



May 11, 2026

By email: comments@pcaobus.org

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Re: PCAOB Release No. 2026-001, *PCAOB Strategic Priorities*

Dear Office of the Secretary:

The Center for Audit Quality (CAQ) is a nonpartisan public policy organization that serves as the voice of U.S. public company auditors on matters related to public company audits. The CAQ promotes high-quality audits; convenes capital market stakeholders to advance dialogue on issues affecting audit quality, corporate reporting, and investor trust; and, through independent research and analysis, advocates for policies and standards that strengthen the effectiveness of public company audits amid evolving market conditions. This letter reflects the CAQ's observations based on feedback from certain member firms, but not necessarily the views of any particular firm, individual, or CAQ Governing Board member.

We appreciate the opportunity to comment on the strategic priorities of the Public Company Accounting Oversight Board (PCAOB or Board). We strongly commend the Board for inviting public comment in advance of the development of a strategic plan and appreciate the Board's commitment to transparency and broad stakeholder outreach. Our member firms are committed to audit quality and the PCAOB's mission and we look forward to continuing our engagement with the Board on these and other topics.



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Executive Summary

We encourage the PCAOB to prioritize its activities in the following order:

First, modernize the design of inspections to appropriately incorporate firms' systems of quality control under QC 1000. As QC 1000 becomes effective, the PCAOB should establish a clear framework for evaluating a firm's system of quality control. This could include assessing firms' monitoring activities, root cause analyses, and remediation efforts, as well as providing observations from initial-year inspections to inform consistent implementation. Once established, the inspection program should leverage the results of a registered¹ firm's quality control monitoring as applied in evaluating audit and review engagements to provide a more holistic and risk-based view of audit quality.

Second, execute the inspection process with transparency, timeliness, and consistency. Modernization should include transparent communication, well-defined policies and publicly available frameworks to support clear expectations and drive consistent approaches across inspections. This includes timely communication of inspection findings, structured mechanisms for resolving interpretive questions, and a formalized consultation process with the PCAOB's Office of the Chief Auditor to promote consistent application of standards.

Third, improve inspection reporting to focus on material matters to meet stakeholder needs and reflect a modernized inspection program. Audit inspection findings that rise to the level of being reported should be those items that are quantitatively or qualitatively material and described with sufficient context. Enhancements to the content, format, and timing of reporting should be informed by active engagement with the intended users of inspection reports and supported by clearer, publicly available frameworks and guidance. Importantly, the PCAOB should consider whether the information reported in Part II of annual inspection reports pertaining to firm quality control systems is consistent with the evaluation of a firm's system of quality control (SoQC) resulting from implementation of QC 1000.

Fourth, pursue standard setting selectively and based on demonstrated need supported by a formal and transparent agenda-setting process. We support modernization of standards where warranted and underpinned by robust economic analysis. To operationalize this approach, the PCAOB should establish a structured, public

¹ For the duration of this letter any reference to firm or firms means a PCAOB registered firm.



process for setting its standard-setting agenda and developing the standards, similar to the FASB model. This could include periodic agenda consultations, transparent criteria for prioritizing projects (such as investor impact, prevalence of issues, and insights from inspections), and formal opportunities for stakeholder input before projects are added to the agenda.

The PCAOB should avoid responding to perceived “gaps” with new or substantially revised standards, particularly where concerns can be effectively addressed through clear interpretive guidance or interpretation by the Office of the Chief Auditor. Standard setting should be informed by the outputs of a modernized inspection program, particularly in fast-evolving areas (e.g., technology and digital assets). In considering both standard setting and rulemaking, the PCAOB should also evaluate whether certain requirements, particularly those akin to Part I.B-type items would benefit from a materiality-based framework to better align with the objectives of investor protection and decision-useful information.

More broadly, the PCAOB should incorporate more agile mechanisms alongside formal standard setting, such as interpretive guidance, staff publications, and targeted stakeholder forums (e.g., roundtables or advisory groups), leveraging the work of other standard setters where appropriate.

Specific Feedback

Please find below responses to the specific questions posed in the request for comment on the PCAOB’s strategic priorities and our recommendations.

Q1. What should the PCAOB focus on as its strategic priorities in registration, inspections, and enforcement over the next two to five years to further its statutory mission?

The PCAOB’s inspection program is a core component of its oversight of the public company audit profession and has contributed to improvements in the quality of audits since the passage of Sarbanes-Oxley. We recommend that the PCAOB prioritize reevaluating and modernizing the inspection program, including seeking input from key stakeholders.² Refer to our response to Q2 for our recommendations related to the

² While the recommendations included in this letter regarding inspections relate specifically to the issuer inspection program, many of the principles and considerations would apply to the inspections of broker-dealers as well and could be considered as the PCAOB develops a rulemaking proposal to finalize a permanent broker-dealer inspection program.



inspection program and Q3 for our recommendations related to the reporting of information learned from inspections.

Streamlined Regulatory Oversight and Enforcement

We support efforts to streamline overlapping requirements across regulators. Greater alignment and clarity would help firms understand expectations and support audit quality and market confidence. For example, auditor independence is addressed through both U.S. Securities and Exchange Commission (SEC) rules and PCAOB standards, and enforcement authority is exercised by both bodies. Further, there are differences in the existing rules and standards that create unnecessary complexities and costs. Since independence is a shared responsibility among auditors, management, and the audit committee, and the SEC has jurisdiction over all relevant participants, we encourage the SEC to be the primary entity in practice that exercises independence oversight (i.e., and related interpretations of independence rules). Additionally, the PCAOB and SEC are sometimes both involved in oversight and enforcement of issuer and broker-dealer accounting and disclosure matters. We encourage the SEC and PCAOB to work together to achieve a more streamlined oversight framework where overlapping requirements and enforcement activities are reduced to the extent possible, with the SEC being the primary arbiter of accounting and disclosure matters. In addition, standard setting, and authoritative interpretations of PCAOB auditing standards should be the responsibility of the Office of the Chief Auditor to promote consistency in the application of auditing standards and help mitigate the risk of inconsistent interpretations during the inspections process.

With respect to enforcement, we recommend the PCAOB more clearly define the role of enforcement within its oversight framework and focus on matters involving significant harm, such as fraud, intentional misconduct, or reckless behavior. Enforcement of such matters has a more meaningful impact than, for example, those addressing certain reporting or filing obligations (e.g., Form AP), taking into account materiality and overall impact to stakeholders. Both the SEC and the PCAOB have certain statutory and regulatory authority. We encourage consideration, in collaboration with the SEC, of a more streamlined enforcement framework where overlapping requirements and activities are reduced to the extent possible. Consistent with current Sarbanes-Oxley statutory protections, information related to inspections should be subject to appropriate confidentiality regardless of the entity exercising enforcement authority.



Finally, independence is an increasingly important topic as technology, transactions, and relationships continue to evolve. We recommend that the PCAOB work with the SEC to prioritize identifying developments that may have implications for the application of independence rules and for the SEC to evaluate whether additional SEC guidance and/or SEC rule modifications may be necessary as new fact patterns emerge. In considering appropriate interpretations, we encourage the emphasis to be on auditor objectivity and impartiality. We would also encourage the PCAOB to work with the SEC in considering removing duplication and complexity of certain independence rules that exist in both the SEC and PCAOB independence rules.

Q2. What changes should the PCAOB make to its inspections program including, but not limited to, changes in light of its new quality control standard (QC 1000)?

An Inspection Model That Leverages Firms' Systems of Quality Control

We are supportive of a PCAOB inspections program that leverages firms' SoQCs, and the adoption of *PCAOB QC 1000, A Firm's System of Quality Control* (QC 1000) will provide a robust standard against which to evaluate such systems. Increased emphasis on understanding a firm's monitoring activities and root cause analysis process and conclusions as part of their SoQC will be more effective than the current practice of identifying Quality Control Criticisms (QCCs) primarily through inferences made about individual engagement deficiencies. Modernizing the PCAOB's inspection approach in this way will provide an opportunity to direct more PCAOB resources to obtain insights into a firm's SoQC, allowing for additional visibility into whether deficiencies related to individual engagement inspections are indicative of broader quality control issues.

Most firms have made significant investments to develop robust SoQCs responsive to their engagement portfolios. These investments include, among other things, adding rigor and documentation to existing processes and implementing and documenting more extensive monitoring procedures. As a result, there is more information available to the PCAOB today related to firms' SoQCs than there has been in the past. Leveraging the already available information to evaluate the firm's SoQC and inform the approach to scaling and selecting audit engagements to inspect would limit potentially duplicative costs that could be incurred if the PCAOB were to design and perform an inspection of a firm without the



benefit of the important context that such information would provide about the firm’s overall SoQC.³

An effectively designed SoQC is responsive to a firm’s size, complexity, and risk profile of their audit client portfolios (e.g., 11-Ks, broker-dealers, financial statement audits, integrated audits). Accordingly, the PCAOB’s evaluation of firms’ SoQCs will look different for firms of different sizes and/or with different engagement portfolios. A scalable approach should recognize that firms—particularly smaller or less complex firms—may use different or less formal controls to accomplish the same quality objectives and that the nature of evidence and/or documentation supporting the operation of those controls may differ. An objective of the PCAOB’s inspection approach and evaluation should be to consider whether the SoQC is commensurate with the nature and risk of the firm’s issuer practice.

Since the relevant quality control standards will be newly effective and an inspection approach that leverages firms’ SoQCs will be a fundamental shift for both the PCAOB and the inspected firms, we recommend that the initial period of implementation (e.g., the first inspection after the year of implementation and inspection of such a program) be carefully considered. The PCAOB could support a successful transition by treating the first year as a learning year, similar to the PCAOB’s approach in the first year of effectiveness of AS 5. Under this approach, the PCAOB could provide recommendations to firms based on the results of their understanding and preliminary evaluation of a firm’s SoQC, while maintaining their statutory requirements to perform inspections. The PCAOB’s Spotlights could serve as a helpful mechanism to share what the PCAOB has learned, describe best practices and challenges observed across the profession, and provide information on scalability considerations. Such an approach allows the PCAOB to gather the necessary information about the firms’ implementation so that they will have a sound, factual basis for understanding how QC 1000 is working in practice. The PCAOB may consider, based

³ Refer to Sarbanes-Oxley Section 104(d) -

“CONDUCT OF INSPECTIONS. – In conducting an inspection of a registered public accounting firm under this section, the Board shall –

(1) inspect and review selected audit and review engagements of the firm (which may include audit engagements that are the subject of ongoing litigation or other controversy between the firm and 1 or more third parties), performed at various offices and by various associated persons of the firm, as selected by the Board;

(2) evaluate the sufficiency of the quality control system of the firm, and the manner of the documentation and communication of that system by the firm; and

(3) perform such other testing of the audit, supervisory, and quality control procedures of the firm as are necessary or appropriate in light of the purpose of the inspection and the responsibilities of the Board.”



on that information, whether it may be helpful to develop a framework specific to the evaluation of firms' SoQCs, which is different in nature than the inspection of an individual audit engagement.

Formalized, Publicly Available Protocols and Frameworks

It is important that an inspection program be designed and executed in a consistent, transparent and communicative way, including planning, execution, completion and communication of results (e.g., inspection reports, spotlights, etc.). We encourage the PCAOB to look for opportunities to incorporate formalized, publicly available protocols/frameworks into their own internal quality control policies and procedures so that the design, focus, execution, and communication of inspection activities align with the objective of the inspection program as defined by Sarbanes-Oxley and bring durable consistency to those activities.

Specifically, we recommend that the PCAOB conduct stakeholder outreach (e.g., roundtables, advisory groups, concept releases) and consider establishing (as needed), formalizing, and publishing the following:

- Guidelines for evaluating firm methodology with a focus on changes to methodology resulting from the adoption of new standards or other changes;
- Processes to align implementation expectations of auditors and inspectors when new or amended standards are adopted (e.g., appropriate training of inspectors, establishment of a consultation process, and early public transparency on interpretive matters) to prevent inconsistent interpretation or the interpretation of standards through inspection;⁴
- A framework for evaluating the severity of audit deficiencies identified in PCAOB inspections to enhance the transparency and consistency of the PCAOB's determinations of whether a firm has obtained sufficient audit evidence to support its opinions, giving consideration to risk, materiality, and reasonable assurance;⁵
- A process for firms to engage directly with relevant subject matter experts from outside the immediate inspection team as needed to resolve matters;
- Policies regarding PCAOB timelines for required completion and communication of certain key inspection milestones such as finalization and communication of

⁴ In addition to establishing processes, the PCAOB's broad sharing of information learned from their various activities (consultations, inspections) would significantly improve the opportunity for consistent application.

⁵ Refer to more detailed recommendations on this topic in section *Recommendations Related to Part I.A* in our response to Q3.

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engagement-level inspection conclusions (i.e., any deficiencies or lack thereof), review of engagement-level remediation, review of firm-level remediation, issuance of inspection reports, etc.;⁶ and

- A framework for how the PCAOB will evaluate a firm’s SoQC, including how they will determine what constitutes a QCC and what constitutes remediation of a QCC “to the satisfaction of the Board.”^{7,8,9}

PCAOB Consultation Process

We are supportive of the development of a PCAOB consultation process to address auditing and quality control matters to, among other things, drive transparency and consistency in the inspection process, which would benefit all key stakeholders. We believe it is important that the PCAOB’s process is designed to address the following unique types of consultations: firm level SoQC matters, engagement level auditing matters, and escalation for matters arising during the inspection process. In designing such a process, we encourage the PCAOB to look to the SEC’s Office of the Chief Accountant’s effective and well-understood consultation process as a basis.¹⁰

⁶ While there is a need for such policies to allow for flexibility in unusual circumstances, it is important that transparent and timely/ongoing communication be required when established timelines cannot be met.

⁷ Refer to footnote 3.

⁸ Refer to Sarbanes-Oxley Section 104(g) –

“REPORT – A written report of the findings of the Board for each inspection under this section, subject to subsection (h), shall be –

(1) transmitted, in appropriate detail, to the Commission and each appropriate State regulatory authority, accompanied by any letter or comments by the Board or the inspector, and any letter of response from the registered public accounting firm; and

(2) made available in appropriate detail to the public (subject to section 105(b)(5)(A), and to the protection of such confidential and proprietary information as the Board may determine to be appropriate, or as may be required by law), except that no portions of the inspection report that deal with criticisms of or potential defects in the quality control systems of the firm under inspection shall be made public if those criticisms or defects are addressed by the firm, to the satisfaction of the Board, not later than 12 months after the date of the inspection report.”

⁹ Such a framework should be appropriately connected to the applicable quality control standards and should use lessons learned from the initial implementation of QC 1000. With respect to QCCs, We believe that with the adoption of a new QC standard the PCAOB’s current approach to inferring QCCs based on engagement deficiencies is no longer appropriate and that there is an opportunity for the PCAOB to reevaluate how QCCs are determined, as well as to revisit previously issued remediation guidance in the context of QC 1000 and a shift to an inspection model that leverages firms’ SoQCs. . We also believe there is an opportunity to develop a more formalized and publicly available framework related to all of these areas.

¹⁰ Refer to [Form of Delivery and Content of Correspondence for OCA Consultations](#).



Timing of Inspection Activities

The PCAOB should consider the nature, timing and extent of inspection and evaluation activities and how such activities interact with the timing of audits and the ability for auditors to focus on the current year audit execution. To achieve the common goal of delivering quality audits to the capital markets, we encourage the collaborative development of a calendar of inspection activities by each firm and inspection team. For all firms, it will be important to keep significant inspection activity outside of the traditional January-to-March “busy season,” allowing firms to focus their resources during that period on the primary objective of delivering quality audits that comply with all applicable standards.

Connection Between Inspections and Standard Setting

The inspection program should inform standard-setting activities. We encourage the PCAOB to reevaluate its process for utilizing the output and findings of the inspection process as a basis for informing future standard setting and guidance. There may be enhancements that could be made to more transparently link the output of inspections to standard setting and rulemaking priorities and activities.

The Impact of Inspections on People

Given that the inspections process also has impacts on people, we encourage the PCAOB to consider whether under the supervisory model there should be greater focus on learning for matters that are less severe in nature. Auditors serve a critical role in the capital markets and the public interest is best served in establishing a healthy ecosystem that attracts the best and brightest talent to the profession. The morale of engagement teams and the attractiveness of the profession can be impacted by overly critical inspections.

In an attempt to better understand the impact of PCAOB inspections on people, the CAQ conducted a survey in the fall of 2024 of nearly 1,300 individual audit partners from CAQ member firms.¹¹ Partners were asked to report on engagements selected for inspection during the period 2020 through 2024.

¹¹ Survey respondents included 1,228 partners at member firms of the CAQ Governing Board, inclusive of GNFs (Global Network Firms) and annually inspected firms and 61 audit partners at firms represented on the CAQ's Smaller Firm Task Force (SFTF), which includes both annually and triennially inspected firms. Of 1,228 Governing Board firm audit partners who completed the survey, 583 were on an engagement selected for inspection by the PCAOB in at least one year from 2020 to 2024.



On average, over 70% of partners surveyed indicated that the inspection process lowered the morale of their team. This percentage was highest (90%) in the case of inspections that resulted in a deficiency. Notably, lower morale was still reported for the majority (64%) of teams whose inspection did not result in a deficiency. Additionally, when asked about the focus of the inspection, only 37% of partners indicated that inspectors focused on complex audit areas that involved significant auditor judgment and/or other areas of significance in the audit, while a plurality (40%) indicated that the focus was equally on areas of the audit that were of major and minor significance.

The CAQ performed a second survey on this topic in the fall of 2025 that reflected similar trends.

These findings underscore the importance of inspections that are appropriately risk-focused and judgment-centered, allowing for a focus on learnings and refinement of audit methodology for matters that do not warrant punitive action, while also recognizing the human impacts of the inspection process. Collectively, the recommendations in this letter are designed to advance an inspection program with these characteristics. A well-designed inspections program—one that promotes an appropriate supervisory approach and supports learning—can help achieve the necessary and beneficial objectives of inspections without negatively impacting morale.

Q3. What inspection information would be most useful to stakeholders, and how could inspection reporting be enhanced under a quality-control focused inspection program?

We encourage the PCAOB to consider whether the content, format, and timing of inspection reports as currently drafted enables the intended users to effectively utilize them and make updates to the reporting approach as necessary. In doing so, it will be important for the PCAOB to consider the primary users and intended purpose of inspection reports, and to obtain input from those users.

We encourage the PCAOB to consider the results of two surveys of audit committee members and investors performed by the CAQ, both of which indicate that enhancements to current reporting may be necessary to achieve the goal of best serving the needs of the intended users of inspection reports.¹² Additionally, we urge the PCAOB to perform additional outreach to a broad range of stakeholders within these potential user groups

¹² See [Audit Firm & Engagement Disclosures: Stakeholder Information Needs Audit Committee Survey](#), July 2024 and [Perspectives on Corporate Reporting, the Audit, and Regulatory Environment: Institutional Investor Research Findings](#), November 2023.



and any other user groups identified, including holding roundtables or other similar forums for collaborative discussion.

In contemplating the content of inspection reports, we have considered what is required with respect to the evaluation and reporting of the results of inspections of individual engagements.^{13,14} Although there is a requirement that individual engagements be inspected, Sarbanes-Oxley does not require that the Board evaluate the sufficiency of each individual engagement inspected, as it requires the Board to do with respect to the quality control system of the firm.¹⁵

The reporting requirements in Sarbanes-Oxley allow for flexibility with respect to what must be included in publicly available inspection reports. The inclusion of certain information about criticisms of, or potential defects in, the quality control systems of the firm under inspection is prohibited. With respect to public reporting, Sarbanes-Oxley simply states that a written report of the findings of the Board for each inspection shall be made available in appropriate detail to the public.¹⁶ Sarbanes-Oxley does not include any additional clarification or requirements with respect to what constitutes “appropriate detail.”

We believe there is an opportunity to enhance the transparency, consistency and usability of inspections reports for all stakeholders and we encourage the PCAOB to consider the following recommendations related to certain key sections of current inspection reports:

Recommendations Related to Part I.A

A Framework for Evaluating Audit Deficiencies

There is no publicly available framework for evaluating the significance and severity of audit deficiencies identified by the PCAOB in their inspection of a firm’s individual audit engagements, which can lead to significant variation with respect to the matters that ultimately result in the issuance of a comment form and/or a conclusion that a firm did not obtain sufficient appropriate audit evidence to support its opinions (i.e., a Part I.A

¹³ Refer to Sarbanes-Oxley Section 104(a) –

“IN GENERAL. – (1) INSPECTIONS GENERALLY. – The Board shall conduct a continuing program of inspections to assess the degree of compliance of each registered public accounting firm and associated persons of that firm with this Act, the rules of the Board, the rules of the Commission, or professional standards, in connection with its performance of audits, issuance of audit reports, and related matters involving issuers.”

¹⁴ Refer to footnote 8.

¹⁵ Refer to footnote 3.

¹⁶ Refer to footnote 8.



deficiency). There is an opportunity to enhance transparency and consistency in this area through the development of a public, principles-based framework that provides a clear connection to risk, materiality, and reasonable assurance.

We encourage the PCAOB to formally develop and publish a framework to enhance transparency for all stakeholders, including audit committee members and investors, and to improve consistency in the identification and reporting of deficiencies by PCAOB inspection teams.

In developing a framework for evaluating deficiencies related to individual audit engagements, it is critical to consider the nature and severity of any deficiency identified, in the context of the audit as a whole. There are several concepts from auditing and financial reporting, standards, rules, and guidance more broadly, that should serve as a guide, including:

- **Risk-Based Approach:** The framework should be grounded in the risk-based principles of PCAOB auditing standards and requirements, allowing for appropriate auditor judgment;
- **Reasonable Assurance Threshold:** The evaluation of the significance and severity of audit deficiencies under the framework must be directly tied to the concept of reasonable assurance, as defined in the auditing standards; and
- **Materiality:** The evaluation of the significance and severity of audit deficiencies under the framework should consider both quantitative and qualitative materiality.

Part I.A Reporting Considerations

As discussed above, significant judgment is involved in evaluating both the sufficiency and appropriateness of audit evidence and the significance of audit deficiencies. The lack of framework for making such evaluations leads to variability in inspection outcomes and matters that are publicly reported, including inconsistencies in what is reported.

Additionally, the way Part I.A. deficiencies are currently described and presented in inspection reports may create the impression that they are all equally significant, even though their severity can vary considerably.

We encourage the PCAOB to reevaluate, with input from stakeholders, whether the current practice of reporting engagement-specific deficiency details best serves the needs of the intended users while fairly representing the work performed by the firm and the results of the inspection in a way that aligns with the objective of the inspection program. If it is concluded that including engagement-specific deficiency details does not best serve



intended users of inspection reports, users would likely still value information about the audit areas reviewed and the audit areas in which Part I.A deficiencies were identified. This information could be effectively communicated in a way that demonstrates a firm’s “degree of compliance” at a more summarized level (i.e., not issuer by issuer), similar to what is presented in the tables in current inspection reports, without describing each individual Part I.A deficiency.¹⁷ Additionally, if deemed valuable based on stakeholder feedback, the PCAOB could include descriptions of any trends or themes noted with respect to the Part I.A deficiencies identified.

Recommendations Related to Part I.B and Part I.C

By their very nature, Part I.B deficiencies do not represent circumstances in which the PCAOB concluded that the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). Accordingly, even though a deficiency exists, a firm has a supported audit opinion, and thus the public interest is served. By publicly disclosing such information, undue prominence is given to these matters. Additionally, the PCAOB already evaluates whether the exceptions reported in Part I.B are indicative of a QCC and if so, includes them in Part II. of the inspection report. If the firm does not appropriately remediate the QCC within twelve months, the QCC becomes public, which is likely what is important to the users of the inspection reports. We therefore suggest that Part I.B be excluded from PCAOB inspection reports. Such matters could be communicated orally to firms for awareness and consideration in their SoQC processes and/or externally in Spotlights to the extent the PCAOB identifies themes or trends.

We agree with and appreciate the explanatory statements that preface the findings included in Part I.C of each firm’s inspection report. However, we do not believe that the current public reporting of Part I.C gives a fair presentation of the degree of compliance by a firm and it may be confusing and misleading to report users.¹⁸ It could be helpful for the

¹⁷ Instead of presenting the findings by issuer, information would be presented in tables similar to the “Audit Areas Most Frequently Reviewed” or the “Audit Areas with Frequent Part I.A Deficiencies” tables currently presented but could include all audit areas reviewed on all inspected engagements.

¹⁸ The following explanatory language is included in Part I.C of each firm’s inspection report:

“This section of our report discusses identified instances of apparent non-compliance with PCAOB Rule 3520. An instance of apparent non-compliance with PCAOB Rule 3520 does not necessarily mean that the Board has concluded the firm was not objective and impartial throughout the audit and professional engagement period. Although this section includes instances of apparent non-compliance with PCAOB Rule 3520 that we identified and the firm brought to our attention, there may be other instances of noncompliance with rules related to independence that were not identified through our procedures or the firm’s monitoring activities.



Board to include an explanatory statement in their report that independence is a shared responsibility among the auditor, audit committee, and company management.

The SEC's and PCAOB's auditor independence frameworks comprise various bright line rules as well as principles-based provisions. We encourage the SEC and PCAOB to appropriately consider materiality related independence matters. Without appropriate context, which is afforded the audit committee when they evaluate the matters as required by Rule 3526, an instance of noncompliance may appear more severe than it is; this is especially the case when the instance of noncompliance is self-identified and remediated prior to the issuance of the audit report and did not result in the auditor's objectivity and impartiality being impaired. It is important to distinguish between (1) one-off personal inadvertent independence breaches that are unlikely to affect objectivity and impartiality and are remediated and appropriately communicated to audit committees through use of Rule 3526, and (2) widespread or systemic violations that suggest a broader issue. The latter category may be most relevant to audit committees and other users of inspection reports and should therefore be emphasized in public reporting.

Timing of Inspection Reporting

We recommend that the PCAOB engage with a broad range of stakeholders to better understand the needs and expectations of inspection report users with respect to the timing of issuance of inspection reports. We recommend that this engagement includes consideration as to whether establishing specific, consistent release dates for inspection reports that are within a reasonable period after the end of the inspection fieldwork could enhance the reports' value and relevance to users.

Other External Communications Related to Inspections and Audit Quality

It is important that an inspection program be designed and executed in a way that prioritizes identifying improvements that could be made to advance audit quality and how such improvements can best be achieved and communicated. At times, messaging from the PCAOB about the public company auditing profession has tended to be

While we have not evaluated the underlying reasons for the instances of apparent non-compliance with PCAOB Rule 3520, the number, large or small, of firm-identified instances of apparent non-compliance may be reflective of the size of the firm, including the number of non-U.S. associated firms in the global network; the design and effectiveness of the firm's independence monitoring activities; and the size and/or complexity of the issuers it audits, including the number of affiliates of the issuer. Therefore, we caution against making any comparison of these firm-identified instances of apparent non-compliance across firms."



sensationalized or overly focused on the negative, which has the potential to damage trust in the capital markets, auditor morale, and the attractiveness of the profession.

We encourage the PCAOB to reevaluate its approach for other external communications related to audit quality trends and the overall state of audit quality. It is important to establish an approach that encompasses other relevant audit-related information (e.g., restatement rates, observations regarding SoQCs and the nature/severity of inspection findings and how they change over time) rather than inspection deficiency rates alone. That said, due to the nature and number of inputs that can impact the quality of an audit, no single metric or list of metrics provides a comprehensive measure of audit quality for all firms.

Matters Already Detected by Firms

Sarbanes-Oxley requires the transmission of “a written report of the *findings of the Board* for each inspection...” [*emphasis added*].¹⁹ Matters that are identified by the firm, not as a result of the PCAOB inspection process (i.e., prior to the announcement of the inspection), warrant additional consideration. We recommend the PCAOB consider excluding these matters from inspection reports, as they do not appear to be a “finding of the Board.”²⁰ Such deficiencies include those identified by a firm’s own internal inspection program currently included in Parts I.A and/or I.B of the report, all firm-identified independence exceptions currently included in Part I.C of the report, as well as quality control criticisms included in Part II. of the report identified by the firm’s SoQC. Including these deficiencies in inspection reports, even with clarifying wording, implies the PCAOB’s inspection program was the primary driver of the matter being identified and corrected and, thus, may be misleading to the users of the report. Additionally, without relevant context around actions the firm has taken to monitor and remediate such matters, this practice may give an overly negative impression of the firm.

Q4. What standard-setting projects should the PCAOB pursue?

We would welcome the opportunity to engage in the PCAOB’s planned agenda consultation regarding standard setting. We believe that standard setting should occur through an open and transparent process informed by input from a broad range of stakeholders. Deliberations throughout the standard-setting process should be open and

¹⁹ Refer to footnote 8.

²⁰ Engagements in which on or more matters have been identified by the firm may still be selected for inspection as new or different issues may be identified through the inspections process, but it is important the PCAOB be transparent when a matter is identified by the firm before the inspection selection is made.



public, with robust dialogue and engagement between stakeholders and staff from agenda development through standard issuance, as well as during implementation and post-implementation.

We support the modernization of auditing standards where clearly warranted and underpinned by robust economic analysis, with a focus on those matters that stand to most meaningfully improve audit quality or enhance consistency in practice. Standard setting should be pursued selectively and based on a demonstrated need, avoiding responses to perceived “gaps” where concerns may be more effectively addressed through clearer interpretive guidance or inspection program enhancements. In this regard, standard setting should be informed by the outputs of a modernized inspection program. New or revised standards should reflect a thoughtful assessment of both benefits and costs, including the cumulative effects of ongoing regulatory change. In fast-evolving areas (e.g., technology and digital assets), the PCAOB should consider whether more agile guidance mechanisms may be more effective than standard setting.

Given the pace of change in the business and technological environment, we encourage the PCAOB to strike an appropriate balance between responsiveness and the development of clear, durable standards that can stand the test of time. Some topics may be better addressed through guidance informed by broad stakeholder input, while others may warrant formal standard setting. We support an agile approach in which the Board establishes a formal, public agenda consultation process, utilizes advisory groups to identify and prioritize standard-setting topics, and leverages individuals with recent practical public company auditing experience in the standard-setting process. The recently announced PCAOB Audit Practitioner Fellowship program may be a useful first step, but deeper engagement with firms of all sizes to understand how they are addressing emerging issues will be helpful (e.g., in relation to AI and digital assets).

Certain emerging areas, such as technology, including the use of artificial intelligence, and digital assets, are impacted by evolving practices, diverse and novel fact patterns, and significant judgment. In these areas, overly prescriptive standards risk creating unnecessary uncertainty or becoming outdated shortly after issuance, particularly given the length of the standard-setting process. We believe principles-based guidance supporting the existing standards or the development of frameworks supported by appropriate guidance and FAQs is often the most effective approach to addressing such issues, and that a more responsive mechanism, similar to the FASB Emerging Issues Task Force (EITF) or similar model, may be worth considering. The PCAOB should also consider and leverage guidance that has been developed by other standard setters. We also believe



that standard setting on these topics should consider the guidance or rules applicable to management, so as to align issuer and auditor expectations and not result in auditing standards getting ahead of management practices. Finally, we believe that a more holistic approach to standard setting with the SEC and PCAOB would be preferable to effectively align the responsibilities of management, audit committees, and auditors.

In situations where novel questions arise regarding the use of technology (including AI), inspections and enforcement should not outpace standard setting or guidance.

Reasonable, good-faith interpretations made by firms will continue to be necessary as the PCAOB engages with stakeholders and balances the risks and benefits of standard setting. Understanding how different firms have responded to emerging issues, including forming views about how existing PCAOB standards would be reasonably expected to apply, can help the PCAOB identify issues that may need to be addressed as a matter of priority to promote consistency in practice. Where specialized expertise does not exist internally, the PCAOB should enhance outreach, convening ad-hoc advisory or working groups with relevant technical knowledge, and leverage information gained through the inspections process (such as access to firm methodology and internally developed guidance).

We also recognize that certain existing standards would benefit from revision. For example, while we do not believe the NOCLAR proposal was appropriately scoped, we believe standards addressing fraud and illegal acts would benefit from targeted updates given changes in the profession since the standard was last issued.

Finally, the desire to address perceived gaps (e.g., due to inspection findings that can be remedied through clarification of standards) should not, on its own, justify new standards without deliberate consideration of the need for standard setting and the related costs and benefits. Proposals related to firm- or engagement-level metrics risked increasing stakeholder confusion and regulatory complexity, ultimately increasing costs borne by the capital markets, because they did not clearly articulate the benefits other than an overall increase in information available to the stakeholders and were somewhat disconnected from how firms and audit committees evaluate audit quality.

Q5. How can the PCAOB achieve greater alignment of its auditing standards with international auditing standards?

We are supportive of the SEC's statements regarding opportunities to improve standard setting by pursuing international cooperation where it promotes clarity, reduces complexity, and lowers compliance costs, while also preserving U.S. regulatory authority and underscoring the importance of due process.



Many of the global audit firms design and implement audit methodologies that are grounded in International Standards on Auditing (ISAs) as issued by the International Auditing and Assurance Standards Board as required by membership in the Forum of Firms. With ISAs used as the global baseline standard of major professional accountancy organizations around the world, many firms already comply with both PCAOB and international auditing standards.

We encourage the PCAOB, in coordination with the SEC, to continue engaging with international standard setters and participating in global standard-setting efforts. Where international standards are appropriately scoped and responsive to demonstrated needs, collaboration and coordination is beneficial to the capital markets. Increasing dialogue and interaction with all standard-setters would help to achieve this goal, and the PCAOB's views should be appropriately considered so that requirements at the international level are those that can be applied across jurisdictions. The PCAOB should seek to understand and align with international approaches (including interpretation of standards) to the extent possible, while also emphasizing the importance of transparency and due process in standard setting.

Q6. In what ways should the PCAOB consider deploying technology, including AI, to help further its investor protection mission?

We encourage the PCAOB to explore using emerging technologies to promote operational efficiency and effectiveness and advance its mission. However, as in all cases related to the deployment of novel technology, we encourage the PCAOB to be judicious in its use of emerging technologies and proceed deliberately and proportionately in a way that enhances trust, keeping transparency and explainability at the forefront of its guiding principles. The objective of any use of technology should be clearly defined and purpose-driven, and data should be collected only where necessary to support those objectives. Finally, the PCAOB should think about initially adopting novel technologies for specific use cases (as firms often do by initially applying AI to assist with risk assessment and documentation) and only later expanding its use to more consequential applications, including those that may independently inform conclusions. Appropriate governance and data security are critical. The PCAOB may consider frameworks available for the responsible implementation and oversight of technology and AI, including COSO's recently issued paper on *Achieving Effective Internal Control Over Generative AI* and the GAO's *Artificial Intelligence: An Accountability Framework for Federal Agencies and Other Entities*. The International Forum of Independent Audit Regulators (IFIAR) and Financial



Reporting Council (FRC) have also recently released publications related to the use of technology and AI.

Q7. How can the PCAOB enhance transparency with its stakeholders?

Certain of the PCAOB's proposed and recently announced activities will be highly beneficial to transparency in its engagement with stakeholders. The act of consulting on strategic priorities in advance of developing the strategic plan is evidence of the PCAOB's desire to engage with stakeholders. Other recent announcements, including the creation of the PCAOB consultation process, are further demonstrations of a desire and willingness to engage with stakeholders, which will benefit the ecosystem as a whole.

Two key areas in which transparency is of the utmost importance are inspections and standard setting. Transparency is important to the design of the inspections process itself, not just to the evaluation of deficiencies. Suggestions for potential enhancements to transparency in these areas have been included in the recommendations provided throughout this document.

We have provided some recommendations above on standard setting, including transparent deliberations/open meetings, consideration of stakeholder input, use of advisory groups with practical experience, and an EITF-like mechanism. Post-implementation reviews would also help to bring transparency to the standard-setting process, by facilitating the evaluation of outcomes compared to objectives, and retrospectively assessing the effectiveness of standard setting (including the accuracy of any cost benefit analysis applied).

Additional Considerations

The CAQ supports thoughtful, evidence-based policymaking that advances audit quality while recognizing the evolving business and capital environment. We encourage regulators to monitor developments in the business environment that impact the structure and governance of accounting firms; however, regulatory responses should be grounded in observed risks and calibrated to avoid unintended consequences. Consistent with QC 1000, which requires firms to identify and respond to quality risks based on the nature and circumstances of their practice, including firm structure and engagement profile,



regulatory approaches should similarly reflect a risk-based perspective. Audit quality, strong governance, and auditor independence should always be the focus.

We encourage the PCAOB to continue to monitor the activities of other parties in the ecosystem regarding emerging issues and work together with the SEC so that any future action taken is made in an intentional, coordinated way. This deliberate and aligned approach also applies more broadly to other emerging topics impacting the public company auditing profession.

We appreciate the opportunity to provide input on the PCAOB's strategic priorities. We would be pleased to discuss our comments or answer any questions regarding the views expressed in this letter. Please address any questions to Dennis McGowan (dmcgowan@thecaq.org), Emily Lucas (elucas@thecaq.org), or Star Yuan (syuan@thecaq.org).

Sincerely,

A handwritten signature in black ink that reads "Dennis J. McGowan".

Dennis J. McGowan, CPA
Vice President, Professional Practice
Center for Audit Quality

cc:

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