Modernizing PCAOB Inspections

- QC-Informed Inspection Approach
- Inspection Report and Severity
- Remediation
- Technology and Artificial Intelligence
- Advancing Audit Quality Through Firm and Stakeholder Engagement

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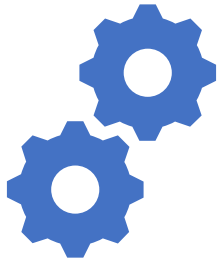
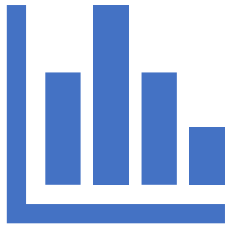
QC-Informed Inspection Approach

FUTURE: QC-INFORMED INSPECTION APPROACH – CORE CONCEPTS

Consider a series of risk factors to drive the nature, timing, and extent (NTE) of both QC and engagement review procedures



Perform testing of the design, implementation, and operation of the firm's system of quality control (SoQC)



Reporting results from procedures (inspection report and thematically)

Impact of changes being considered

- Shift from engagement-centered to integrated inspection model
- Structured execution model using a QC 1000 risk framework
- Risk-based selection and scoping of SoQC and engagements
- More transparent, relevant public reporting by linking results, root causes, and themes

What is not changing

- Inspections grounded in evidence and professional judgment
- Evaluation of compliance with PCAOB standards and rules
- Maintain engagement review procedures required by the Sarbanes-Oxley Act

LEVEL SETTING THE RISK ASSESSMENT OF FIRMS VERSUS SELECTION OF AUDITS OR AREAS TO REVIEW

Risk Assessment of Firm

Risk factors would be used to perform a risk assessment of the firm that will drive the nature, timing, and extent (NTE) of both QC and engagement review procedures

Selection of QC Procedures: Quality Objectives and Responses

Identify quality objectives and the key quality responses to evaluate after understanding the firm's risk assessment and QC documentation to support the firm's SoQC evaluation.

NEXT STEP

Selection of Samples

Choose samples to examine within each quality objective and response selected.

Selection of Audits to Review

Risk factors are used to make risk-based selections of audits. The risk factors could overlap with those considered above. Note that random selections are also made.

NEXT STEP

Selection of Focus Areas

Review of financial statements for risk-based focus areas (e.g., revenue, estimates, CAMs).

FUTURE: RISK ASSESSMENT OF FIRM – QC RISK FACTORS – CORE CONCEPTS 2.0

Concept: QC and engagement selections would be informed by a series of risk factors considered for each firm to determine the nature, timing, and extent of inspection procedures (both QC and engagement file procedures).

Client & Engagement Risk

What type of audit work does the firm perform?

- Size of issuer portfolio (e.g., market cap, fees)
- Complexity and risk of issuer portfolio / industry / geography concentration
- Group audits / use of other auditors
- Rate of restatements
- Qualified opinions / material weaknesses
- Business Metrics (e.g., sufficiency of audit fees vs. growth in consulting and/or other lines of service)

People, Governance, & Culture Risk

Does the firm have the right leadership, incentives, and talent?

- Governance / culture
- Compensation, incentives and accountability
- Private equity ownership
- Competence (e.g., Partner and staff experience in years)
- Capacity (e.g., Partner-to-staff leverage ratio, staff turnover, use of offshoring or shared service centers)
- Whistleblower processes

QC System Effectiveness

How effective does the firm's quality control system appear to be?

- Annual QC evaluation results
- Internal monitoring program coverage and results
- Root cause analysis and remediation effectiveness
- Risk assessment process
- Changes to methodology, tools, or technology
- Extent of global network reliance
- Use of AI or other emerging technologies
- Audit Practice Metrics (e.g., audit phasing timelines, overtime monitoring)

External Signals

What external evidence indicates elevated risk?

- Historical PCAOB inspection results
- Enforcement and litigation results
- Peer review and other regulator findings
- SEC comment letters
- Market activity (e.g., IPOs, lost accounts, mergers, acquisitions, strategic initiatives)
- Analyst reports (e.g., short seller reports)

Note: Risk factors may be weighted differently depending on firm size, structure, inspection history, and available information.

ACTIVITY: PRIORITIZE QC RISK FACTORS

VIRTUAL ACTIVITY • MICROSOFT TEAMS

Use the live poll to identify the QC factors the Council believes matter most.

5
MINUTES

REVIEW + VOTE

01

REVIEW

Open the poll and read every QC factor listed.

02

SELECT

Choose the factor(s) you believe are most important. Select all that apply.

03

SUBMIT

Send your response before the five-minute poll closes.

AFTER THE POLL

Debrief the results as a group.

Review the leading selections and discuss why they matter most and if there are any missing factors.

ILLUSTRATION OF THE APPLICATION OF RISK FACTORS
TO THE NTE OF QC AND ENGAGEMENT REVIEWS (ANNUAL FIRMS)

A Firm with Lower Risks	A Firm with Higher Risks
QC INSPECTION	**QC INSPECTION**
Annual Firms	**Annual Firms**
• First step: Review SoQC **baseline documentation*** • Evaluate **baseline Key Controls^** (smaller sample) • Rotation / leverage of firm testing allowed (with some reperformance)	• First step: Review SoQC **baseline documentation*** • Evaluate **baseline Key Controls^** + **other controls based on risks identified** (larger sample) • No rotation / leverage of firm testing allowed
ENGAGEMENT REVIEWS	**ENGAGEMENT REVIEWS**
Annual Firms	**Annual Firms**
• Inspect **10-25 engagements (random, traditional)** • Inspect additional **targeted risk-based** selections • Test additional engagements for **Key Control testing (smaller sample)**	• Inspect **25-60 engagements (random, traditional)** • Inspect additional **targeted risk-based** selections • Test additional engagements for **Key control testing (larger sample)**

*"**Baseline**" documentation includes, at a minimum: RCMs, SoQC framework, Risk Assessment / Planning Memo, Conclusion Memo, Deficiencies & Remediation activities

^"**Key Controls**" are foundational controls determined by the PCAOB; likely to include controls related to: AI usage, client/engagement acceptance/continuance, independence, training, assignments, workload management

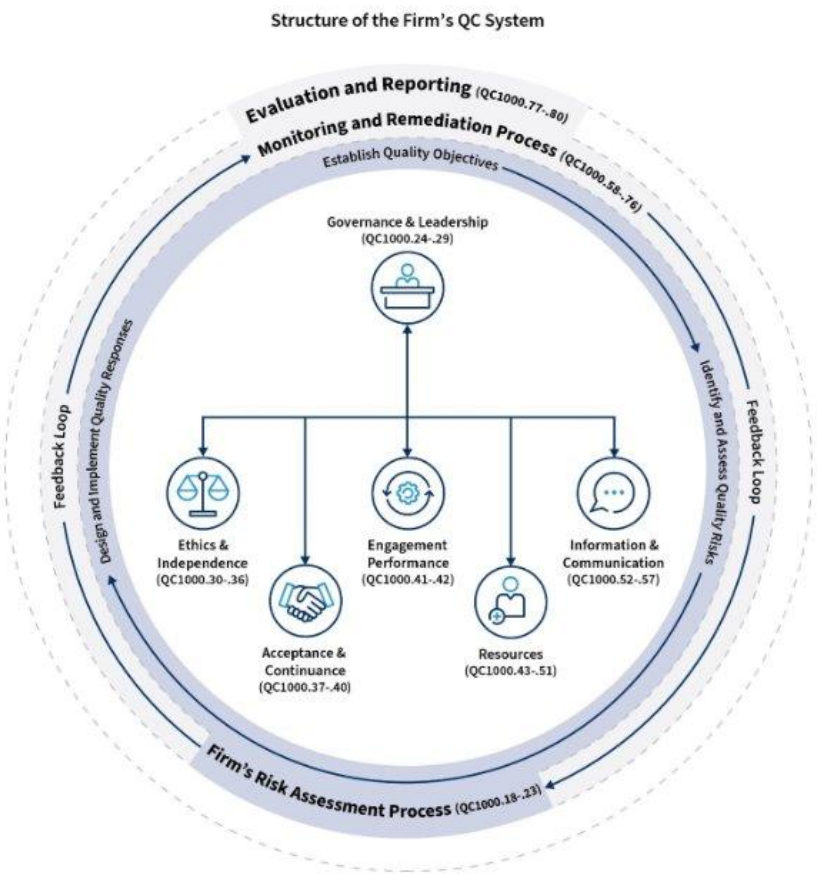
ILLUSTRATION OF THE APPLICATION OF RISK FACTORS
TO THE NTE OF QC AND ENGAGEMENT REVIEWS (TRIENNIAL FIRMS)

A Firm with Lower Risks	A Firm with Higher Risks
QC INSPECTION	**QC INSPECTION**
Triennial Firms	**Triennial Firms**
• First step: Review SoQC **baseline documentation*** • Evaluate **baseline Key Controls^ (smaller sample)** • Rotation / leverage of firm testing allowed (with some reperformance)	• First step: Review SoQC **baseline documentation*** • Evaluate **baseline Key Controls^ + other controls based on risks identified (larger sample)** • No rotation / leverage of firm testing allowed
ENGAGEMENT REVIEWS	**ENGAGEMENT REVIEWS**
Triennial Firms	**Triennial Firms**
• Inspect **1-5 engagements (random, traditional)** • Inspect additional **targeted risk-based** selections • Test additional engagements for **Key Control testing (smaller sample)**	• Inspect **1-10 engagements (random, traditional)** • Inspect additional **targeted risk-based** selections • Test additional engagements for **Key Control testing (larger sample)**

*"**Baseline**" documentation includes, at a minimum: RCMs, SoQC framework, Risk Assessment/ Planning Memo, Conclusion Memo, Deficiencies & Remediation activities

^"**Key Controls**" are foundational controls determined by the PCAOB; likely to include controls related to: AI usage, client/engagement acceptance/continuance, independence, training, assignments, workload management

DISCUSSION TOPICS: QC PROCEDURES



Key Questions:

1) Do you agree with the concept of reviewing key controls only?
2) Do you agree there is a baseline set of SoQC documentation that should always be reviewed first to inform if scope changes are necessary to SoQC testing and engagement reviews? Should this baseline SoQC documentation be scaled for smaller firms?
3) Are there any SoQC components or specified key controls that should be tested on every inspection?
4) Should the QC inspection approach be scaled to the size of a firm's issuer practice? What other factors should we consider if we stratify firms to scale our QC approach (e.g., ownership structure, size of a firm's whole audit practice, industry focus)?
5) Should the extent of **independent** operating effectiveness (OE) testing be based on the PCAOB risk factors? Is independent testing necessary?
6) Are there aspects of the firm's OE testing that we should leverage? If so, what procedures are needed to place reliance on the firm's testing?
7) Should we use the same sample of engagements to test key controls across various QC components, or should the sample of engagements be specific to the key control being tested, or the risk factors of the firm?
8) Should we rotate QC components, quality objectives, quality responses, or controls for annual inspections? Triennial inspections?

ACTIVITY: BREAKOUT DISCUSSION + REPORT-BACK

VIRTUAL ACTIVITY

25 MINUTES

01 REVIEW

Everyone reviews all 8 questions before the breakout rooms open. (2 min)

02 BREAKOUT

Two breakout rooms discuss their assigned questions and agree on takeaways for report-out. (10 min total)

03 DEBRIEF

Breakout 1 reports on Q1–4; Breakout 2 reports on Q4–8. (13 min total)

KEY QUESTIONS REPORT-OUT ASSIGNMENTS • BREAKOUT 1: Q1–4 • BREAKOUT 2 : Q4–8

01 Do you agree with the concept of reviewing key controls only?

02 Do you agree there is a baseline set of SoQC documentation that should always be reviewed first to inform if scope changes are necessary to SoQC testing and engagement reviews? Should this baseline SoQC documentation be scaled for smaller firms?

03 Are there any SoQC components or specified key controls that should be tested on every inspection?

04 Should the QC inspection approach be scaled to the size of a firm's issuer practice? What other factors should we consider if we stratify firms to scale our QC approach (e.g., ownership structure, size of a firm's whole audit practice, industry focus)?

05 Should the extent of **independent** operating effectiveness (OE) testing be based on the PCAOB risk factors? Is independent testing necessary?

06 Are there aspects of the firm's OE testing that we should leverage? If so, what procedures are needed to place reliance on the firm's testing?

07 Should we use the same sample of engagements to test key controls across various QC components, or should the sample of engagements be specific to the key control being tested, or the risk factors of the firm?

08 Should we rotate QC components, quality objectives, quality responses, or controls for annual inspections? Triennial inspections?

REPORT BACK **Breakout 1 debriefs Q1–4; Breakout 2 debriefs Q4–8. Spokespersons share takeaways.**

DISCUSSION TOPICS: ENGAGEMENT REVIEW SELECTIONS

Key Questions:

- While we plan to use risk to inform the extent of engagement reviews, is there a minimum number of engagement reviews per firm (or a minimum percentage of issuer audits) that you think is necessary to protect the interests of investors?
- Should engagement review selections be primarily risk-based or random selections? Or a combination?
- Any concerns with a varied number of engagement reviews for each Big 4 firm since it is disclosed in the inspection report? (historically the Big 4 engagement sample sizes have been consistent)
- How do we scale the number of engagement reviews for smaller firms with less than 100 issuer clients? Less than 20 issuer clients? Less than 5 issuer clients?

FUTURE: QC DEFICIENCY DETERMINATION

1 → 2 → 3 → 4 → 5 → 6 → 7

1 Define QC Observation

What requirement / objective failed?

Engagement-level or Firm-level?

Design, implementation or operation?

2 Evaluate Severity

High / Moderate / Low

Affect to audit quality? Unsupported opinion?

How long observation existed?

3 Evaluate Likelihood

High / Moderate / Low

Could affect other QC components, other engagements?

4 QC Deficiency Conclusion

Use combined severity matrix

As an example, Moderate and above is a QC deficiency (based on table below)

5 Identify Root Causes

Why did it fail?

Why not detected earlier?

Could this happen elsewhere?

6 Evaluate Systemic Nature

Isolated / Pattern / Systemic

Across similar engagements, including firm findings?

Failure to detect?

7 Report Conclusion

Critical Improvement(s) Required

Improvement Required

No / Limited Improvement Observation

STEP 4: COMBINED SEVERITY MATRIX

Impact / Severity↓ / Likelihood→	Low likelihood	Moderate likelihood	High likelihood
High impact	Moderate	High	Severe
Moderate impact	Low	Moderate	High
Low impact	Low	Low	Moderate

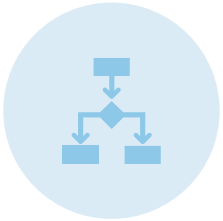
Inspection Report and Severity

ILLUSTRATIVE INSPECTION REPORT - KEY CHANGES SINCE VERSION 1

Updated severity scale and definitions for both QC and engagement review procedures

Executive Summary – added risk factor considerations

Firm-Published QC Conclusion and Public Data on Restatements and Audit Report Amendments- removed Audit Practice Metrics



Observations related to Quality Control – removed presentation of multiple years

Engagement Results by Issuer – included tabular view to present results with a new appendix that includes narrative description of deficiencies

Non-Public – Moved narrative description of QC deficiencies to appendix and included a summary chart presenting results

ILLUSTRATIVE INSPECTION REPORT - KEY CONCEPTS

Public portion:

- Added “firm at a glance” section, in following the executive summary section
- Added firm-published QC conclusion and public data on restatements
- No longer reporting in categories of Part I.A, Part I.B, or Part I.C; but rather a simple public vs private section of the report
- Severity scale included throughout (similar scale for both QC and engagement review findings)
- Observations related to QC (published preexisting QC criticisms) are presented first
- Under consideration – any additional information we may legally be able to include when it is determined that QC criticism is not satisfactorily remediated
- Engagement results presented in summary chart with additional contextual charts and narrative provided in appendices

Non-public portion:

- Summary chart summarizing results of QC procedures
- Appendix includes narrative description of QC deficiencies
- Severity scale included throughout (similar scale for both QC and engagement review findings)

FUTURE STATE: SEVERITY FRAMEWORK – ENGAGEMENT REVIEW FINDINGS

Scale		Definition
	**Audit Failure / Not Independent**	**Audit Failure / Not Independent:** The firm either: 1) did not obtain sufficient appropriate audit evidence to support one or both of its audit opinions and should perform additional audit work to obtain reasonable assurance about whether the financial statements are materially misstated and/or whether a material weakness exists, or to substantiate the relevant audit opinion; or 2) may not be independent of its client (i.e., not capable of exercising objective and impartial judgment).
	Improvement Required	**Improvement Required**: The firm either: 1) did not comply with PCAOB standards in an area related to a significant account, disclosure, or relevant assertion and the deficiency is significant but does not rise to the level of an audit failure; or 2) had a significant instance(s) of non-compliance with PCAOB standards or rules. The deficiency (ies) does not rise to the level of an audit failure because the totality of audit evidence and/or procedures performed reduced the severity of the deficiency. Based on the evidence available, the deficiency is unlikely to result in a material misstatement or material weakness and does not require additional audit work to support one or both of its audit opinions.
	**No / Limited Improvement Required**	**No / Limited Improvement Required:** No deficiency, a deficiency that is not significant, or an instance of non-compliance with PCAOB Standards or Rules that is not significant. The audit has no or minor performance and / or documentation matters such that the file, as archived, supports the audit opinion(s).

FUTURE STATE: SEVERITY FRAMEWORK – QC FINDINGS

Scale		Definition
	**Critical Improvement(s) Required**	A pervasive deficiency in a quality objective or response that creates a reasonable possibility the firm did not or will not achieve the reasonable assurance objective. (Severe and Pervasive)
	Improvement Required	A deficiency in a quality objective or response where the impact is severe but does not rise to a pervasive level. (Severe, but Not Pervasive); or A deficiency in a quality objective or response that is pervasive but does not rise to a severe level. (Not Severe, but Pervasive)
	**No / Limited Improvement Observation**	No deficiency(ies) or a QC observation in a quality objective or response that is not severe or pervasive. (Not Severe, Not Pervasive)

CURRENT VS PROPOSED REPORT (IMPACT OF SEVERITY SCALE)

Current Report Section	Finding	Proposed Report Severity	Proposed Report Section
Part I.A	Findings that meet the definition of an audit failure		Public
	Findings that are significant but do not rise to the level of an audit failure		
Not Currently Included	Findings related to obtaining audit evidence that are significant but not an audit failure		
	Findings arising from QC selections that are significant and relate to auditing standards		
Part I.B	Findings that meet the definition of an audit failure		
	Findings that are significant		
	Findings that are less than significant		Not Reported
Part I.C	PCAOB-identified independence findings where the firm may not be capable of exercising objective and impartial judgment.		Public
	Other PCAOB-identified independence findings that are significant		
	Other PCAOB-identified independence findings that are less than significant		Not Reported
	Firm-identified independence findings		
Part II	QC deficiencies that are severe and pervasive		Initially Non-Public (subject to public disclosure if not remediated to the Board's satisfaction within 12 months)
	QC deficiencies that are severe but not pervasive or pervasive but not severe		

SEVERITY SCALES
FACTORS FOR EVALUATING THE SEVERITY OF QC & ENGAGEMENT DEFICIENCIES

Concept: Evaluative factors are applied to the QC and engagement deficiencies to determine the severity category per the previous framework. While inherently judgmental, standardized factors promote consistency in the evaluation of severity.

Factors for Evaluating Severity	
QC	**Engagement**
• Evidence of actual or potential quality impact • Extent and pervasiveness • Relative importance of the affected quality objective or control • Nature of the deficiency • Root cause(s) • Compensating controls • Remediation status • Reoccurrence and duration	• Totality of procedures performed and evidence obtained (on an account assertion level basis) • Magnitude (quantitative) – how wrong could it be? • Qualitative effect on users of financial statements/other reporting/covenants • Volume and pervasiveness • Relative importance of related rule or standard • Relation to associated risk, including significant risks, CAMS and/or CAEs, as well as the sufficiency or appropriateness of the firm's risk assessment • Review of AS 2901 actions (e.g., results, extent of additional procedures required, need for additional information from issuer)

FUTURE STATE: TIMING CONSIDERATIONS

What is the challenge?

- The PCAOB inspection period typically consists of a twelve-month period that varies by firm type
- Firms choose their annual SoQC evaluation date – resulting in variability
- Unlikely the inspection period will match the 12-month period ending on the firm's SoQC evaluation date
- An integrated inspection approach (testing QC and engagements) raises timing challenges and questions on usefulness

	Firm A	Firm B
PCAOB "cutoff" date	August 31st	August 31st
Firm SoQC evaluation date	September 30th	March 31st
Firm's Form QC filing date	November 29th	May 30th
Potential impact to PCAOB's evaluation and inspection report	**Not Aligned** Form QC Informs Next Inspection	**Aligned** Form QC Informs Current Inspection

TWO INSPECTION REPORTS?

- Continuing to evaluate issuing public portion of report and non-public portion of report on different dates
- Considerations include:
  - Legal considerations and permissibility
  - Potential alignment of firm's QC evaluation date/Form QC filing to PCAOB report timeline
  - Alignment of engagement review results to inform evaluation of QC
  - Reporting timeline

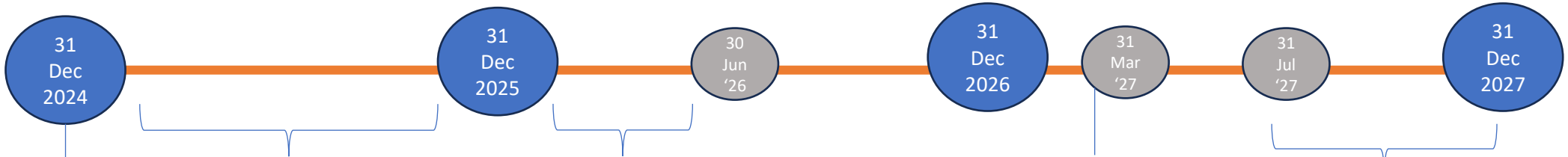
OTHER TOPICS FOR THE ILLUSTRATIVE INSPECTION REPORT

Audit Practice Metrics	Absence of firm good practices noted by the PCAOB	Readability	QC Prominence
Details on engagements selected (# random, # risk-based, # QC)	Firm information (network info, audit practice, etc.)	Data Visualization	Others?

Remediation

EXISTING REMEDIATION TIMELINE

(AS ILLUSTRATED FOR AN AUDIT FIRM WITH AN ANNUAL INSPECTION)



Year-end of registrant's audited financial statements being inspected "2024 Audits"

April-August
Timing of related PCAOB inspection of the 2024 Audits
The "2025 Inspection"

Targeted release of the 2025 Inspection Report (Public Part I)

QC findings included in the Non-Public portion of the report (Part II)

For this example: assume report is dated March 31, 2026*

Date** by which the firm addresses (4009 response***) all Part II criticisms raised in the 2025 Inspection (referred to as the Remediation Period End "RPE")

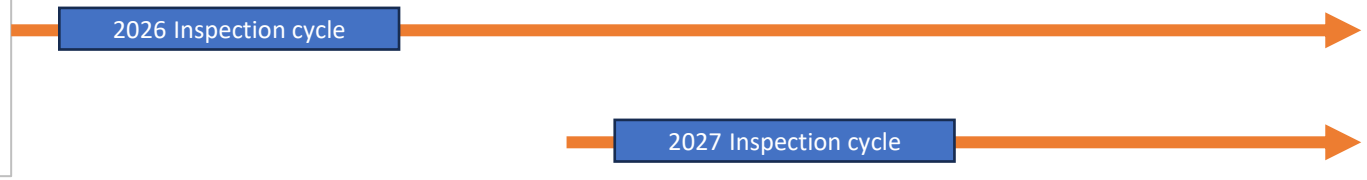
Following a review of the submission, the PCAOB staff recommends to the Board whether the firm has satisfactorily addressed the criticism

If the Board determines the firm has not satisfactorily addressed criticisms, the Part II findings are publicly disclosed

Targeted goal ^^ (4-9 mos. After the RPE) for the PCAOB to make remediation determination (e.g., satisfactory or not).

Historically, the PCAOB determination has taken from 4 mos. to 3 years after the RPE.

*This is the report date, not the date the report is made public. If the firm disagrees with certain findings in the final report or the Board's remediation determination, it can request interim Commission review within 30 calendar days of receiving the final report or notice of the PCAOB's determination.
**This one-year window is specified by the Act
***Firms can submit draft plans during the prior 12-month period
^^Proposed Key Performance Indicator



FUTURE: PROPOSED RESPONSES TO FEEDBACK RECEIVED

Feedback Received	Proposed Responses					
	New Remediation Toolkit	New Communication protocols/ Milestone touch points	Changes to inspection report	Thematic Reports	Key Performance Indicators	QC 1000
What does "to the satisfaction of the Board" mean	√					
Increase transparency to all stakeholders of remediation status and determinations		√	√	√		
Increase visibility into remediation progress, evaluation rationale and outcome		√	√	√		
Drive greater consistency of remediation determination	√				√	√

FUTURE: NEW REMEDIATION TOOLKIT - PROPOSED CONTENTS

Remediation Toolkit Materials would include:

1) Existing Remediation Timeline
2) Proposed Communication Protocols/Milestone Checkpoints, including ability to request a meeting between the PCAOB/Firm
3) New Staff Guidance Materials:
    - Guidelines for developing a satisfactory remediation plan*
    - Satisfactory vs. Unsatisfactory Trends and Analysis*
    - Case Studies

- *Draft Illustrative example provided as a pre-read.* Document was prepared solely for discussion purposes. Document has not been reviewed by the Board and does not represent the view of the Board, any individual Board member, or Board staff. This document remains subject to further development in accordance with legal, regulatory, and other considerations.

Toolkit would be:

- ✓ Visible on PCAOB website (quick link)
- ✓ Interactive and searchable with click throughs
- ✓ Reviewed annually and "refreshed" as necessary

FUTURE: PROPOSED COMMUNICATION RECOMMENDATIONS

Inspection Report

- Includes non-public Part II criticisms that firms may remediate

Within 1 Month

- Call between firm, PCAOB inspection team, and PCAOB Remediation team to discuss understanding of the QCC

3-6 Months

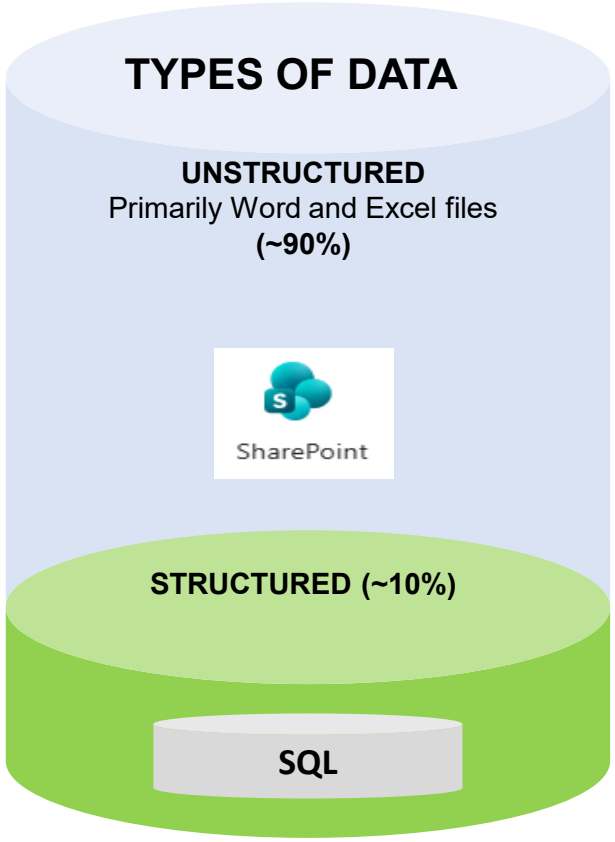
- Encourage firms to share results of root cause evaluation and obtain informal directional feedback from PCAOB staff

6-9 Months

- Encourage firms to share planned remedial actions and obtain informal directional feedback from PCAOB staff

Technology and Artificial Intelligence

REGISTRATION AND INSPECTIONS DATA SOURCES AND TYPES



Firm Data Requests – Primarily various excel workbooks sent to firms to complete and return, limited web-form submissions (RFP)

SharePoint – Word and Excel files documenting inspection activities, including comment forms, report writing, and remediation activities

Firm Registration Information – Firm submitted form data (e.g., Form 2, Form AP) and supporting documents (RASR)

Compendium (SQL) – Manually managed database with inspection report data and certain related inspection information from the beginning of the PCAOB (SQL)

IMS Inspection Data Fields – Primarily inspection related data and project management status (IMS)

External Vendor Data – Structured data feeds from providers such as Audit Analytics, Capital IQ, FINRA, etc. (Enterprise Data Hub)

EFFORTS UNDERWAY TODAY

1

DRI Deployment of Version 1.0 Copilot Generative Assistance Agents (June 2026)

- Pilot assist capabilities: comment form, dispositions, quality control evaluation, and consultation activities
- Raise AI literacy and acceptance
- Obtain feedback for generative/agentic Copilot AI agents

Objectives: Early start on building staff AI literacy and skills; serves as a proof of concept/pilot to prepare for more advanced use of AI

2

Setting up a "Single-Source of Truth" in Databricks

- Architecture, creating automated data pipelines, integrating disparate data sets
- Rapid development of dashboards, AI workspaces, ML, advanced analytics

Objectives: Early start on integrating data and improving data quality to enable advancing AI and reporting

3

DRI data dictionary and data governance

- Creating DRI data governance policies and procedures
- Comprehensive DRI Data Dictionary

Objectives: Early start on necessary foundational data governance activities that will be linked to organization-wide Enterprise Data Governance efforts

TECHNOLOGY SOLUTION SCOPING

1

Enabling Inspections

- What is an inspection
- What is the definition of a platform for the PCAOB
- Use of AI
- Technology built around process or built around capture/maintenance of data

2

Establishing and Sustaining Data As an Asset

- Technology built to harness the potential of our data
- Transform methods to capture inspections data (no longer Word and Excel)

3

Improving Stakeholder Interactions

- Firm interactions, data request inefficiencies
- Researchers, access to our data
- External Chat Bot
- Audit committees and others

INITIAL RECOMMENDATIONS FOR DISCUSSION

1

Foundational Elements

- Implement enterprise data governance strategy
- Establish “Single Source of Truth” for data
- Transform inspection scoping approach (e.g., QC-first) and modernize inspection processes
- Fill the technology skills gap (AI engineers, data architects)
- Upskill staff in the use of AI

2

Quick Wins

- Utilize AI and existing technology to drive process and operational efficiency/effectiveness (e.g., automation, apply agentic AI internally)
  - Continue development and release of Copilot agents
  - Select core AI platform for advanced analytics and machine learning (e.g., audit practice metrics)

END STATE 1

AI-assisted first-pass inspection using self-training “Normative” models for focus areas and QC (AI/ML)

Human in the loop for follow-up and finalization

END STATE 2

Continuous risk assessment and monitoring

Human in the loop for follow-up and finalization

END STATE 3

AI Chat Bot – External Guidance/Use

Human in the loop for follow-up and finalization

END STATE 4

Access to our data

(subject to legal requirements)

More effectively enable research and insights, facilitate ROI for AI/auditing development, and evolve transparency to advance audit quality

Advancing Audit Quality through Firm and Stakeholder Engagement

ENHANCING FIRM AND STAKEHOLDER ENGAGEMENT

CURRENT ACTIVITIES

- Through inspections (meetings with firm leadership - annual firms)
- Forums
- IAG, SEIAG, SFRG
- Small firm outreach – DRI Leadership reaches out to leadership to obtain feedback post inspections
- This council!

FUTURE: ADDITIONAL ACTIVITIES

- Annual survey / structured feedback loop
- Periodic roundtables
- Dear-Auditor style letters / FAQs
- Enhanced consultation process
- Good practices and learnings
- Firm facing communication protocols to provide transparency on status and process
- Fellowship / rotation program
- IFIAR regulator networks- driving consistency in international inspections
- Strong liaison with international standard setters (e.g., IAASB)

OTHER IDEAS

- Additional trend analysis data on the PCAOB website
  - By peer group firms
  - Aggregation of results (industry, type of issuer, type of findings, etc.)

- PCAOB KPIs:
  - Time to issue comment forms, reports, remediation determinations
  - Stakeholder engagement

- Tailored documents for audit committee chairs, investors, etc.

Q&A