

Comments of the Auditing Standards Committee of the Auditing Section of the American Accounting Association on the PCAOB's Strategic Priorities

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Note: The views expressed in this letter are those of the participating members of the Committee and do not reflect an official position of the American Accounting Association. The comments do not necessarily reflect the views of every member.

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SUMMARY: On March 31, 2026, the Public Company Accounting Oversight Board (the Board or PCAOB) issued a request for comment on its strategic plan (PCAOB 2026). This comment letter summarizes the views of the participating members of the Auditing Standards Committee of the Auditing Section of the American Accounting Association. Our comments include responses to the questions listed in the request for comment. Our key recommendations are to prioritize inspections—particularly through expanded support for smaller firms, return to the supervisory model, advance standard-setting in areas such as technology, ICFR, and complex estimates, and enhance transparency across inspections, quality control reporting, and PCAOB operations.

I. INTRODUCTION

The Auditing Standards Committee of the Auditing Section of the American Accounting Association is pleased to provide feedback on the Public Company Accounting Oversight Board's (PCAOB's) strategic plan (PCAOB 2026). This comment letter summarizes the participating committee members' observations on the strategic plan.

II. FEEDBACK TO QUESTIONS

Question 1: 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 statutory mission is "to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports for companies the securities of which are sold to, and held by and for, public investors" (U.S. House of Representatives 2002). Inspections are the Board's most direct mechanism for achieving this objective. For example, when the Senate Committee on Banking, Housing, and Urban Affairs reported the Sarbanes-Oxley bill to the Senate, Committee Chairman Senator Sarbanes referred to the entity that would become the PCAOB as "an independent body of inspectors" and explained the intention of the legislation in this respect:

Virtually every witness who addressed the details of auditor oversight agreed on the critical need for a regular and comprehensive review, by an independent body of inspectors, of each audit firm's compliance with audit standards and procedures. A program of inspections is essential to identify problems in firm procedures, training, and "culture" before those problems can produce audit failures that trigger large investor losses and threaten confidence in the capital markets (U.S. Senate Committee on Banking, Housing, and Urban Affairs 2003).

The PCAOB should place its highest priority on the inspection program, not only because that is consistent with the legislative intent of its enabling legislation, but because prior research suggests that inspections are associated with improvements in audit effort (e.g., revenue recognition; Abbott et al. 2025) and financial reporting quality (e.g., Aobdia 2018).

Inspections

The PCAOB could enhance the inspection program in several ways. First, the Board should consider whether to allocate more resources to inspections of smaller firms (i.e., those that audit less than 100 issuers per year). For example, auditors increase effort in anticipation of PCAOB inspection (Winn 2021). These triennially inspected firms tend to increase audit quality in inspection years but reduce audit quality in the non-inspection years. Abbott and Buslepp (2021) suggest that the PCAOB should not limit its selections for these firms to the most recently completed audits. Instead, inspectors should select engagements from prior years to incentivize triennially inspected firms to maintain audit quality in non-inspection years.

Second, the PCAOB should consider allocating additional inspection and remediation resources to smaller firms, where resource constraints limit responsiveness and increase uncertainty. The largest registered firms have allocated substantial resources to prepare engagement teams for and to assist them through the inspection process, including remediation of inspection findings. However, smaller firms are comparatively less able to allocate such resources toward engagement team assistance, leading to high levels of frustration among some

smaller firm auditors (Bills, Keyser, Peytcheva, and Zimmerman 2026). PCAOB resources focused on the smaller firm remediation evaluation process could increase the timeliness of guidance and feedback, including more tailored remediation guidance. These resources could mitigate unintended market consolidation and the disproportionate strain placed on these firms and their clients (Bills et al. 2026; Daugherty & Tervo 2010)

Third, we understand that, since its inception, the PCAOB has resisted providing positive information in the inspection reports. In fact, initial inspection reports in 2003 included the following statement:

An essential ingredient of the Board inspection process is an unflinching candor with firms about the points on which we see a need for improvement. That emphasis may often result in inspection reports that appear to be laden with criticism of a firm's policies, practices, and audit performance, and less concerned with a recitation of a firm's strengths. That is because, from the Board's perspective, the inspection reports are not intended to serve as balanced report cards, rating tools, or potential marketing aids for any firm. The reports are intended principally to focus our inspection-related dialogue with a firm on those areas where improvement is either required for compliance with relevant standards and rules, or is likely to enhance the quality of the firm's audit practice. (PCAOB 2004).

There is wisdom in this position, and we do not disagree as it relates to formal, written feedback. However, the PCAOB should consider whether to encourage inspectors to provide *informal* feedback during the inspection process. Auditors generally want the inspection to be a learning experience and wish to improve their auditing skills (Tegeler, Brown, and Downey 2025). They could benefit from *informal* feedback that is more direct and balanced (i.e., provide positive as well as negative feedback) (Tegeler et al. 2025).

Standard-Setting

At its inception, the Board chose to assume responsibility for audit standard-setting. This decision creates crossover risk, which is the risk that standards will be established through inspection or enforcement, rather than through the formal rulemaking process that includes

consideration of stakeholder feedback (Barr-Pulliam, Boland, Hermanson, Keyser, and Pyzoha 2026). Chairman Logothetis has discussed the creation of a formal consultation process within OCA to transfer the interpretation of auditing standards from the inspection group to the standard-setting group. We support this effort to mitigate crossover risk.

Enforcement

The founding Board adopted a supervisory approach to regulating registered public accounting firms (Gradison and Boster 2010), historically treating enforcement as a “last resort” to support inspections (Keyser 2023). More recently, the Board has shifted toward enforcement, with former Chair Erica Williams highlighting “record-breaking monetary fines” (e.g., Williams 2025a, 2025b, 2024). The slippery-slope framework suggests an enforcement approach to regulation may undermine audit quality (Dowling, Knechel, and Moroney 2018), and responsive regulation theory indicates enforcement should follow failed persuasion (Ege, Knechel, Lamoreaux, and Maksymov 2020). Accordingly, we recommend the PCAOB return to the supervisory model for regulating registered firms.

Registration

Since its inception, the PCAOB has rejected few registration applications, an approach described as an “open-arms admission policy” (Williams 2022, 1116). This approach was initially practical given the difficulty of thoroughly vetting all applicants under SOX timelines (Keyser 2024), but it has created unintended consequences. Some registered firms do not perform issuer or broker-dealer audits yet still market their PCAOB registration as a signal of audit quality, despite not being inspected. In 2024, the PCAOB proposed a rule prohibiting false or misleading statements about registration status (PCAOB 2024a) but ultimately did not adopt this provision (PCAOB 2024b). The Board should proceed with adopting this rule.

Question 2: What changes should the PCAOB make to its inspection program including, but not limited to, changes in light of its new quality control standard (QC 1000)?

Address Resource Asymmetries and Firm Size Disparities

The impact of oversight is not uniform across the profession. Global Network Firms (GNFs), Annually Inspected Non-Affiliated Firms (ANAFs) and Triennially Inspected Non-Affiliated Firms (TNAFs) experience the regulatory environment in fundamentally different ways. Well-resourced GNFs can buffer against regulatory uncertainty by centralizing remediation, whereas smaller NAFs face high uncertainty and frequently engage in costly, inefficient over-auditing to appease inspectors (Bills et al. 2026). In some cases, smaller firms divest public clients or leave the public company audit market. Firms transitioning from triennial to annual NAF inspections experience the most difficulties and need the most support (Bills et al. 2026). To address these concerns, the Board should consider whether to devote additional resources to the smaller firm inspections.

Inspection Modality

Historically, remote inspections were conducted as “desk reviews” for smaller firms to reduce time and cost. During COVID-19, inspections shifted fully remote, like other global operations, and the PCAOB has since adopted a hybrid model combining on-site and remote work (Gunny and Zhang 2013; Tegeler, Brown, and Downey 2025; Bills et al. 2026; Maksymov and Westermann 2026). While remote reviews offer efficiency, they limit direct engagement between inspectors and audit teams and could weaken the link between inspection findings and underlying audit quality (Gunny and Zhang 2013). In-person inspections, by contrast, provide valuable face-to-face interaction that could enhance evaluation and learning. The Board should carefully consider how it balances efficiency and effectiveness in the selection of inspection modality.

Inspection Selection Methodology

The PCAOB should consider increasing the proportion of random selections. While risk-based selections naturally yield higher deficiency rates (32%), random selections uncover substantial deficiencies (21%) and provide a more accurate “state of the profession” (Aobdia 2018). Expanding random sampling prevents auditors from strategically neglecting clients perceived to be outside the Board’s risk-based focus (Aobdia, Castellani, and Richardson 2024).

Inspector Staffing and Performance Metrics

The efficacy of the inspection program depends on the PCAOB’s internal staffing and evaluation models. We urge the PCAOB to consider the findings of Maksymov and Westerman (2026) regarding hiring, training, and performance assessment for inspectors.

The Remediation Process

Well-resourced GNFs manage remediation by hiring former PCAOB staff and centralizing efforts at the national office level. Smaller firms respond to uncertainty by over-auditing to meet unclear expectations, suggesting that clearer remediation guidance could improve audit quality more efficiently. For example, additional resources could enable timelier PCAOB responses to smaller firms’ remediation plans.

Academic research recommends several changes to the PCAOB’s remediation process to address systemic inequities, reduce unintended market consequences, and improve audit quality (Bills et al. 2026). These recommendations emphasize mitigating resource disparities, improving regulatory communication, and reconsidering inspector assignment structures. Smaller firms, in particular, could benefit from greater consistency in PCAOB personnel across inspections, as continuity can enhance inspectors’ institutional knowledge and reduce the unpredictability that currently characterizes remediation expectations.

In addition, the Board should consider whether its general approach of not providing remediation guidance—while potentially appropriate for larger firms—may contribute to lower audit quality in smaller firms. Providing targeted guidance or best practices for addressing engagement-level deficiencies and firm-level quality concerns could meaningfully improve remediation outcomes in these settings.

Technological Innovation

While the integration of predictive AI and advanced data analytics (ADAs) is recommended, the regulatory climate could stifle their adoption. Auditors may fear being second-guessed by inspectors and retreat to “traditional,” easily defensible manual procedures rather than utilizing innovative tools that are statistically more likely to detect fraud. Research highlights an “inherited ADA blind spot,” where auditors are significantly less likely to follow up on red flags generated by AI or analytics tools if they did not personally develop the tests. Furthermore, inspectors should be trained to evaluate advanced technologies like AI and blockchain, to avoid creating a regulatory knowledge gap that frustrates firms (Maksymov and Westermann 2026).

Question 3: What inspection information would be most useful to stakeholders, and how could inspection reporting be enhanced under a quality control-focused inspection program?

There are several areas where the PCAOB could enhance transparency in inspection-related disclosures to the benefit of key stakeholders. Currently, there is limited transparency regarding PCAOB inspection personnel. AS 1000 requires auditors to employ appropriately qualified personnel and maintain independence in both appearance and fact. Given that the PCAOB evaluates firms against these standards, comparable transparency regarding the qualifications and independence of inspection personnel is warranted. For example, the PCAOB

could disclose information on inspector qualifications, including CPA licensure rates, average public accounting experience, and inspection tenure. The Board could also provide greater visibility into the use of specialists in inspections (e.g., IT, valuation, data analytics), disaggregated by inspection program (e.g., GNFs, annual NAFs, triennial NAFs, and broker-dealer audits) and summarized at the firm level. The PCAOB could further enhance transparency through disclosure of inspector rotation practices, including the duration of assignments across firms and global networks. Providing this information—or implementing formal rotation policies—would strengthen confidence in the objectivity and rigor of the inspection process.

While the PCAOB has appropriately focused on strengthening firms' quality control systems, similar attention to the Board's own internal processes would further reinforce confidence in the inspection regime. In particular, the PCAOB could provide greater insight into how inspection findings are evaluated, reviewed, and finalized. Relatedly, disclosing how the Board promotes consistency and fairness across inspections—including processes to ensure similar issues are identified and assessed consistently across firms, industries, and inspection teams—would enhance stakeholders' understanding of the reliability and comparability of inspection outcomes. In 2019, the Board reported that it had created an "Inspections Quality Group" to evaluate "the consistency, quality, and effectiveness" of its inspection activities (PCAOB 2020, 4). The Board could enhance transparency with its stakeholders by explaining the activities of this group, its findings to date, and actions the Board has taken to address any findings.

PCAOB Release No. 2024-005 indicates that QC 1000 will require firms to perform an annual evaluation of their quality control systems, certified by firm leadership, and supported by an external oversight function (PCAOB 2024c). However, current disclosure requirements are

limited to confirming the existence of a compliant QC system, which risks becoming largely procedural and not decision useful. While certain aspects of these evaluations may be sensitive, the PCAOB could disclose elements of firms' QC systems. For example, firms could provide a high-level report on QC effectiveness, signed by senior leadership, like management's assessment of internal control over financial reporting. This approach would enhance transparency and accountability without requiring disclosure of sensitive operational details. Disclosure of the existence and nature of the required external oversight function would also provide stakeholders with additional insight into the rigor of firms' QC processes, without raising significant confidentiality concerns. The PCAOB could also synthesize insights gleaned from these annual evaluations to develop and periodically update a best practices framework or guidance document for firms.

Finally, Part I inspection reports could be made more decision-useful by providing greater context around identified deficiencies. While all reported deficiencies indicate failures to obtain sufficient appropriate audit evidence, there is meaningful variation in their severity and implications. The PCAOB could improve transparency by categorizing deficiencies using a standardized severity framework (e.g., low, moderate, high) or by distinguishing between limited execution errors and fundamental breakdowns in the audit approach.

The Board could also indicate whether deficiencies appear isolated or reflect broader patterns across engagements. Distinguishing between these cases would provide stakeholders with a more informative view of audit quality concerns and enhance comparability across firms without requiring disclosure of firm-level QC conclusions.

Question 4: What standard-setting projects should the PCAOB pursue?

We appreciate the Board’s request for input on its standard-setting priorities as it develops its 2026–2030 strategic plan. We agree that carefully targeted standard-setting initiatives can play an important role in enhancing audit quality and protecting investors, particularly given evolving business models, technologies, and capital market risks. In that spirit, we offer the following observations and recommendations regarding standard-setting projects the PCAOB should prioritize over the next several years.

Future-Proofing Audit Standards

The PCAOB should elevate its work on data and technology into a comprehensive standard-setting initiative addressing the use of data analytics and artificial intelligence (AI) in audits. Many existing standards were developed in the context of a largely manual audit environment and provide limited guidance on what constitutes sufficient appropriate audit evidence when that evidence is generated by complex, model-driven tools (e.g., Barr-Pulliam, Calvin, Eulerich, and Maghakyan 2024; Barr-Pulliam, Brown-Liburd, and Sanderson 2022; Austin et al. 2021). As a result, audit practices involving advanced analytics and AI vary substantially across firms, increasing the risk of inconsistent audit quality and inspection outcomes.

Research on analytics-based fraud detection and continuous monitoring highlights both the potential for improved anomaly detection and the risks associated with limited model interpretability, governance challenges, and algorithmic bias (e.g., Brazel, Jones, and Zimbelman 2009; Brown Liburd, Issa, and Lombardi 2015). Experimental evidence further shows that auditors may over-rely on automated tools, insufficiently challenge algorithmic outputs, or underreact to system warnings—behaviors that can materially affect audit judgments (e.g.,

Commerford et al. 2022; Barr Pulliam, Brazel, McCallen, and Walker 2025). These findings underscore the need for standards that clearly articulate expectations for the design, validation, use, and documentation of technology-enabled audit procedures, while remaining principles-based and technology-neutral. Clearer guidance would reduce compliance uncertainty, reinforce professional skepticism, and promote consistency in how technology-generated evidence is evaluated, ultimately strengthening investor confidence.

The Audit of Fair Value and Complex Estimates

The PCAOB should continue to enhance standards related to auditing accounting estimates, fair value measurements (FVMs), and complex financial instruments, with particular attention to the use and supervision of specialists. Although revisions to AS 2501 represented an important step forward, persistent inspection findings indicate that significant challenges remain. Research consistently shows that FVMs and other complex estimates are associated with elevated misstatement risk, increased subjectivity, and greater managerial discretion (e.g., Zimmerman, Barr-Pulliam, Li, and Minutti-Meza 2023; Hux 2017; Bratten et al. 2013; Smith-Lacroix, Durocher, and Gendron 2012).

Investors incorporate estimation uncertainty into pricing decisions and respond to disclosures about valuation inputs and subjectivity (e.g., Christensen, Glover, and Wood 2012; Riedl and Serafeim 2011), underscoring the importance of consistent auditing in this area. At the same time, research on auditor–specialist interactions identifies recurring challenges related to communication, shared responsibility, and evaluation of specialist work (e.g., Griffith 2018, 2020; Barr-Pulliam, Joe, Mason, and Sanderson 2024, 2025), which can weaken audit effectiveness when expectations are unclear.

A targeted standard-setting project could improve audit outcomes by: (1) more explicitly addressing management bias in estimates; (2) clarifying expectations for testing models, assumptions, and underlying data; and (3) strengthening guidance on supervising and evaluating specialists, including documentation of disagreements. These improvements could enhance inspection consistency, support auditor accountability, and increase confidence in reported fair values.

Internal Control Over Financial Reporting (ICFR)

The PCAOB should undertake a focused project to modernize its standards on internal control over financial reporting (ICFR), with explicit attention to scalability across issuer size and complexity. Research consistently links material weaknesses in ICFR to higher misstatement risk, lower earnings quality, higher cost of capital, and adverse market reactions (e.g., Doyle, Ge, and McVay 2007; Ashbaugh-Skaife, Collins, Kinney, and Lafond 2009), underscoring the central role of ICFR audits in investor protection.

Prior research also documents variation in the timing, specificity, and remediation of material weakness disclosures. For example, Cohen, Joe, Thibodeau, and Trompeter (2020) find that weaknesses are more likely to be identified later in auditor tenure, suggesting risks of delayed detection, particularly during transition periods. They also document variation in disclosure informativeness, with higher-quality audits producing more precise and decision-useful descriptions. Boilerplate disclosures, by contrast, limit usefulness for audit committees and investors. These findings point to the need for clearer expectations regarding auditor evaluation and documentation of material weaknesses, including their linkage to affected accounts and assertions, as well as stronger guidance on assessing remediation efforts.

Enhancing standards in this area would improve accountability and reduce the risk that the Board's remediation conclusions are driven by form rather than substance.

Finally, while ICFR audits provide clear capital market benefits, smaller issuers may face disproportionate compliance burdens when standards do not adequately account for differences in scale and resources (e.g., Ge and McVay 2005; Krishnan, Rama, and Zhang 2008). A modernized standard should clarify expectations for identifying key controls, distinguish between testing design and operating effectiveness, and improve frameworks for evaluating and aggregating deficiencies. Articulating scalable approaches—without reducing investor protection—would enhance consistency and strengthen confidence in ICFR reporting.

Question 5: How can the PCAOB achieve greater alignment of its auditing standards with international auditing standards?

Section 103(a)(3) of the Sarbanes-Oxley Act of 2002 permits the Public Company Accounting Oversight Board to adopt auditing standards developed by professional bodies, while retaining authority to modify those standards in the public interest and for investor protection. One approach to greater alignment would therefore be to designate an external standard setter as the primary developer of auditing standards. We outline three potential alternatives.

The first alternative is to designate the International Auditing and Assurance Standards Board as the primary standard setter. While this approach could enhance global convergence, it presents significant practical and institutional challenges. The IAASB is not directly accountable to U.S. investors and operates within a global governance structure that must balance competing jurisdictional priorities. As a result, it may not fully reflect the regulatory, legal, and enforcement environment of U.S. capital markets, where auditing standards must align with distinct liability regimes and investor protection expectations. More broadly, reliance on an international body as the primary standard setter risks diluting the influence of U.S. stakeholders in shaping auditing

standards. Although convergence remains an important objective, U.S. capital markets play an outsized role in the global economy, and standards governing these markets should remain closely aligned with domestic regulatory priorities and accountability structures.

A second alternative is to adopt the standards of the Auditing Standards Board. The ASB explicitly seeks convergence with IAASB standards while maintaining a focus on U.S. stakeholder needs (AICPA 2026). Its standard-setting process includes exposure drafts, public comment periods, and transparent deliberation, providing meaningful opportunities for stakeholder input. However, maintaining both the ASB and the PCAOB as independent standard setters creates inefficiencies, inconsistent U.S. positions, and unnecessary complexity. It also imposes costs on firms, auditors, and students who must navigate multiple sets of standards (Glover, Prawitt, and Taylor 2009). At the same time, concerns remain regarding the ASB's independence from the profession and the potential prioritization of private interests (e.g., Carmichael 2014).

A third alternative is to establish a new audit standard setter under the Financial Accounting Foundation, responsible for auditing standards across all U.S. entities, including public companies, broker-dealers, and private organizations (Barr-Pulliam et al. 2026). This body could work closely with the IAASB and adopt its standards with appropriate modifications for the U.S. environment. The PCAOB would retain an oversight role, similar to the relationship between the SEC and the Financial Accounting Standards Board.

Overall, a more effective approach to international alignment would be to restore a single U.S. auditing standard setter, as existed prior to Sarbanes-Oxley. Under this model, a unified set of auditing standards would apply across U.S. audits, improving consistency, reducing duplication, and strengthening the U.S. voice in global standard-setting. The PCAOB could

continue to play a critical oversight role as an active participant in the standard-setting process to provide input to the standard setter regarding the specific risks and investor protection concerns associated with public company audits.

Question 6: In what ways should the PCAOB consider deploying technology, including AI, to help further its investor-protection mission?

We identify several technology-related priorities that should be incorporated into the PCAOB's 2026–2030 Strategic Plan, focusing on IT infrastructure, oversight of firm-level technology, and inspection-related applications.

Robust IT infrastructure is foundational to the PCAOB's ability to operate effectively, manage risk -- including cybersecurity -- and adapt to a rapidly evolving audit environment. As registered firms continue to invest in advanced technologies, including AI, the PCAOB must maintain the capacity to rigorously evaluate these tools. Without comparable investments, the Board's oversight risks becoming misaligned with audit practice. In addition, the sensitivity of PCAOB data and the increasing sophistication of cyber threats (e.g., McMillan 2026) necessitate sustained and proactive investment in cybersecurity.

As the PCAOB considers technology deployment, it should focus not only on internal efficiencies but also on strengthening its ability to evaluate how registered firms use technology in audits. Registered audit firms increasingly rely on advanced tools to perform audit procedures and manage risk. The PCAOB should develop capabilities to test, probe, and challenge the evidence generated by these systems. Doing so will require both purpose-built technological tools and personnel with the expertise to evaluate underlying methodologies. Similarly, as firms incorporate technology into their quality control systems, the PCAOB must maintain resources capable of assessing compliance with these firm-level standards.

Technology also presents significant opportunities to enhance the inspection process. AI-enabled risk assessment tools could improve the PCAOB's ability to identify high-risk engagements and prioritize areas with the greatest potential for investor harm by incorporating a broader and more dynamic set of risk factors into selection models.

In addition, AI-assisted review could improve the efficiency and effectiveness of inspections by enabling analysis of large volumes of audit workpapers. For example, these tools could identify weak or unexpected linkages between identified risks and audit procedures, helping inspectors assess the relevance and sufficiency of audit evidence. This would allow inspectors to allocate attention more precisely and expand inspection coverage.

Finally, the PCAOB could deploy technology to better synthesize stakeholder feedback. Widely available natural language processing (NLP) and large language model (LLM) tools can efficiently identify themes across comment letters and other engagement channels. Leveraging these tools would not only enhance the Board's ability to process stakeholder input but also strengthen transparency and trust by demonstrating a systematic and responsive approach to stakeholder engagement.

Question 7: How can the PCAOB enhance transparency with its stakeholders?

The PCAOB could enhance transparency by expanding the level of detail provided in its annual reports. Since 2017, these reports have included less information than in prior years. We recommend restoring previously disclosed content and incorporating additional information that would allow stakeholders to better assess the Board's activities and effectiveness. See the Appendix for specific recommendations on enhanced annual report disclosures.

III. ADDITIONAL COMMENTS

In addition to the questions posed by the Board in its request for comments, the committee has the following comments.

Alternative Practice Structures

The entrance of private equity investors into CPA firms through alternative practice structures is a relatively recent phenomenon that is deserving of the Board's attention. The Board should pay particular attention to the incentives that might shift auditors' priorities from the public interest to those of the PE investors. For example, the Board should consider whether audit quality continues to be prioritized in resource allocation, auditor compensation and promotion, and client acceptance and retention decisions.

Inspections Professional Practice Fellowship Program

We commend the Board for establishing the Audit Practitioner Fellowship Program within the Office of the Chief Auditor. We also recommend an Academic Fellowship program hosted by the Office of Economic Risk and Analysis to support the Office of the Chief Auditor in standard-setting and the Division of Registration and Inspections on Inspections to mirror the decades-long Academic Fellowship Program in the SEC's Office of the Chief Accountant.

If the Board were to consider expanding the fellowship program to the Division of Registration and Inspections, it should carefully address two potential risks: regulatory capture and smaller firm audit quality. The Board should identify threats to regulatory capture and evaluate whether appropriate safeguards can be designed and implemented. A fellowship program might attract auditors from smaller (triennially inspected) firms and could have an adverse impact on the audit quality of those firms.

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Appendix

Information to Include in PCAOB Annual Reports

Registration

- The exact number of registration applications considered during the year, the precise number approved, and the precise number disapproved.
- The exact number of firms that withdrew during the year, disaggregated by reason (e.g., initiated by the registered firm, withdrawn due to failure to file annual reports, or revocation due to enforcement action).

Inspections

- The precise number of registered firms that were inspected during the year, disaggregated by type of audit (i.e., public company inspection program or broker-dealer interim inspection program). Public company inspections should also be disaggregated by inspection program (i.e., GNF, NAF-annual, and NAF-triennial) as well as by geography (e.g., domestic and foreign).
- The precise number of inspection reports that were issued during the year.
- The precise number of inspections that have been completed, but for which an inspection report has not yet been posted on the Board's website for public access. This information should be disaggregated by inspection year.
- The precise number of inspections with quality control deficiencies that are still open for PCAOB conclusion regarding the adequacy of firms' remediation efforts.
- The number of inspections that have resulted in referrals to the Division of Enforcement for investigation.
- The number of inspectors currently employed by the PCAOB and information about inspectors' qualifications (e.g., number of years of public accounting experience, number of years of PCAOB inspection experience, accounting degree, and CPA-licensure).
- Turnover of inspection staff, including the number of inspectors hired and terminated during the year.

Standard Setting

- Discussion of the standard-setting agenda that includes projects that have been added, projects that have been completed, and projects that have been abandoned.
- Explanation of the Board's rationale for removing any project from the standard-setting agenda during the year.
- The exact number of professionals employed by the PCAOB Office of the Chief Auditor and information about their qualifications (e.g., number of years of public accounting experience, number of years of experience in the national office of a public accounting firm, accounting degree, and CPA-licensure).
- Turnover of standard-setting staff including the number of professionals hired and terminated during the year.

Enforcement

- The exact number of investigations currently in process as of the end of the current year, disaggregated by type (i.e., formal and informal), inspection program (i.e., GNF, NAF,

broker-dealer), and audited entity type (e.g., issuer, investment company, employee benefit plan, broker-dealer).

- The exact number of disciplinary proceedings that were held during the year, as well as the number that are pending as of the end of the year and the number that have been appealed to the SEC.
- The number of staff employed in the Enforcement Division and information about their qualifications.