1.04 Analysis of Satisfactory and Unsatisfactory Remediation Determinations

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Executive Overview

This analysis is based on a sample size of 34 firms—19 annually inspected firms (inspection years 2016–2023) and 15 triennially inspected firms (2021–2025).

Core finding: Regardless of firm size or inspection frequency, the same fundamental drivers determine outcomes:

- Multi-pronged, well-designed actions tied to root causes → favorable/satisfactory determination
- Narrow, repetitive, or assertion-only actions without evidence → unfavorable/unsatisfactory determination
- Subsequent inspection results corroborate but do not independently determine the outcome

Actions Likely Leading to Favorable/Satisfactory vs. Unfavorable/Unsatisfactory Determinations

Favorable (Satisfactory) Actions

Example Action Type	Description	Examples
New/Revised Mandatory Tools	New templates, checklists, audit programs, or work papers that did not previously exist or represent a meaningful enhancement	Creation of a new mandatory supervision guide; development of a standardized audit committee communication template; introduction of a journal entry testing work paper requiring documentation of completeness testing; new TOC template aligned with AS 2201; new CAM documentation templates; new Form AP checklist with filing deadlines and centralized tracking calendar
Targeted Training (Full Attendance + Accountability)	Role-specific, mandatory training with attendance rates near 100%, includes case studies, practical exercises, and post-course assessments	Mandatory revenue and estimates training, attended 100% by target audience, with post-course assessment for all professional staff; independence training requiring a 70% passing score on post-course assessment; creation of training using case studies built from the firm's own identified deficiencies
Automation & Technology	Automated systems that remove manual steps, create audit trails, and reduce reliance on individual compliance	Use of workflows in audit systems to automate and standardize procedures
Multi-Pronged Remediation Suites	Combination of templates + training + monitoring + partner review requirements in a coordinated program	Coordinated program combining a new supervision guide, workshops, and coaching; milestone-based planning reviews combined with coaching programs
Monitoring & Enforcement Mechanisms	Enhanced monitoring programs reviews, promotion consequences	Pre-issuance reviews or in-flight reviews, financial penalties
Structural & Personnel Changes	Hiring experienced personnel, external consultants for certain QC functions, redistributing workloads	Hiring a new partner with EQR experience to serve as dedicated engagement quality reviewer; engaging an experienced external partner to perform EQR on all SEC issuer engagements; redistributing engagements across partners to reduce individual workloads; engaging external consultants to perform practice monitoring
Coaching & Pre-Issuance Reviews	Risk-based selection of engagements for hands-on support before report issuance	Risk-based coaching program selecting engagements for hands-on support before report issuance; milestone-based planning reviews at key engagement stages; second-partner pre-issuance review process for EQR documentation
Targeted Response Based on Robust Root Cause Analysis	Actions explicitly tied to firm-identified causal factors developed through interviews, workpaper inspection, and quality metrics rather than generic quality improvement	Revised engagement timelines and staffing models after identifying insufficient planning time as pervasive root cause; new policy matching staff experience to audit area complexity after identifying inappropriate personnel assignment as pervasive root cause

Unfavorable (Unsatisfactory) Actions

Example Action Type	Description	Examples
Actions Not Meaningfully Different	Repeating previously unsuccessful approaches; cosmetic changes to existing tools	Persistent QCCs with similar actions each cycle; revised audit program containing procedures like prior version; risk assessment templates not meaningfully different from existing documentation; actions that do not appear to include a meaningful root cause analysis
Assertions Without Evidence	Verbal or written claims of compliance with no documentation, training records, or monitoring evidence	Assertion that 'all staff exercise due professional care' with no supporting policies, training records, or monitoring evidence; assertion that confirmation procedures were always performed with no new QC measures documented; claim that training was provided but no materials, attendance records, or assessments submitted
Narrowly Scoped Actions	Limited to specific audit areas, a few engagements, or a subset of personnel rather than firm-wide application	EQR checklist limited to only the specific audit areas cited in the inspection report; estimates work paper covering only one estimate type rather than all estimates; remedial actions limited to a subset of personnel rather than firm-wide application
Generic/Non-Mandatory Training	Low attendance, voluntary participation, generic content, no post-course assessment	EQR training attended by only 2 of 7 engagement quality review partners; repeat ICFR training with no post-course assessment to verify comprehension
Training Alone for Repeat QCCs	Relying solely on training (especially repeated training) for persistent criticisms without structural change	Repeated same internally delivered EQR training content and format from prior remediation period; training on same standard covering identical material as prior period with no enhancement
Poor Execution / Low Compliances	Policies adopted but not followed in practice	Planning milestones policy adopted but not met on most engagements; pre-issuance review process implemented but no evidence of follow-up on reviewer comments or identified deficiencies
Remedial Actions After Remediation Period End (RPE)	Implemented after the remediation period end date	Training conducted after the remediation period end date without evidence that the content was developed before end date
Wrong Standards Basis	Templates or tools based on non-PCAOB standards	Estimates templates based on AICPA guidance rather than applicable PCAOB standard (AS 2501)

Actions by QCC Area

QCC Area	Favorable Actions & Examples	Unfavorable Actions & Examples	Key Observation
Testing Controls / ICFR	Comprehensive template overhauls; coaching programs; new TOC templates requiring documentation aligned with AS 2201; training incorporating case studies from the firm's own prior deficiencies	Narrow or repetitive actions; training alone without meaningful change; scope limited to specific audit areas; repeat training without post-course assessment	Templates specifically prompt AS 2201 requirements
Supervision	Partner-focused supervision guides and workshops; new accountability requirements for engagement partners; mandatory partner sign-off at interim fieldwork milestones	Training alone without new partner-level requirements; policies adopted but not followed in practice	Requires partner-level accountability, not just staff training
Engagement Quality Review (EQR)	Outsourcing EQR to experienced external partners; hiring dedicated EQR personnel; comprehensive EQR checklists covering all engagement areas; reducing individual partner workloads through redistribution; coaching-based approaches; involvement of EQR earlier in the audit cycle	Training alone (especially for repeat QCCs); narrowly focused checklists covering only cited areas; low training attendance; no post-course assessments; EQR partner workload strain not addressed	Frequently recurring QCC with unsatisfactory rate Structural/personnel changes critical for repeats
Audit Committee Communications	New mandatory templates prompting all required AS 1301 communications; pre-issuance review of audit committee communications	No new tools or processes; assertions that required communications were already being made	Straightforward to remediate with well-designed templates
Form AP / Reporting	New checklists with filing deadlines; centralized tracking calendars; designation of compliance personnel responsible for monitoring	No systemic changes; reliance on individual partner compliance without tracking	Responsive to procedural/tracking-based solutions
Testing Estimates	New work papers based on AS 2501 with comprehensive coverage of all estimate types; testing documentation	Work papers narrowly focused on one estimate type; assertions without evidence of new procedures	Must be comprehensive across all estimate types and based on correct standards
Professional Skepticism / Risk Assessment	Culture-shift initiatives; risk assessment templates with embedded guidance; new mandatory risk assessment work papers integrated into engagement planning; engagement-level risk workshops	Narrow fixes insufficient for pervasive issues; generic training without practical application; templates not tailored to engagement complexity; assertions without supporting tools	Most effective when integrated into engagement planning with mandatory completion
CAMs / Audit Documentation	Targeted template or system fixes for CAM documentation; document lockdown procedures; centralized tracking of assembly deadlines; automated reminders	No new procedures implemented; assertions of existing compliance	Typically, first-time QCCs resolved in one cycle
Fraud / Journal Entry Testing	Revised work papers requiring completeness testing and selection criteria documentation; training focused specifically on unpredictability requirements	Generic fraud training without specific journal entry testing focus; no new work papers introduced	New work papers that specifically prompt required procedures are effective

Practice Monitoring	Engaging external consultants for monitoring reviews; requiring issuer audit engagements in monitoring scope; documented follow-up on monitoring findings	Internal monitoring only, with no independent review component	External involvement adds credibility and objectivity (more applicable for smaller firms)
Sampling	Revised sampling methodology incorporating substantive risk factors; training on statistical vs. non-statistical sampling approaches	No changes to sampling methodology; training provided without revised methodological guidance	Methodology-level changes necessary, not just training
Due Professional Care	Multi-pronged approach combining training, new tools, monitoring, and workload management	Assertions only (e.g., 'we exercise due care'); no measurable actions; single-action responses to a broad QCC	Requires comprehensive, multi-faceted remediation due to broad nature

Additional Cross-Cutting Trends and Themes

- **First-time vs. repeat QCCs.** First-time QCCs are far more likely to receive satisfactory determinations across both firm types. Repeat/persistent QCCs require meaningfully enhanced and fundamentally different approaches.
- **Subsequent inspection results are relevant but not conclusive.** Strong remedial actions can overcome adverse subsequent results if well-designed and evidenced. Conversely, favorable subsequent results cannot overcome poorly designed actions. Of course, adverse results combined with weak actions strongly support unsatisfactory determinations — this principle is consistent across both populations.
- **Training is necessary but rarely sufficient alone for any complex or repeat QCC.** The consistent pattern is that training must be combined with new tools, monitoring, and/or structural changes.
- **Root cause quality drives action quality.** Genuine, specific root cause analysis (e.g., 'insufficient planning time' or 'inappropriate personnel assignment') leads to responsive, targeted actions. Generic root causes (e.g., lack of knowledge) lead to generic training that fails.
- **Comprehensiveness over narrow precision.** Firm-wide programs applied to all issuer audits consistently outperform narrow pilot programs or area-specific fixes. The Board expects firms to address the systemic issue, not just the specific symptoms cited in the inspection report.