1.03 Discussion Draft Staff Guidelines for Developing a Satisfactory Remediation Plan

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How does the PCAOB determine that a Quality Control Criticism (QCC) is addressed by a firm to the satisfaction of the Board?

In accordance with the Sarbanes-Oxley Act, a QCC will be made public if it is not addressed by the firm "to the satisfaction of the Board." Under Rule 4009, the firm may submit evidence or otherwise demonstrate to the Director of Division of Registration and Inspections (DRI) that it has improved such systems, and remedied such defects, no later than 12 months after the issuance of the Board's final inspection report. After reviewing such evidence (the firm's Rule 4009 submission and supporting evidence (collectively, the "Remediation Plan")), the Director advises the firm whether he or she will recommend to the Board that the Board determine that the firm has satisfactorily addressed the criticisms or defects in the quality control system of the firm identified in the final inspection report and, if not, why not. The Board then makes a determination if those criticisms or defects are addressed by the firm, to the satisfaction of the Board. A favorable remediation determination reflects the Board's assessment that the firm has "demonstrated substantial, good-faith progress toward achieving the relevant quality control

objectives, sufficient to merit the result that the criticisms remain nonpublic." Existing staff guidance provides the five criteria applied by the inspection staff when evaluating a firm's remediation efforts. These criteria are: change, relevance, design, implementation, and execution and effectiveness.

Understanding the QCC

It is important for a firm to understand the nature of any QCC identified by the PCAOB prior to developing a Remediation Plan. At some firms, the individuals charged with developing the Remediation Plan may not have been involved in the inspection. This may mean that they do not understand the nature and genesis of the QCC. The PCAOB should be contacted for further discussion if the firm or the individuals involved in the remediation do not understand the QCC.

Performing a Root Cause Analysis on the QCC

Once the firm understands the QCC, an appropriate root cause analysis should be performed. Depending on the size and structure of the firm, this may involve several layers of discussion and analysis to arrive at what is believed to be the root cause. This is a critical step in designing remedial actions that are responsive and relevant to the QCC.

The inspection staff believes that a firm's analysis of the root cause(s) of a QCC may be helpful in determining whether an action is relevant and appropriately designed to remediate quality control deficiencies. There may be multiple causes contributing to a given deficiency. The nature and extent of the root cause process will likely differ significantly with a firm's size and complexity. However, as a general matter, the more thoughtful the analysis, the more likely a firm will identify the major causal factors and the greater the likelihood that a firm can design and implement remediation efforts that will be effective in preventing recurrence of similar deficiencies.

Developing a Remediation Plan

The following guidance is provided to assist firms in their design, development, implementation, and monitoring of their Remediation Plan.

The first table "Remediation Criteria" presents the five criteria used by PCAOB staff to assess a firm's remedial actions, as discussed in the 2013 Staff Guidance Concerning the Remediation Process, presented with positive and negative indicators.

The second table “Other Considerations” presents other items that PCAOB staff includes in their evaluation, presented with positive and negative indicators.

The third table “Selection of Remediation Actions” is a list of common remedial actions included in Remediation Plans, with positive and negative examples to consider when developing a Remediation Plan. Each remedial action is linked to the five remediation plan criteria outlined in Staff Guidance.

Remediation Criteria

Criteria	Objective Considerations	Positive Indicators	Negative Indicators
Change	Meaningful change to QC system at time of QCC	New/revised policies, controls, programs (before vs after evidence to demonstrate change)	Repeating prior actions; superficial updates; no meaningful change
Relevance	Directly addresses QCC and/or root cause(s)	Linkage QCC → root cause → action; documented root cause analysis	Partial or indirect response; not tied to root cause
Design	Appropriately designed to remediate QCC	Defined scope, logical process flow, integration into QC system; required vs. optional	Optional tools; insufficient scope; not driving behavior change
Implementation	Implemented within 12 months or shows diligence + substantial progress (applicable for long-term actions)	Implementation dates; rollout evidence; adoption measurement; milestone plans (applicable for long-term actions)	Delayed without justification; used for planning only vs. full audit execution, limited rollout
Execution & Effectiveness	Operating as intended and achieving or expected to achieve results	Monitoring results; inspection observations; behavioral/process change evidence	No execution evidence; no monitoring; no credible basis to determine its effectiveness

Other Considerations

Consideration	Objective Considerations	Positive Indicators	Negative Indicators
Diligence	Timely, constructive remediation effort	Early initiation; engagement with staff; responsiveness	Reactive or delayed response
Substantial Progress	Meaningful advancement toward QC objectives	Placed in operation or established milestones for long-term actions with related monitoring	Not placed in operation; milestones not established for long-term actions
Completeness of Submission	Full evidentiary submission	Thorough action descriptions; supporting documentation; implementation and effectiveness evidence, if available	Lack of evidence; unsupported claims
Monitoring & Feedback	Ongoing monitoring and adjustment	Internal timely monitoring processes; adjustments based on results	No feedback loop or updates
Sustainability (unlikely to reoccur)	Embedded within QC system	Policies, governance, accountability structures	One-time fixes; not institutionalized
Response to Persistence	Enhanced or different types of actions for repeat QCCs	Meaningful change in approach; clear linkage to appropriately developed root causes; rationale for success	Reuse of previously ineffective actions

Selection of Remedial Actions

Remedial Action	Remediation Plan Criteria				
	Change	**Relevance**	**Design**	**Implementation**	**Execution & Effectiveness**
Training Programs	Positive: New, tailored trainings that are responsive to the QCC. Negative: Repeating prior training.	Positive: Addresses root causes and QCC. Negative: Generic training.	Positive: Role-specific, includes application guidance/case studies, includes course assessments. Negative: Broad, generic content, lecture-style delivery	Positive: Mandatory with full attendance. Negative: Partial attendance or untimely delivery.	Positive: Evidence of improved performance. Negative: No impact; no post-course assessment.
Methodology / Guidance	Positive: Meaningful changes to methodology (includes examples, implementation guidance, etc.). Negative: Minor updates, not disclosed to broad practice.	Positive: Fully addresses QCC. Negative: Partial coverage of QCC.	Positive: Clear procedures, required/no variability in execution. Negative: High-level only, optional, difficult to understand.	Positive: Integrated and communicated to appropriate personnel. Negative: Not embedded, not supported.	Positive: Used consistently, improved outcomes. Negative: Low adoption, no improvement in inspection results
Tools / Templates	Positive: New or meaningfully enhanced tools/templates.	Positive: Addresses full risk area and QCC. Negative: Narrow	Positive: Required usage and review with appropriate training and infield	Positive: Deployed and embedded in audit software.	Positive: Evidence in audit files, improved inspection results

Remedial Action	Remediation Plan Criteria				
	Change	**Relevance**	**Design**	**Implementation**	**Execution & Effectiveness**
	Negative: Cosmetic changes.	use/does not address QCC.	coaching Negative: Optional usage and no related training/coaching provided	Negative: Inconsistent rollout; voluntary usage without monitoring	Negative: No improvement in inspection results
Monitoring Programs	Positive: Enhanced monitoring capability. Negative: No changes.	Positive: Focused on QCC issue Negative: Unrelated to QCC issue	Positive: Tracks implementation and execution effectiveness. Negative: Tracks only activity.	Positive: Performed prior to submission of Remediation Plan. Negative: Planned only (not performed).	Positive: Results used to refine actions. Negative: Selective or incomplete results.

Overall Summary of Remedial Actions

Examples of remedial actions that likely lead to favorable/satisfactory determinations

- Understanding of QCC and performing a thoughtful root cause analysis
- Timely engagement with DRI staff with a well-developed plan
- Actions show:
    - Meaningful change from prior efforts
    - Direct linkage to QCC and/or root cause
    - Evidence of implementation and effectiveness, if available
    - Monitoring and feedback loop

Examples of remedial actions that likely lead to unfavorable/satisfactory determinations

- Not fully understanding scope of QCC
- Lack of engagement with DRI staff
- Actions that:
    - Replicate prior efforts (especially training)
    - Address only part of the QCC
    - Do not change actual audit behavior
    - Lack evidence of implementation or for which there is evidence of ineffectiveness
    - Are high-level without operational impact