

**Lark Research**  
839 Dewitt Street  
Linden, New Jersey 07036  
(908) 975-0250  
spercoco@larkresearch.com

May 15, 2026

Ms. Phoebe W. Brown  
Secretary  
Public Company Accounting Oversight Board  
1666 L Street NW  
Washington, D.C. 20006-2803

Re: PCAOB No. 2026-001 – Request for Public Comment on PCAOB Strategic Priorities

Dear Ms. Brown:

I am pleased to have the opportunity to offer my thoughts on the PCAOB's request for public comment on the PCAOB's strategic priorities that was issued by the Board on March 31. I am an independent security analyst who covers equity and fixed income securities. Although I am not a CPA and have no formal training in audit practices and procedures, I have followed accounting and financial reporting issues, including auditing, for many years, and have provided input and feedback occasionally on various proposals by standard setters, including the FASB, PCAOB and SEC, through my own personal efforts and my participation on investor-oriented committees and task forces.

A summary of my recommendations is as follows:

1. The Board should seek to improve the effectiveness of its inspections and their utility to stakeholders, especially investors. Some auditors and audit firms believe that the high rates of inspection deficiencies are technicalities, related in many cases to the tedious aspects of audits that do not have a major impact on audit quality. This view is supported by the low correlation rates of inspection deficiencies to restatements. To address this complaint and enhance the usefulness of inspection reports for stakeholders, the PCAOB should explore the feasibility of adopting some type of grading or rating system on its inspections to reflect and communicate the severity of deficiencies.
2. The PCAOB should ideally require or at least encourage audit committees to ask (or auditors to disclose): (1) whether their (client's) audit was the subject of a PCAOB inspection and (2) whether the PCAOB's inspection found any deficiencies in the audit. Audit committees should then consider whether these audit inspection deficiencies should be disclosed in the proxy statement to aid shareholders in their auditor ratification decisions.
3. Although I am not fully up to speed on all of the rulemaking issues facing the PCAOB, I believe that the Board should set a high bar for undertaking new major standard setting projects and instead focus on the completion of pending rule-making efforts and implementation of recently adopted standards, such as QC1000. At last check, smaller audit firms faced considerable challenges in implementing QC1000 because of their limited resources. Consequently, the Board should devote its time and effort to making

sure that the adoption of QC1000 is successful, which may require making targeted changes to some of its provisions. When the Board is confident in the success of QC1000 implementation, it could then consider integrating some or all of the eight components of the QC system into its inspections regime (without in any way deemphasizing the importance of its individual audit inspection program). With many issuers, auditors and investors stretched thin in an increasingly challenging operating environment, the Board should avoid placing any new burdens on its stakeholders unless it is confident that the benefits of new or modifications to existing standards clearly exceed the costs.

4. That said, I believe that the PCAOB should begin a research project working with auditors and other stakeholders to develop a mutually agreeable set of firm and engagement metrics. This could conceivably become a standard setting project over time. Although the Board's firm and engagement metrics proposal was opposed by most audit firms and ultimately withdrawn, several of the audit firms that had objected to the PCAOB's proposal indicated a desire to work with the Board to develop a set of appropriate metrics over time. Most Global Network Firms publish their own metrics in their annual audit quality reports, which are still a work in progress. If the Board can obtain a consensus on the most appropriate and cost effective metrics to standardize, stakeholders, including investors, would gain some new tools to evaluate trends in audit firm practices that can be consequential to audit quality.
5. Finally, if it has not already done so, the PCAOB should create a task force to monitor the AI implementation efforts of registered firms with the goal of making recommendations to the Board about whether and how the PCAOB should regulate the development of AI tools in auditing. This appears to be the "Wild West" days of AI implementation in auditing. While AI holds the promise of improving the efficiency and completeness of issuer audits, it can also be trained to hide or overlook problem audit areas. If the PCAOB is going to allow audit firms to increase the portions of audits that are "managed" by AI, it should be confident in the quality of the applications. It also seems likely that as AI tools are improved over time, many will (or should) eventually become standardized (and therefore used by all audit firms). The task force could therefore serve as the focal point for promoting best practices. It should consist of representatives of all PCAOB stakeholders groups, including audit firms (large and small), audit committees, internal audit managers and investors, as well as technology experts.

I have much to say about each one of these five recommendations, but unfortunately I have not found the time to write a complete letter by the comment letter deadline. Nevertheless, I would be happy to expand upon any or all of these recommendations at the Board's request.

Sincerely,



Stephen P. Percoco