comment, while a total of 171 comment letters were submitted by the end of the submission period for the AICPA's call for comment.

This paper examines the comment letters submitted by individual CPAs, small CPA firms, large CPA firms, governmental agencies, and professional organizations. Our aim is to provide insight into how the different stakeholders feel about the proposed standards and how the proposed standards by the PCAOB and AICPA address different factors that affect audit quality. Our analysis shows how changes to the professional standards affect stakeholders differently: big firms are for the proposed standards, while small firms and individual CPAs are against them.

The remainder of this paper is organized as follows: a literature review looks at definitions of audit quality and how auditing firm size and quality control systems affect the quality of audits. Next, we summarize the proposed changes for both the PCAOB and the AICPA revisions. Our data and methodology section is followed by our results and discussion. We end with concluding comments.

## **2. Literature Review**

### **2.1 Audit Quality**

Measuring the quality of an audit depends on how audit quality is defined. As it stands, there is no unified definition for audit quality. DeAngelo (1981) defines audit quality as the market-assessed joint probability that a given auditor will both (a) discover a breach in the client's accounting system, and (b) report the breach. The probability above will depend largely on the views of the auditor and market participants. In this case, the quality of engagement

---

<sup>1</sup> In November 2022, the PCAOB issued Docket 046 for Quality Control Standard 100 titled "A Firm's System of Quality Control." On the other hand, in June 2022, the AICPA issued its new Statements of Quality Management (SQMS) as follows: No. 1: A Firm's System of Quality Management; No. 2: Engagement Quality Reviews; No. 146: Quality Management for an Engagement Conducted in Accordance to Generally Accepted Auditing Standards; and No. 26: Quality Management for an Engagement Conducted in Accordance with Statements on Standards for Accounting and Review Services. These new standards are effective for engagements for periods beginning on or after Dec. 15, 2025.

partners, whether they remain independent, practice professional skepticism, etc., will facilitate audit quality.

The U.S. Government Accountability Office (GAO) defines audit quality in terms of the general goals of an audit and the auditor's responsibilities. Thus, a high-quality audit is performed according to the Generally Accepted Auditing Standards (GAAS) and provides reasonable assurance that financial statements were prepared according to Generally Accepted Accounting Principles (GAAP) and are free of material misstatements and fraud (Knechel et al., 2012). GAO's definition can perhaps be considered the simplest one for assessing audit quality as it provides clear rules to follow. However, during an audit, auditors may have to do more than what is required from GAAS to provide reasonable assurance.

Others link audit quality to the amount of audit work performed or define audit quality in terms of failures or audit work that leads to litigation (Knechel et al., 2012). However, it is very difficult to observe audit quality this way because audit failures often go unnoticed for a long time before they are discovered.

Effective quality control systems allow audit firms to monitor audit quality and take steps to remediate problems. Ridloi (2021) found that while professional skepticism significantly affects audit quality, implementing a quality control system does not guarantee an increase in the auditor's professional skepticism. However, this does not discount an effective quality control system's ability to affect audit quality. Pyzoha et al. (2020) found that auditors at firms that emphasize audit quality as a firm goal practice more professional skepticism when faced with management's preferred position. It is not just a matter of having a quality control system in place; the tone-at-the-top of audit firms will be the driving force behind the effectiveness of such systems. Firm goals established at the top that pursue audit quality will influence the auditor's behavior during an engagement. Malone and Roberts (1996) found that the auditor's perceived strength of the audit firm's quality controls and review process is inversely related to the incidence of reduced audit quality (RAQs) behaviors; RAQ behaviors are actions auditors intentionally take that lead to reduced effectiveness when gathering evidence.

In addition to professional skepticism and tone-at-the-top, other factors affect audit quality. For simplicity, we separate them into operational and inherent factors. Operational factors are audit firm size, non-audit services offered, and client tenure. Inherent factors include the uniqueness of the audit, the uncertainty of audit outcome, professional judgment, the systematic audit process, and the fact that audits are an economic response to risk.

## *2.2 Audit Firm Size*

There is demand for varying levels of audits. Situations like going public may call for a more extensive audit than if the audit's purpose was internal. Client firms with plans to go public often switch to Big Four auditors (DeAngelo, 1981). The switch implies a connection between auditor size and audit quality, perceived or otherwise. Small firms that retain big clients that comprise the majority of their revenue stream have a bigger incentive to keep these clients. Thus, independence may be impaired, in contrast to large audit firms with a large clientele that do not depend on a specific client for their income. Large firms receive quasi-rents from multiple clients, which reduces their incentive to "cheat" to retain the client in the future (DeAngelo, 1981). Large firms may have better systems to monitor individual auditors' behavior (DeAngelo, 1981). Additionally, having auditors share proportionally in the audit firm's profits prevents them from being dependent on specific clients for their personal wealth, thus increasing the probability of partners reporting a breach (DeAngelo, 1981). Furthermore, large firms have more to lose for failing to report a material misstatement as they have more wealth at risk of litigation (DeAngelo, 1981).

On the other hand, some studies, such as Yuniarti (2011), have found no correlation between audit firm size and audit quality. Lowensohn et al. (2007) found that Big Four firms have poor audit quality compared to non-Big Four firms in a governmental setting. A meta-analysis of 71 different studies (Alareeni, 2019) sought to reconcile the different findings and found a positive correlation between audit size and audit quality; that is, bigger audit firms perform higher-quality audits.

### *2.3 Non-Audit Services*

Alareeni's (2019) meta-analysis results also show a positive relationship between audit quality and non-audit services offered. The study used discretionary accruals as an indicator of audit quality. Discretionary accruals are accounting adjustments that require a great deal of professional judgment and thus are prone to manipulation by managers (Anton & Carp, 2020). In most cases where the audit firm had provided non-attestation services, there were fewer discretionary accruals. The results can be explained by the fact that firms that offer non-attestation services may be more familiar with the client and understand their business better, thus providing more quality audit work. The flip side is that providing non-attestation services may hinder independence, as found in other studies like Svanström (2013).

### *2.4 Client Tenure*

There has been much controversy around audit client tenure and whether long tenure impairs or aids audit quality. The main issue is whether audit firms can retain independence from long-term clients. On the one hand, maintaining a long-term professional relationship with a client helps auditors better understand the client's business, including the industry and internal controls (Robinson et al., 2023). But long tenure can threaten independence because the auditors form relationships with client management. Brooks et al.'s (2013) study concludes that the net effect of the counteracting forces determines how client tenure affects audit quality. When the bonding effect is weak, independence is not impaired, and a rotation might not be necessary.

### *2.5 Quality Control Systems*

The PCAOB oversees the monitoring of firms' quality control systems in the case of public client companies. Quality control systems can be generally defined as processes that monitor organization goals and provide assurance that personnel are adhering to the applicable professional standards (PCAOB, 1997). Aobdia (2020) explores the effect of quality control (QC) deficiencies, as measured by the PCAOB inspection program, on audit quality and profitability. Aobdia (2020) suggests that firmwide QC deficiencies harm audit quality. He finds that, overall, poor audit quality is usually the result of poor audit performance, and that large firms with QC issues related to audit methodology have poor audit quality. Audit quality, in this case, was measured as the frequency of restatement of financial statements. Aobdia (2020) also analyzes how the remediation process of QC deficiencies affects audit quality. The study concludes that audit quality and profitability are negatively affected when firms do not correct QC deficiencies.

Aobdia and Petacchi (2017) finds that quality control systems may also aid audit quality by providing a good way of managing audit engagement partners. According to the author, effective quality control systems on partner management can help audit firms identify low-quality partners and be more proactive in assigning high-quality partners to clients. Following a low-quality audit that results in a restatement, clients are likely to switch partners although they stay with the same audit firm (Aobdia & Petacchi, 2017). Firms that have ineffective controls tend not to replace low-quality auditors or, if they do, they fail to provide a new high-quality partner (Aobdia & Petacchi, 2017).

## **2.6 ISQM-1 and Proposed Changes in AICPA and PCAOB Guidelines**

### **(i) International Standard on Quality Management 1 (ISQM-1)**

Regulatory agencies are making efforts to expand the components of quality control systems to improve audit quality. IAASB's recently approved ISQM-1 on quality management requires audit firms that serve international clients to have a quality management system in place to manage the quality of audit engagements. The most significant change in the standard is that audit firms must adopt a risk-based approach when implementing a quality management system. The changes are sweeping and have inspired the PCAOB and AICPA to issue their own proposed changes to their respective current quality control standards. In the following subsection, we examine how the proposed changes in the PCAOB's concept release compare to the ISQM-1 guidelines.

### **(ii) PCAOB Concept Release 2019-03**

The PCAOB's Concept Release 2019-03 proposed changes to quality standards for auditing firms with public audit clients within the U.S. jurisdiction. The concept release expands on the current PCAOB standards in place. Appendix A shows how the current PCAOB standards would be affected by the changes proposed in the concept release. Appendix B provides a graphic of the main components of ISQM-1 versus the current PCAOB standards. The PCAOB aims to align its standards with ISQM-1 to avoid firms having to comply with widely different standards on quality control and to update the current standards to account for changes in the industry.

### **(iii) Governance and Leadership**

Although the PCAOB evaluates tone-at-the-top as part of its inspection programs, the current QC standards do not include governance and leadership as a direct objective (PCAOB, 2019). Appendix C shows the quality objectives firms must implement under ISQM-1 in connection to the governance and leadership component. In addition to these objectives, the PCAOB's concept release proposes to require firms to outline and document the responsibilities of the person accountable for the QC system to remove any potential ambiguity in this supervisory role (PCAOB, 2019).

### **(iv) Risk Assessment Process**

ISQM-1 requires firms to establish quality objectives, identify and assess risks to achieve the objectives, and design and implement a response to the assessed quality risks (PCAOB, 2019). Existing PCAOB QC standards require QC systems to provide reasonable assurance that the system is working but do not explicitly require firms to identify, assess, and correct quality risks (PCAOB, 2019). In its concept release, the PCAOB considers requiring firms to identify and assess other risk factors in addition to those identified in ISQM-1 (PCAOB, 2019).

### **(v) Relevant Ethical Requirements**

Under the relevant ethical requirements component, ISQM-1 focuses on auditors' independence and follows the International Code of Ethics for Professional Accountants. If implemented, the PCAOB will tailor these requirements to the U.S. regulatory environment by expanding the current PCAOB and SEC independence rules (PCAOB, 2019). Furthermore, the PCAOB Concept Release 2019-03 considers requiring all firms to comply with independence rules that currently only apply to SEC Practice Section (SECPS) members. The PCAOB will also change these SECPS rules and require that any apparent independence violation be reported instead of solely personal independence violations. Additionally, the PCAOB will replace references to a "senior-level" individual in charge of compliance with independence rules with "a qualified individual appointed by the firm."

### **(vi) Acceptance and Continuance of Clients and Engagements**

The requirements under ISQM-1 regarding acceptance and continuance of clients and engagements are similar to the PCAOB's current standards. Aligning the standards will not fundamentally change the requirements related to a firm's client acceptance and continuance process (PCAOB, 2019). The PCAOB's concept release suggests expanding the current standards and including guidance on specific situations like discovering issues after a firm has already accepted a client.

(vii) Engagement Performance

Current PCAOB standards already address the requirements for each phase of an audit engagement. In line with ISQM-1, the PCAOB proposes expanding QC standards to further address outside specialists and foreign-associated firms that audit issuers (PCAOB, 2019). PCAOB Concept Release 2019-03 considers explicitly requiring audit firms to have controls in place to evaluate an outside specialist's ability, knowledge, and independence. Furthermore, the concept release proposes the same requirements for network and service delivery centers addressed in ISQM-1. Regarding foreign-associated firms, the concept release considers whether to retain the current requirements of Appendix K under SECPS Section 1000.45 or to update the standard's scope and application. The standard requires an independent review of certain filings done by non-U.S. firms. The concept release considers allowing some types of audits to be exempt from this requirement and applying Appendix K to all non-U.S. firms issuing audit reports.

(viii) Resources (Human, Technological, and Intellectual)

ISQM-1's quality objectives regarding resources are already very similar to the PCAOB's QC 20 standard. The PCAOB seeks to expand and provide more guidance for personnel training, including individuals involved in the QC system and engagement partner competencies. The main change that the PCAOB concept release seeks to implement under this component is to expand controls over technological resources "to prevent unauthorized access to technology and related data used on engagements or in the operation of the QC system" (PCAOB, 2019).

(ix) Information and Communication

Concept Release 2019-03 proposes to require annual public disclosures on the effectiveness of the firm's quality system. Firms would further be required to briefly describe any QC deficiencies and communicate additional steps taken to make sure audits are issued according to the relevant regulatory requirements (PCAOB, 2019).

(x) Monitoring and Remediation Process

In addition to the annual reporting on the effectiveness of QC systems, the PCAOB's concept release also considers implementing an ongoing and periodic process to address QC deficiencies before they negatively affect engagements (PCAOB, 2019). The Concept Release follows the process of root cause analysis and remedial actions for QC deficiencies found in ISQM-1.

(xi) Documentation

The PCAOB's current standards provide general requirements for documenting quality control systems. ISQM-1 provides more details on what to document: the documentation must show evidence of the system's design, implementation, and operation. Outside knowledgeable personnel must be able to follow the process of a firm's QC system from the documentation without any prior knowledge of the firm's specific business processes (PCAOB, 2019). Documentation should also aid a firm in determining QC deficiencies and ways to respond to them. The concept release provides an incremental requirement to ISQM-1 requiring firms to retain QC system documentation for at least seven years (PCAOB, 2019).

(xii) Roles and Responsibilities of Individuals

ISQM-1 addresses the roles and responsibilities of the individual accountable for the QC system. The PCAOB's Concept Release 2019-03 further expands these requirements to all personnel and the individual responsible for the independence quality controls. The concept release outlines the generally expected roles for these individuals and duties associated with these roles. However, the PCAOB observes that this is not an exhaustive list nor prescriptive guidance (PCAOB, 2019).

(xiii) Scalability

The concept release also addresses scalability. Specifically, the proposed changes consider allowing flexibility in how an audit firm designs, implements, and monitors the QC system as long as the system meets the reasonable assurance objective and all other relevant requirements (PCAOB, 2019).

## *2.7 AICPA Exposure Draft*

The AICPA's exposure draft on its proposed statements on quality management standards requires a process for engagement quality review. Prior to the newly issued standards in November 2022, there were no standalone standards for engagement quality reviews. Previous requirements for engagement quality reviews existed within broader sections of the AICPA code, specifically QC section 10 and AU-C section 220. The proposed changes to the current standards were included in Statements on Quality Management Standards (SQMS) No.1 and No.2 and Quality Management Statement on Auditing Standards (QM SAS).

### *2.7.1 SQMS No.1*

SQMS No. 1 will require firms to perform engagement quality reviews to address quality risks (AICPA, 2021). This new standard incorporates the main components of ISQM-1 for the design, implementation, and remediation of a quality management system (see Appendix B). As previously discussed, ISQM-1 requires firms to set quality objectives and respond to any quality risks identified. AICPA's SQMS No.1 implements all these requirements and replaces AICPA's Quality Standard 10 which especially needed an overhaul to account for the technological advancements in the audit field. More importantly, the far lengthier SQMS No.1 moves the AICPA quality standards from "being prescriptive in nature ... [to a more] tailored system of quality management that focuses on areas of risks" (AICPA, 2021). Appendix D shows a summary of changes to QC 10 related to the main components of ISQM-1.

### *2.7.2 SQMS No.2*

SQMS No.2 has requirements for the appointment and eligibility of engagement quality reviewers (AICPA, 2021). The new standard will replace specific instances in QC 10 that address the roles and responsibilities of engagement quality (EQ) and quality system reviewers. The objective of the standard has also been framed as an overall objective of the firm rather than being the sole responsibility of engagement quality reviewers (AICPA, 2021). The documentation requirements are similar to those proposed in the PCAOB's concept release discussed previously.

### *2.7.3 QM SAS*

QM SAS describes the responsibilities of each participant in the quality control system and addresses the communications among the engagement partner (EP), the team, and the quality reviewer (AICPA, 2021). To meet the objectives of QM SAS, the engagement partner must take a leadership role in ensuring and managing the quality of an audit. Appendix E shows a summary of the partner's overall responsibilities regarding audit quality during an

engagement. Additional requirements in the proposed QM SAS include what the EP needs to review including professional judgments and subsequent matters (AICPA, 2021).

**Table 1. PCAOB Questions Analyzed**

<i>Question 2</i>	Is it appropriate to use ISQM-1 as the basis for a future PCAOB QC standard? Are there alternative approaches we should consider?
<i>Question 7</i>	Would the approach to quality control standards described in this concept release be preferable to the current PCAOB quality control standards?
<i>Question 9</i>	Would the potential revisions to PCAOB QC standards described in this concept release improve QC systems and audit quality?
<i>Question 45</i>	Should firms be required to perform an annual evaluation of their QC system's effectiveness? If so, should the required evaluation be as of a specified date or for a specified period? How should the date or period be determined?
<i>Question 57</i>	Are there aspects of the approach described in this concept release that would disproportionately affect smaller firms? If so, which areas, and what steps could the PCAOB consider mitigating those effects?

*Notes: The table above depicts a targeted selection of questions taken from the PCAOB's Concept Release "Potential Approach to Revisions to PCAOB Quality Control Standards" (PCAOB, 2019).*

### 3. Data & Methodology

Because the question templates and response rates for the two sets of comment letters differed substantially, we discuss them separately, beginning with the PCAOB responses.

#### 3.1 Data for the Public Company Accounting Oversight Board (PCAOB)

Upon issuance of the PCAOB's concept release, concerned parties were able to voice their opinions via comment letters to the PCAOB, which had a submission deadline of March 16, 2020. At the end of this period, the PCAOB had received 36 comment letters addressing the proposed changes.

We excluded two comment letters from the total of 36 because one was a copy of an already submitted comment letter and the other did not have any quantifiable responses.<sup>2</sup> From the final sample of 34 letters, we selected five questions from the PCAOB comment template to analyze in detail. The questions selected, 2, 7, 9, 45, and 57, are detailed in Table 1 below. We selected these questions because we deemed that they covered a wide range of content and were useful in quantifying stakeholder feedback relevant to this study.

We divided the final sample of PCAOB letters (n=34) into five stakeholder groups: four comment letters from sole proprietors (CPA firms with a singular employee) notated as (I), zero comment letters from small CPA firms (CPA firms with less than 76 employees) notated as (S), 12 comment letters from large CPA firms (CPA firms with more than 76 employees) notated as (C) (Telberg, 2015), 16 comment letters from professional organizations, notated as (P), and two comment letters from government and regulatory agencies, notated as (G).

<sup>2</sup> Comment letters containing partial quantifiable responses were included in the sample. Unanswered questions in these partial response letters were categorized as N/A.



### 3.2 Data for the American Institute of Certified Public Accountants (AICPA)

Upon the release of the AICPA's exposure draft, concerned parties were able to voice their opinions on the changes via comment letters, which were to be submitted to the AICPA by August 31, 2021. At the end of this period, the AICPA had received 171 comment letters addressing the proposed changes.

We excluded 16 comment letters from the total of 171 because they contained no quantifiable responses. From the final sample of 155 letters, we selected five questions from the AICPA comment letter template to analyze in detail. The questions selected, 1a, 2a, 3a, 4a, and 7, are detailed in Table 2 below. We chose these because they covered a majority of the content proposed in the standard, while also enabling us to quantify the opinions and feelings of stakeholders.

**Table 2. AICPA Questions Analyzed**

<i>Question 1(a)</i>	Which of the following best describes your view of the proposed SQMS No. 1?
<i>Question 2(a)</i>	Is the new quality management approach in SQMS 1 scalable?
<i>Question 3(a)</i>	Which of the following best describes your view of the proposed SQMS No. 2?
<i>Question 4(a)</i>	Which of the following best describes your view of the proposed QM SAS?
<i>Question 7</i>	Please indicate your level of agreement that inspection of completed engagements by those involved in the engagements should be precluded in order to enhance audit quality

Notes: The table above depicts a targeted selection of questions taken from the AICPA's exposure draft "Proposed Statements on Quality Management Standards — Quality Management: A Firm's System of Quality Management Engagement Quality Reviews" and "Proposed Statement on Auditing Standards: Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards" (AICPA, 2021).

As we did for the PCAOB sample of comment letters, we divided the AICPA response letters into five stakeholder groups: 31 comment letters from sole proprietors (CPA firms with a singular employee) notated as (I), 72 comment letters from small CPA firms (CPA firms with less than 76 employees) notated as (S), 23 comment letters from large CPA firms (CPA firms with more than 76 employees) notated as (C), 26 comment letters from professional organizations, notated as (P), and three comment letters from government and regulatory agencies, notated as (G).

### 3.3 Stakeholders' Feedback, Uniformity of Guidelines, and Scalability

We analyzed the comment letter feedback received for both the PCAOB (2019) and the AICPA (2021) proposals to assess the potential impact these proposals might have on audit quality. We quantified responses according to "levels of agreement" (agree, partially agree, oppose, and N/A) to gauge how each type of stakeholder perceived the proposed changes, as well as to shed light on how each standard-setting agency might affect different stakeholders differently. In a perfect world, the catalyst for improved audit quality would be standards that are both uniform across relevant areas to promote consistency and scalable to prevent disproportionate burdens for certain sizes of stakeholder.

## 4. Results

Stakeholder feedback via the analysis of specific questions from the comment letters submitted to the PCAOB and AICPA is detailed in the tables below. We use the stakeholders' level of agreement (agree, partially agree, oppose) as well as their additional comments to determine the potential impact of these proposals on audit quality, with an emphasis on how the proposed standards might affect stakeholders differently.

### 4.1 PCAOB Stakeholder Feedback Review

Table 3 below details the data collected from our sample of PCAOB comment letters. The table is categorized in two different ways for each question, with the first being the

stakeholder types (Sole Practitioner, Small CPA Firms, Large CPA Firms, Professional Organizations, and Government and Regulatory Agencies). The next categorization comes in the form of a “level of agreement” with the selected question, where we utilize the checkbox template responses as well as the respondents’ added comments to quantify stakeholder feedback. Answers are divided into “Agree” where respondents fully supported the question asked, “Partially Agree” where respondents either “somewhat supported” or “somewhat opposed” the question asked, “Oppose” where the respondent was completely against the question asked, and “N/A” if the respondent failed to address one of the questions.

For the 34 qualified respondents, a large number of respondents (41%, untabulated) were in complete agreement with all five questions selected. Additionally, the overwhelming majority of respondents were in agreement overall: of the 170 total answers (34 respondents multiplied by five questions each), 72% of responses (122 out of 170) fall under the “Agree” category. Following Table 3, we discuss the results of the questions analyzed.

Of the responses received for question 2, 79% of respondents agreed that it would be appropriate to use the IAASB’s ISQM-1 as the basis for future PCAOB quality control standards. Question 2 had a high level of agreement across multiple types of stakeholders, with only the Small CPA Firms category lacking representation in feedback. This high level of agreement suggests that a wide variety of stakeholders value a certain level of uniformity across standard setters. Uniform guidelines allow entities to save time and effort in engagements by eliminating the need to consult multiple standard-setting sources for different engagements. This also helps to eliminate the misapplication of certain standards and is likely to improve overall audit quality. The remainder of responses fell into “Partially Agree” (6%), “Oppose” (12%), and “N/A” (3%).

For question 7, 79% of respondents agreed that the proposed approach to PCAOB Quality Control standards would be preferable to the standards that are currently in use by the PCAOB. Similarly, question 7 also had a high level of agreement among a variety of stakeholder types, excluding sole practitioners and small CPA firms, which had no respondents who agreed. The other responses fall under “Partially Agree” (9%), “Oppose” (6%), and “N/A” (<6%).

**Table 3. PCAOB Comment Letters Data**

Questions	Agree						Partially Agree						Oppose						N/A					
	I	S	C	P	G	Total	I	S	C	P	G	Total	I	S	C	P	G	Total	I	S	C	P	G	Total
Question 2	1	0	12	12	2	27	0	0	0	2	0	2	3	0	0	1	0	4	0	0	0	1	0	1
	<b>79%</b>						<b>6%</b>						<b>12%</b>						<b>3%</b>					
Question 7	0	0	12	13	2	27	1	0	0	2	0	3	2	0	0	0	0	2	1	0	0	1	0	2
	<b>79%</b>						<b>9%</b>						<b>6%</b>						<b>6%</b>					
Question 9	1	0	12	11	2	26	0	0	0	3	0	3	2	0	0	1	0	3	1	0	0	1	0	2
	<b>76%</b>						<b>9%</b>						<b>9%</b>						<b>6%</b>					
Question 45	2	0	11	5	2	20	0	0	0	0	0	0	0	0	1	3	0	4	2	0	0	8	0	10
	<b>59%</b>						<b>0%</b>						<b>12%</b>						<b>29%</b>					
Question 57	2	0	12	7	1	22	0	0	0	3	1	4	0	0	0	0	0	0	2	0	0	6	0	8
	<b>65%</b>						<b>12%</b>						<b>0%</b>						<b>23%</b>					
Response Totals	<b>122</b>						<b>12</b>						<b>13</b>						<b>23</b>					

Note: This table lays out the responses to the sample (n = 34) of specifically targeted comment letters found in the PCAOB’s concept release. Responses are subdivided into two categories, the first based on the interpreted level of agreement or opposition, with “Partially Agree” referring to instances where a respondent had equal amounts of praise and criticism, and “N/A” referring to instances where a respondent did not answer or answered in an unquantifiable format. The second category is based on the type of respondent, and includes Sole Practitioners (I), Small CPA Firms (S), Large CPA Firms (C), Professional Organizations (P), and Governmental and Regulatory Agencies (G).

This overwhelming level of agreement suggests that a number of stakeholders believe that a change to current PCAOB standards is necessary. According to many of the stakeholders, the necessity for change was spurred on by a multitude of factors, notably a need for scalability for different-sized firms and the perception that the current standards are outdated and unable to keep up with the changing landscape of the auditing environment. Standards that are both customizable for different-sized firms and up to date with current audit trends and practices are more likely to promote increased audit quality industry wide.

For question 9, we found that 76% of respondents believed that the specific proposed changes to the PCAOB Quality Control standards would improve quality control systems, consequently improving audit quality. Question 9 again had a high level of overall agreement from stakeholders, as well as having representation from every stakeholder type except for Small CPA Firms. The remainder of responses fell into “Partially Agree” (9%), “Oppose” (9%), and “N/A” (6%).

This level of agreement leads us to believe that stakeholders have not only a desire for change in quality control standards but also a high level of confidence in the potential effectiveness and efficiency of the specifically proposed PCAOB standards. Confidence in proposed standards is likely to have benefits not only in efficiency of engagements but in overall audit quality as well.

For question 45, 59% of respondents agreed that firms should be required to evaluate the effectiveness of their quality control systems annually. Following suit from the question above, question 45 also had a high level of agreement with representation from almost all stakeholder types. The other responses fell under only “Oppose” (12%), and “N/A” (29%). From this analysis, we concluded that most stakeholders believe that while the implementation of improved standards is a necessity, revision of those standards is just as important to them. Overall audit quality is likely to increase when a system that promotes upholding the current standards is implemented. It should be noted that the increase in opposition in comparison to the previous question is likely due to issues regarding scalability and the feasibility of costs and efforts associated with consistent yearly review of quality control processes.

Our final analysis of question 57 deals more directly with scalability and ended up with a score of 65% (12%) in the “Agree” (“Partially Agree”) responses. The combined results of 77% (“Agree” and “Partially Agree”) from stakeholder feedback to this question were a bit unexpected, as we originally assumed that scalability in an all-encompassing standard like this would be hard to implement fairly.

After analyzing the spread of comment letters from each stakeholder category, we concluded that while almost all stakeholder types were represented, the data is rather skewed towards favoring larger firms, as they account for a massive portion (88%) of the total responses. The PCAOB governs public companies, with which the larger firms are more likely to deal. The different client bases may account for the overall low response rate from smaller stakeholders to PCAOB’s request. This led us to believe that while our findings accurately portray the feelings of the sampled population, the sample may not be representative of the entire industry.

#### *4.2 AICPA Stakeholder Feedback Review*

Table 4 details the data collected from our sample of AICPA comment letters. Similar to the PCAOB analysis, this table contains two categories for each question, with the first being stakeholder type (sole practitioner, small CPA firm, large CPA firm, professional organization, and government and regulatory agency) and the next being “level of agreement” (Agree, Partially Agree, Oppose, N/A). Following Table 4, we discuss the results of the questions analyzed.

---

**Table 4. AICPA Comment Letters Data**

---

Questions	Agree					Total	Partially Agree					Total	Oppose					Total	N/A					Total
	I	S	C	P	G		I	S	C	P	G		I	S	C	P	G		I	S	C	P	G	
Question 1(a)	2	5	16	5	1	29	0	5	7	14	1	27	28	60	0	5	0	93	1	2	0	2	1	6
	<b>19%</b>						<b>17%</b>						<b>60%</b>						<b>4%</b>					
Question 2(a)	1	4	14	2	1	22	1	5	6	10	1	23	28	60	2	12	0	102	1	3	1	2	1	8
	<b>14%</b>						<b>15%</b>						<b>66%</b>						<b>5%</b>					
Question 3(a)	2	3	13	4	1	23	1	5	7	13	1	27	27	61	1	6	0	95	1	3	2	3	1	10
	<b>15%</b>						<b>17%</b>						<b>61%</b>						<b>7%</b>					
Question 4(a)	2	9	18	8	2	39	1	2	2	11	1	17	27	56	1	3	0	87	1	5	2	4	0	12
	<b>25%</b>						<b>11%</b>						<b>56%</b>						<b>8%</b>					
Question 7	1	2	14	3	2	22	1	4	4	5	0	14	29	66	3	16	0	114	0	0	2	2	1	5
	<b>14%</b>						<b>9%</b>						<b>74%</b>						<b>3%</b>					
Response Totals	<b>135</b>						<b>108</b>						<b>491</b>						<b>41</b>					

Note: This table lays out the responses to the sample (n = 155) of specifically targeted comment letters found in the AICPA's exposure draft. Responses are subdivided into two categories, the first being based on the interpreted level of agreeance or opposition, with "Partially Agree" referring to instances where a respondent had equal amounts of praise and criticism, and "N/A" referring to instances where a respondent did not answer or answered in an unquantifiable format. The second category is based on the type of respondent, and includes Sole Practitioners (I), Small CPA Firms (S), Large CPA Firms (C), Professional Organizations (P), and Governmental and Regulatory Agencies (G).

Of the responses received for question 1a, 60% of respondents strongly oppose the proposed SQMS No. 1, which requires firms to implement a comprehensive system for quality management. This 60% of respondents is made up mainly of those in the "small CPA firms" category, with the remaining responses being found in "Partially Agree" (17%), "Agree" (19%), and "N/A" (4%). In many cases, smaller firms indicated that they felt that a system where the reassessment of risks, influences, and impacts is both common and perpetual would be extremely costly, complex, and overall burdensome to implement. This added level of resources allocated towards the development and implementation of new standards is likely to disproportionately lower the audit quality for firms in this category.

For question 2a, we found that 66% of respondents were strongly opposed to the claim that the quality management approach found in ISQM No.1 is scalable. This 66% of respondents includes representation from all stakeholder categories except "Government and Regulatory Agencies," with the remainder of responses falling under "Partially Agree" (15%), "Agree" (14%), and "N/A" (5%). In this case, the opposition is directly related to the feedback found in question 1, where smaller entities are strongly opposed to SQMS No.1 because it is not scalable. As mentioned above, a new quality control system is costly, complex, and burdensome for a small entity to implement, but would be much more manageable for say, a member of the top 100 firms, or a large government agency. Because of this, smaller entities believe they are being treated unfairly and were unsurprisingly opposed to the proposal.

For question 3a, we found that 61% of respondents strongly opposed the proposed SQMS No.2, which details a system of engagement quality reviews from a source outside the audit team. Similar to the first question, responses to this question lacked representation from both the "Large CPA Firms" and "Government and Regulatory Agencies" categories. In many instances, smaller entities cited extreme costs, a lack of necessity, and overall redundancy to support their opposition. If the proposed changes were implemented, entities would have to spend large sums of money on an outside quality review for each engagement, a requirement detrimental to the profit margins for smaller engagements, especially compared to larger firms' incomes. Additionally, many of these smaller audit firms already put their engagements under some level of peer review and self-inspection and indicated that an added level of quality review was unnecessary and redundant. This directly ties into the responses to question 7, where 74% of respondents answered in the same manner, saying they strongly opposed the

claim that “self-inspection,” or inspection procedures carried out by those involved with the engagement, should be eliminated.

For question 4a, we found our lowest level of opposition, at 56% of respondents strongly opposing the proposed QM SAS, which defines a change in roles and responsibilities for firms in regard to quality control. The proposed change would put the responsibility for achieving engagement quality in the hands of the engagement partner, including determining the nature, timing, and extent of evidence gathering. Because smaller firms have much smaller engagement teams, the engagement partner may already have been doing all that, so that the impact would be minimal. Or it may be that the change felt too consolidated to one person. Like many of the previous questions, this section lacks representation from some of the larger stakeholder types. The remaining responses can be found under “Partially Agree” (11%), “Agree” (25%), and “N/A” (8%).

A review of all the AICPA comment letters reveals that the respondents are heavily skewed to the categories of “Sole Practitioner” (20%) and “Small CPA Firm” (46%). In comparison to the PCAOB, which received very few comment letters from smaller entities, the large number of smaller-entity responses to the AICPA’s proposal is a drastic difference. The low small-entity response rate found for the PCAOB is likely tied to the low number of public companies associated with small entities, while the high small-entity response rate found in the AICPA may suggest that the proposed standards affect them more notably, or disproportionately.

## **5. Concluding Comments**

A firm’s reputation depends on the quality of the services it provides. Thus, audit and assurance services firms must have a system in place that ensures all engagements are conducted according to professional and the firms’ standards. Compliance with the quality control standards designed and implemented by the firm is ensured when there is a system of quality management in place. It is important that the people holding leadership positions explain the importance of complying with the standards set in place, while also holding themselves accountable to those standards. The firm’s leaders must hold educational and training meetings with the staff that include processes to prevent non-compliance with the system, materials for implementation, consequences of non-compliance, and effective whistleblower policies.

This paper analyzes comment letters submitted to the PCAOB and AICPA from independent CPAs, audit firms, and audit organizations, expressing opinions on proposals to change and update standards. We summarize studies on the definition of audit quality and some factors that influence audit quality throughout an audit engagement. We also discuss regulators’ interest in audit quality in the form of the newly approved ISQM-1 standard and compare that standard to the proposals by the PCAOB and AICPA.

Our results suggest that while most stakeholders agree with the necessity for improved audit quality standards, many have strong objections to the proposed methods for improvement due to the scalability and complexity of the standards proposed. Most objections came from individuals and smaller firms. Professional organizations, larger firms, and regulatory agencies expressed greater levels of support for both sets of proposals. In our opinion, the trend of larger entities, but not smaller entities, supporting the changes is simply a product of the likelihood that the proposed changes were either created without considering the needs of smaller firms, or are too vague or complex for smaller entities to implement. Regardless, most comment letters we analyzed agreed that the proposals will disproportionately affect smaller firms, which in turn will negatively affect audit quality for a significant portion of the audit industry.

## Declaration of Conflicting Interests

The author declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

## Funding information

The author declared no financial support for the research, authorship, and/or publication of this article.

## Acknowledgments: None

## References

- Ahn, J., Akamah, H. & Shu, S. Q. (2021). The effect of disclosing audit quality control deficiencies on non-audit tax services: Evidence from Deloitte's 2007 PCAOB Part II inspection report. <https://www.sciencedirect.com/science/article/abs/pii/S027842542100003X>
- Alareeni, B. A. (2019). The associations between audit firm attributes and audit quality-specific indicators. *Managerial Auditing Journal*, 34(1), 6–43. <https://doi.org/10.1108/maj-05-2017-1559>
- American Institute of Certified Public Accountants [AICPA]. (2021, February). Explanatory memorandum - exposure draft: Proposed statements on quality management standards.
- Anton, S. G., & Carp, M. (2020). The effect of discretionary accruals on firm growth. Empirical evidence for SMEs from emerging Europe. *Journal of Business Economics and Management*, 21(4), 1128-1148. <https://doi.org/10.3846/jbem.2020.12734>
- Aobdia, D. (2020). The economic consequences of audit firms' quality control system deficiencies. *Management Science*, 66(7), 2883–2905. <https://doi.org/10.1287/mnsc.2019.3301>
- Aobdia, D., & Petacchi, R. (2017). Consequences of low-quality audits for engagement partners. *SSRN Electronic Journal*. Published. <https://doi.org/10.2139/ssrn.2983900>
- Brooks, L. Z., Cheng, C. A., & Reichelt, K. J. (2013). Audit firm tenure and audit quality: Evidence from U.S. firms. *SSRN Electronic Journal*. Published. <https://doi.org/10.2139/ssrn.2201350>
- DeAngelo, L. E. (1981). Auditor size and audit quality. *Journal of Accounting and Economics*, 3(3), 183–199. [https://doi.org/10.1016/0165-4101\(81\)90002-1](https://doi.org/10.1016/0165-4101(81)90002-1)
- International Auditing and Assurance Standards Board [IAASB] (2020). Final pronouncement. *International Standard on Quality Management 1. IAASB-Quality-Management-ISQM-1-Quality-Management-for-Firms.pdf (ifac.org)*
- Knechel, W. R., Krishnan, G. V., Pevzner, M., Shefchik, L. B., & Velury, U. (2012). Audit quality indicators: Insights from the academic literature. *Auditing: A Journal of Practice and Theory*, 32(1). <https://doi.org/10.2139/ssrn.2040754>
- Limani, A., & Meta, A. (2021). *What is a high quality audit?* Deloitte Kosova. <https://www2.deloitte.com/al/en/pages/audit/articles/high-quality-audit.html>
- Lowensohn, S., Johnson, L. E., Elder, R. J., & Davies, S. P. (2007). Auditor specialization, perceived audit quality, and audit fees in the local government audit market. *Journal of Accounting and Public Policy*, 26(6), 705–732. <https://doi.org/10.1016/j.jaccpubpol.2007.10.004>
- Malone, C. F., & Roberts, R. W. (1996). Factors associated with the incidence of reduced audit quality behaviors. *Auditing: A Journal of Practice & Theory*, 15(2): 49-64.
- Public Accounting Oversight Board [PCAOB] (2019, December). Concept release: Potential approach to revisions to PCAOB quality control standards (No. 2019–003).
- Public Company Accounting Oversight Board [PCAOB]. (1997, January 1). *Quality Control Standards (QC Section 20)*.
- Pyzoha, J. S., Taylor, M. H., & Wu, Y. J. (2020). Can auditors pursue firm-level goals nonconsciously on audits of complex estimates? An examination of the joint effects of tone at the top and management's specialist. *The Accounting Review*, 95(6), 367–394. <https://doi.org/10.2308/tar-2016-0223>
- Ridloi, H. (2021). The effects of quality control system on professional skepticism and its implications to audit quality with peer review as a moderating variable (a case study on public accounting firms in Semarang). *Journal of Islamic Accounting and Finance Research*, 3(1).
- Robinson, D., Smith, T., & Walton, S. (2023). Till death do us part: an examination of the impact of unbroken auditor-client relationships on audit efficiency and audit quality. *Auditing: A Journal of Practice & Theory*, Forthcoming.
- Svanström, T. (2013). Non-audit services and audit quality: Evidence from private firms. *European Accounting Review*, 22(2), 337–366. <https://doi.org/10.1080/09638180.2012.706398>
- Telberg, R. (2015, October 23). We're all small firms now. *CPA Trendlines*. <https://cpatrendlines.com/2011/05/15/how-big-is-a-small-accounting-firm/>

- Yuniarti, R. (2011). Audit firm size, audit fee and audit quality. *Journal of Global Management*, 2(1), 84–97.  
<https://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.652.3380&rep=rep1&type=pdf>

## Appendix A

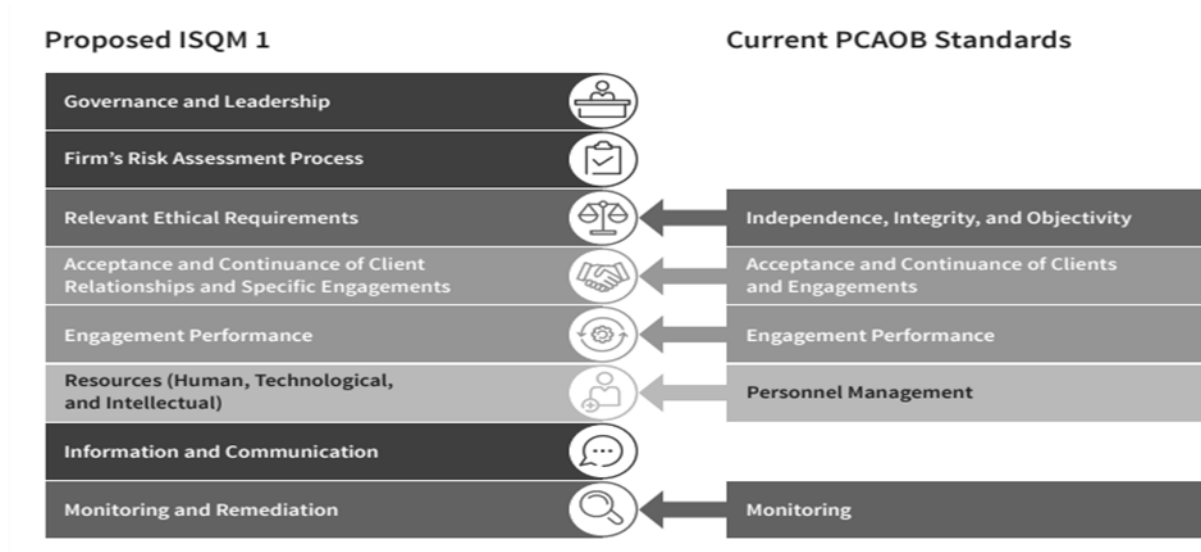
### Primary PCAOB Standards Affected

<b>QC 20</b>	<i>System of Quality Control for a CPA Firm's Accounting and Auditing Practice</i>
<b>QC 30</b>	<i>Monitoring a CPA Firm's Accounting and Auditing Practice</i>
<b>QC 40</b>	<i>The Personnel Management Element of a Firm's System of Quality Control—Competencies Required by a Practitioner-in-Charge of an Attest Engagement</i>
<b>SECPS 1000.08(d)</b>	<i>Continuing Professional Education of Audit Firm Personnel</i>
<b>SECPS 1000.08(l)</b>	<i>Communication by Written Statement to all Professional Personnel of Firm Policies and Procedures on the Recommendation and Approval of Accounting Principles, Present and Potential Client Relationships, and the Types of Services Provided</i>
<b>SECPS 1000.08(m)</b>	<i>Notification of the Commission of Resignations and Dismissals from Audit Engagements for Commission Registrants</i>
<b>SECPS 1000.08(n)</b>	<i>Audit Firm Obligations with Respect to the Policies and Procedures of Correspondent Firms and of Other Members of International Firms or International Associations of Firms</i>
<b>SECPS 1000.08(o)</b>	<i>Policies and Procedures to Comply with Independence Requirements</i>
<b>AS 2901</b>	<i>Consideration of Omitted Procedures After the Report Date</i>
<b>AS 1110</b>	<i>Relationship of Auditing Standards to Quality Control Standards</i>

**Source:** PCAOB Concept Release 2019-03



## Appendix B



**Source:** PCAOB Concept Release 2019-03

## **Appendix C**

Under ISQM-1, a firm would be required to establish the following quality objectives:

- 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.
- The firm has leadership who is responsible and accountable for quality.
- The firm's strategic decisions and actions, including financial and operational priorities, demonstrate a commitment to quality and to the firm's role in serving the public interest, by consistently performing quality engagements.
- The firm has an organizational structure with appropriate assignment of roles, responsibilities and authority that supports the firm's commitment to quality and the design, implementation and operation of the firm's QC system.
- The firm plans for its resource needs, including financial resources, and obtains, allocates or assigns resources in a manner that supports the firm's commitment to quality and enables the design, implementation, and operation of the firm's QC system.
- The firm fulfills its responsibilities in accordance with law, regulation and professional standards that relate to the governance and leadership of the firm, if applicable.

In addition, the proposed standard would require firms to:

- Assign ultimate responsibility and accountability for the QC system to the firm's chief executive officer or the firm's managing partner (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent). The firm is required to assign an individual who has the appropriate experience and knowledge to fulfill the assigned responsibility.
- Establish policies or procedures for periodic performance evaluations of the individual(s) assigned ultimate responsibility and accountability for the firm's QC system, and the individual(s) assigned operational responsibility for operational responsibilities for the system or aspects of the system, in order to hold individuals accountable for the responsibilities assigned to them.
- Establish policies or procedures for dealing with complaints and allegations about the commitment to quality of the firm or its personnel, including clearly defining channels within the firm that enable reporting by personnel or external parties to appropriate individual(s) without fear of reprisal and enabling the investigation and resolution of the complaints and allegations.

ISQM-1 would require the assignment of operational responsibilities for the system or aspects of the system to be made to individuals who have:

- The appropriate experience and knowledge and sufficient time to fulfill their assigned responsibility.
- An understanding of their assigned responsibilities and accountability for such responsibilities.

In addition, firms would be required to provide individuals who have operational responsibilities with a direct line of communication to the individual(s) assigned ultimate responsibility and accountability for the QC system.

**Source:** PCAOB Concept Release 2019-03

## Appendix D

### ***The Components of the System of Quality Management***

A system of quality management addresses the following eight components:

1. The firm's risk assessment process (new)
2. Governance and leadership (adapted from the leadership responsibilities for quality within the firm component in QC section 10)
3. Relevant ethical requirements (same name as component in QC section 10)
4. Acceptance and continuance of client relationships and specific engagements (same name as component in QC section 10)
5. Engagement performance (same name as component in QC section 10)
6. Resources (adapted from the human resources component in QC section 10)
7. Information and communication (new)
8. The monitoring and remediation process (adapted from the monitoring component in QC section 10)

Source: AICPA's *Explanatory memorandum - Exposure Draft: Proposed Statements on Quality Management Standards* (2021)

## Appendix E



Source: AICPA's *Explanatory memorandum - Exposure Draft: Proposed Statements on Quality Management Standards* (2021)