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July 9, 2026

By email: comments@pcaobus.org

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

RE: Release No. 2026-002, Supplemental Request for Comment: Proposed Amendments to QC 1000, A Firm's System of Quality Control, and Related Rule and Forms

Dear Office of the Secretary:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board (PCAOB or the Board) Release No. 2026-002 on proposed amendments to QC 1000, *A Firm's System of Quality Control* (QC 1000 or the standard), and related amendments to the quality control reporting rule and PCAOB forms.

We firmly believe that a strong system of quality control is foundational to the consistent delivery of high-quality audits. We have long supported[1] the Board's objective to modernize its quality control standards and establish a principle-based, scalable framework that promotes accountability and facilitates international alignment. Through the lens of our ongoing efforts to implement QC 1000, we continue to gain valuable insights into the practical considerations associated with operationalizing the standard. We therefore appreciate the Board's decision to provide a supplemental exposure period, and we support the amendments proposed in the release.

We believe these amendments will enhance the standard's ability to drive continuous improvement in audit quality and support consistent, scalable application across firms of varying sizes and structures. In particular, the amendments reduce complexity, ease operational burdens, and improve alignment with other quality management standards[2] while maintaining the rigor of firms' quality control systems that has been foundational throughout QC 1000's standard-setting lifecycle.

The appendices to this letter provide our detailed responses to specific questions posed in the invitation to comment, offering both recommendations to improve the operability of the standard and highlighting areas where targeted implementation guidance would enhance consistency in application. In that context, we would like to highlight our views on certain amendments that were the subject of the Board's

[1] Refer to KPMG's comment letter to PCAOB Release No. 2022-006, *A Firm's System of Quality Control and Other Proposed Amendments to PCAOB Standards, Rules, and Forms*, and to KPMG's comment letter to U.S. Securities and Exchange Commission (SEC) Release No. 34-103803; Public Company Accounting Oversight Board; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Postponing the Effective Date of Amendments to Board Standards, Rules, and Forms Adopted on May 13, 2024.

[2] Other quality management standards include the International Standard on Quality Management 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (ISQM-1), effective on December 15, 2022; and the Statement on Quality Management Standards No. 1, *A Firm's System of Quality Management* (SQMS 1), effective on December 15, 2025.

proposal.

Similar Engagement Deficiencies

We appreciate the Board's responsiveness to stakeholder feedback regarding the operational challenges associated with evaluating similar engagement deficiencies under paragraph .68d. We support the Board's effort to narrow this requirement to focus on engagement deficiencies that (i) result in a failure to obtain sufficient appropriate evidence to support the conclusion reached on an engagement, or (ii) lead to an inappropriate overall conclusion on the subject matter of an engagement.

However, the proposed addition of the phrase 'or could result in' to paragraph .68d introduces new complexity and may broaden the population of engagement deficiencies subject to this requirement. We expand on this point in our detailed response to Question 15 in Appendix 1 to this letter. We respectfully suggest the Board refine the language to focus the evaluation exclusively on those engagement deficiencies that result in failure to obtain sufficient appropriate audit evidence or an inappropriate overall conclusion. Alternatively, the Board could specify that the requirement applies '*where there is a reasonable possibility*' that an engagement deficiency could result in such outcomes. Anchoring this requirement to the terminology used in Auditing Standard (AS) 2110, *Identifying and Assessing Risks of Material Misstatement*, and AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*, would provide a familiar framework for the profession and help distinguish between circumstances that present a reasonable possibility and those that represent more remote possibilities, while remaining appropriately rigorous and aligned with the Board's investor protection objectives.

We also continue to encourage the Board to issue written implementation guidance for paragraph .68d. Additional guidance, including illustrative examples, will be essential to support consistent application across the profession of this evaluation of significant engagement deficiencies.

Documentation (Paragraphs .84 and .86)

We appreciate the Board's proposal to allow documentation to be retained in a manner that permits timely retrieval. At the same time, the proposal release indicates that firms would be expected to retrieve documentation from live systems 'as it existed at the time that it was considered complete.' Given that dynamic operational systems routinely update or overwrite data, retrieving a historical, point-in-time view from a live system may require firms to create and retain static records. In practice, this may limit the flexibility the proposal intends to provide.

We respectfully suggest the Board provide clarifying guidance in the final release that providing reasonable evidence of the underlying information, such as system-generated reports or other reproducible outputs, would meet the documentation objectives. This clarification would allow firms to demonstrate compliance without the need to maintain point-in-time records.

External Quality Control Function (Paragraph .28)

Our firm operates on the principle that independent oversight is a key element of sound governance. We have long included independent directors on our Board, where they bring external perspectives and valuable insight. This approach is not dependent on whether the requirements set forth in paragraph .28 are retained or rescinded.

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We have followed the broader discussion across the profession regarding the External Quality Control Function (EQCF). We understand the perspectives raised by stakeholders and recognize the practical considerations associated with its implementation, including liability and structural considerations, as well as the availability of individuals who can meet the independence and experience expectations of the role. In this context, we support the Board's proposed rescission of the EQCF requirement and view it as a thoughtful response to implementation experience and stakeholder input.

We view the standard's principles-based governance and leadership quality objectives as robust and sufficient to support effective oversight of quality. The standard allows firms to adapt and continuously strengthen their existing governance structures in a way that reflects their specific size, complexity, and risk profile. If the Board seeks to further emphasize the importance of independent perspectives, we believe implementation guidance can support that objective by outlining relevant considerations and practical examples.

We also note that, given the unchanged effective date of QC 1000, revisiting alternative oversight frameworks may raise implementation challenges and provide firms with limited time to thoughtfully design and integrate new requirements into their governance structures. This further supports the Board's proposed approach to rescind the requirement and allow firms to adopt governance arrangements that are appropriately tailored to their particular circumstances.

Written Guidance

We appreciate the PCAOB Office of the Chief Auditor (OCA) for its ongoing engagement as firms work to implement QC 1000. That constructive dialogue has informed our recommendations for written implementation guidance described in Appendix 2 to this letter, particularly around the concepts of reperformance and the experienced auditor.

We also encourage the PCAOB to update its publicly available guidance on the inspection process,[3] including how quality control systems will be reviewed under QC 1000. This guidance is important in helping firms prepare for and navigate the PCAOB inspection process. We encourage the PCAOB to update this guidance in a timely manner and to provide firms with sufficient time to prepare for a revised inspection program. To that end, we continue to commend the Board for seeking public comment[4] on whether, and to what extent, a firm's system of quality control should be considered in determining the nature and extent of engagement inspections. As we noted in our letter[5] on the PCAOB's strategic priorities, we believe the inspection framework will be most useful and clear to investors if it is closely aligned with the principles-based, risk assessment approach foundational to QC 1000. We continue to recommend the Board enhance its inspection program by adopting a risk-based approach grounded in a holistic evaluation of a firm's quality control system. This would allow the Board to scale the nature and extent of regulatory reviews in response to firm-level risk and the system's overall design and effectiveness.

Finally, we support the PCAOB's newly established Firm Consultation Process[6], which aligns with the perspectives we shared in detail in our recent letter on the PCAOB's strategic priorities. It will provide

[3] Inspection Procedures | PCAOB

[4] PCAOB No. 2026-001 Request for Public Comment *PCAOB Strategic Priorities*, Question 2. What changes should the PCAOB make to its inspections program including, but not limited to, changes in light of its new quality control standard (QC 1000)?

[5] See KPMG's comment letter to PCAOB Release No. 2026-001, *Request for Public Comment: PCAOB Strategic Priorities*.

[6] PCAOB Staff Launches Firm Consultation Process to Enhance Clarity and to Support Application and Implementation of PCAOB Standards | PCAOB

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firms with a practical mechanism to clarify and apply QC 1000 and other PCAOB standards and rules in a manner consistent with the Board's intent. Similar to engagement inspections, as the PCAOB inspection staff begins evaluating firms under the QC 1000 framework, questions may arise on the application of specific requirements of the standard. We encourage the Board to integrate this consultation process into the inspection program so that interpretive matters are elevated to the most appropriate party, such as the Board's OCA, for timely resolution.

* * * * *

We appreciate the Board's engagement and the opportunity to share our perspectives on the areas for which the Board requested feedback. We welcome further dialogue with the Board and its staff on any of the matters discussed herein.

Sincerely,

KPMG LLP

KPMG LLP

cc:

PCAOB
Demetrios (Jim) Logothetis, Chairman
George R. Botic, Board Member
Steven D. Laughton, Board Member
Mark A. Calabria, Board Member

SEC
Kurt Hohl, Chief Accountant
Michal Dusza, Deputy Chief Accountant

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Appendix 1

Below are responses to select questions in the Supplemental Request for Comment proposal release (release) for which we had specific input.

A. Requirement to Design, Implement, and Operate a QC System

1. Is the proposed rescission of the design-only requirement appropriate? Why or why not?

Yes, the proposal to rescind the design-only requirement is appropriate. The proposal aligns the obligation to design, implement, and operate a system of quality control with periods in which a firm is subject to applicable professional and legal requirements in connection with an engagement as defined in QC 1000.[7] Requiring firms that are not performing such engagements to design a QC 1000-compliant system in advance does not provide a commensurate benefit to investor protection, as those firms do not present risk to U.S. capital markets during those periods. Further, once a firm is required to comply with applicable professional and legal requirements in connection with an engagement, it must design, implement, and operate a QC 1000-compliant system at all times.[8]

Therefore, we agree with and support the proposed rescission. It would reduce burden on nearly half[9] of all PCAOB-registered firms, address a potential driver of deregistration,[10] and appropriately focus the framework on firms that are actively engaged in issuer and broker-dealer audits.

2. Is there a measurable benefit for retaining some form of design-only requirement under the requirements of ISQM 1 or SQMS 1 for firms that do not perform engagements under PCAOB standards? If so, do the benefits justify the cost of compliance? Why or why not?

No, we do not believe there is a measurable benefit to retaining any form of design-only requirement for firms that do not perform engagements under PCAOB standards. As the release text emphasizes, the Board expects these firms will maintain and operate quality management systems under ISQM 1 or SQMS 1.[11] Further, because those standards already require firms to fully design, implement, and operate their quality management systems, it is not clear how a 'design-only' concept would apply to them in practice. Because firms are already required to maintain their existing systems under those respective standard-setters' frameworks, a separate PCAOB-level requirement is not necessary. Firms remain well-positioned to adapt their fully operating systems to QC 1000 if and when they begin performing PCAOB engagements.

3. Are there activities that should trigger a QC-system design requirement before a firm becomes subject to applicable professional and legal requirements in connection with an engagement? If so, what are they, and why should they trigger a design requirement?

No, there are no activities that should trigger a requirement to design a system of quality control that is compliant with QC 1000 before a firm becomes subject to applicable professional and legal requirements in connection with a PCAOB engagement.

Many of these firms are already subject to quality management frameworks such as ISQM 1 or SQMS 1 that govern pre-engagement activities. Those frameworks require firms to perform client acceptance and continuance procedures, independence evaluations, and capability assessments before undertaking an engagement. As a result, decisions about whether a firm can appropriately perform an issuer or broker-

[7] QC 1000.A3, Engagement – Any audit, attestation, review, or other engagement performed under PCAOB standards (1) led by a firm; or (2) in which a firm "play[s] a substantial role in the preparation or furnishing of an audit report" as defined in PCAOB Rule 1001(p)(ii).
[8] PCAOB Release No. 2026-002, page 14.
[9] PCAOB Release No. 2026-002, page 54.
[10] PCAOB Release No. 2026-002, page 58-60.
[11] PCAOB Release No. 2026-002, page 13.

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dealer audit are already informed by established quality management processes.

In that context, imposing a separate QC 1000 design requirement at the pre-engagement stage would not provide a corresponding benefit to investor protection. The clearest and most appropriate threshold remains the point at which a firm is subject to applicable professional and legal requirements with respect to a PCAOB engagement.

B. Roles and Responsibilities

4. Are the proposed amendments to paragraph .12, to allow (a) the specified roles and responsibilities to be assigned to individuals who are not firm personnel and (b) firms to divide responsibilities of a role among multiple individuals, sufficiently clear and appropriate? If not, why not?

Yes, we agree that the proposed amendments to paragraph .12 are sufficiently clear and appropriate. While we fully support clear accountability within the system of quality control, limiting these roles only to those who meet the definition of firm personnel may unnecessarily restrict firms' ability to assign responsibility to the most qualified individuals. In some cases, the most qualified individual to drive audit quality may be from another member firm within a global network who may have the experience, authority, and time to perform the role within a governance structure that preserves clear accountability under the standard. The proposed amendments reflect how firms, particularly those operating within global networks, structure quality management responsibilities in practice.

We also support the Board's proposal to allow firms to divide responsibilities across multiple qualified individuals, where appropriate. In practice, certain roles may be best carried out by more than one person, particularly where responsibilities involve distinct subject matter expertise or operate across different regulatory frameworks. For example, in some firms, ethics and independence are overseen by different individuals based on how those functions are structured. Allowing firms this flexibility can support stronger execution and oversight, so long as responsibilities remain clearly assigned and understood. This approach also closely aligns with ISQM 1, which does not require a single individual to perform all of the responsibilities required by a role.

5. Are the proposed conforming amendments to paragraphs .15-.17 sufficiently clear? If not, why not?

Yes, the proposed conforming amendments to paragraphs .15-.17 are sufficiently clear. The amendments reflect the increased flexibility introduced in paragraph .12 by recognizing that roles and responsibilities may be assigned to multiple individuals and clarifying that the responsibilities of those individuals are limited to the scope of their assigned roles.

6. Would the proposed amendments to paragraphs .12 and .15-.17 support audit quality? Why or why not?

Yes, the proposed amendments to paragraphs .12 and .15-.17 support audit quality. The foundation of audit quality is an effectively managed system of quality control. The proposed amendments permit flexibility to assign roles and responsibilities based on the competency, capacity, and suitability of individuals, rather than limiting those roles to firm personnel.

We recognize that some may question whether this flexibility could dilute accountability or weaken the clarity of responsibility within the system, particularly where responsibilities are shared or assigned outside the firm. The amendments appropriately address this concern and strengthen the overall requirements. The requirement in paragraph .12 that individuals have the necessary competence,

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authority, and time establishes a clear baseline for assigning responsibility. The standard also continues to require that roles and responsibilities be clearly defined and understood. As a result, firms retain accountability for allocating responsibilities in a way that supports effective oversight and execution, even where responsibilities are divided. Therefore, flexibility does not relax accountability; rather it is a means of strengthening accountability by enabling firms to assign responsibilities to the individuals within their governance structures best positioned to address specific risks, rather than based on employment relationships. This supports more effective governance and, in turn, audit quality.

7. Should the proposed amendments to paragraphs .12 and .15-.17 be available only on a scaled basis (e.g., only to firms that issued audit reports for fewer than 100 issuers in the prior calendar year)? If so, why, and what should the relevant thresholds be?

No. The flexibility to align quality control governance with operational structures should be available to firms of all sizes. Restricting these amendments based on a firm's issuer count would prevent larger firms with more complex structures where this flexibility may be most appropriate from dividing responsibilities, where appropriate. Permitting firms, regardless of size, to assign responsibilities to the individuals best suited for those roles supports the effective operation of quality control systems across registered firms.

C. External Quality Control Function

9. Would the alternative approach of retaining the EQCF requirement only for firms that issued audit reports with respect to more than 500 issuers during the prior calendar year be appropriate? Why or why not?

We understand the Board's focus on firms that audit a significant portion of U.S. public market capitalization. Even so, we do not believe that a threshold-based requirement is an appropriate approach.

First, the existing Governance and Leadership component of QC 1000 already requires firm leadership to establish a culture of quality and hold themselves accountable (QC 1000.25). These principles are sufficiently robust to achieve the Board's objectives without the need for a prescriptive requirement.

Additionally, firms that operate at the 500-issuer scale are, by necessity, large, global organizations that have developed mature and multi-layered governance and quality control frameworks. Requiring these firms to add a narrowly defined role to their existing structures may not provide a clear incremental benefit to audit quality. The Board's objectives are best served by a fully principles-based approach that allows firms to adapt existing governance structures based on the scale, complexity, and specific quality risks of their practices.

Finally, the Board's release acknowledges the implementation feedback received on the EQCF, including liability and cost concerns.[12] These underlying practical challenges inherent to the EQCF role remain, regardless of the number of firms to which the role applies.

11. Would the alternative approach of adopting the requirement for an independent oversight function in the form initially proposed be appropriate? Why or why not?

While we appreciate the Board's consideration of alternative approaches, we do not believe reverting to the initially proposed requirement would be appropriate. Although the initial proposal offered a more principles-based approach to oversight and greater flexibility, allowing firms to introduce an independent perspective while integrating the function within their existing governance structures, the requirement lacked clarity. The terms 'governance structure' and 'oversight function' made it unclear whether existing

[12] PCAOB Release No. 2026-002, page 69.

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independent boards or similar mechanisms would meet the requirement. These bodies can and do operate in an independent, advisory capacity without being formally embedded within a firm's QC system. The lack of clarity would create uncertainty about whether existing arrangements would satisfy the requirement and may lead firms to unnecessarily redesign governance structures. This would be compounded by the relatively short implementation period for these proposed amendments.

D. Information and Communication

13. Are the proposed amendments to paragraph .53e sufficiently clear and appropriate? If not, why not?

We support the proposed amendment to limit the explanation requirement in paragraph .53e to publicly available metrics. As the release text observes, public communications such as firm transparency reports or audit quality reports are typically one-way communications where external parties do not have the ability to ask questions or request clarification. In these instances, requiring a firm to explain how a metric is calculated is an appropriate and practical way to provide the context that would otherwise be gained through direct dialogue. By contrast, as the release text acknowledges, recipients of nonpublic communication, such as audit committees, issuer and broker-dealer management, and regulators, typically engage in direct dialogue with a firm and can request additional context or underlying data as needed. Tailoring the requirement in this way supports the Board's transparency objectives without introducing complexity into routine, nonpublic communication. We also appreciate the clarification in the release that a 'metric' refers to a calculated measure, rather than underlying factual data such as raw headcount. This distinction provides helpful clarity and supports more consistent application of the requirement in practice.

As we continue our implementation efforts, we believe the operability of paragraph .53e could be further enhanced by addressing its underlying structure, which currently combines two distinct quality objectives into a single provision. The first objective, which is ensuring that information a firm *voluntarily* communicates about its audit practice, firm personnel, or engagements is accurate and not misleading, is a broad, foundational principle. The second objective, which requires an explanation for *publicly communicated metrics*, is a specific, conditional requirement. We respectfully suggest that the Board divide these concepts into two distinct subparagraphs. This structural refinement would cleanly delineate a firm's responsibilities. It would clearly distinguish voluntary communications from those already governed by applicable professional and legal requirements under paragraph .53d and establish that the 'publicly available' condition applies only to the metrics' explanation requirement. We believe such a change would promote consistent, practical application of the paragraph.

Finally, we continue to encourage the Board to update its November 2024 Staff Guidance. As written, the guidance appears to broaden the scope of paragraph .53e and suggests that firm-level or engagement-level information is not limited to the audit practice.[13] Clarifying this would help support a more consistent interpretation and application of the standard across firms.

14. Would allowing firms to provide an explanation of metrics on their website adversely affect the utility and comprehensibility of metrics made public for investors and other users? If so, how?

We appreciate the Board's consideration of how firms communicate with the public in practice. Providing flexibility in how these explanations are delivered reflects a practical approach that supports the Board's

[13] Staff Guidance – Insights for Firms, QC 1000: A Firm's System of Quality Control, November 2024, page 90, "The firm-level or engagement-level information is not limited to information relating to firm's audit practice and includes communications such as promotional publications, webcasts, and information available on the firm's website (for example, information communicated in speeches or statements by firm leadership or other individuals that are representing the views of the firm, and information communicated to external parties regarding the firm's investment in technology or staff well-being initiatives)."

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transparency objectives. We do not believe that allowing firms the flexibility to provide explanations of metrics through their websites would adversely affect the utility or comprehensibility of the information. Instead, this approach would enhance clarity and accessibility for investors and other users.

As the Board noted in the release, the objective of paragraph .53e is to ensure that when a firm communicates a metric, the audience has sufficient context to understand what the metric represents and how it was calculated. Allowing firms to maintain a centralized explanation on their website supports this objective in a practical way. Firms may communicate the same metrics across multiple public formats, including transparency reports and audit quality reports. Providing a single, consistent location for the explanation reduces the risk of variation in how those metrics are described.

E. Monitoring and Remediation Process

15. Are the proposed amendments to paragraphs .68a and .68d sufficiently clear and appropriate? Why or why not?

We agree that the amendment to paragraph .68a is sufficiently clear and appropriate. Replacing the phrase 'appropriate in the circumstances' with the concept of being 'free of significant engagement deficiencies' anchors the requirement to an existing concept within the PCAOB standards. We also appreciate the clarification through footnote 40A that this concept applies to all engagements as defined by the standard to enable consistent application across the industry.

We appreciate the Board's ongoing efforts to refine the requirements in paragraph .68d. We support the Board's intent to focus the evaluation of similar engagement deficiencies on matters that relate to (i) a failure to obtain sufficient appropriate evidence to support the conclusion reached on an engagement or (ii) an inappropriate overall conclusion on the subject matter of an engagement. We also appreciate the Board's clarity in the release text that "engagement deficiencies that would not be covered by the amended paragraph would include, for example, not making required communications to the audit committee or failing to timely file Form AP, *Auditor Reporting of Certain Audit Participants*."[14]

Yet, we respectfully observe that the inclusion of the phrase 'or could result in' within paragraph .68d introduces complexity and interpretation challenges. Our concern with the proposed addition of the phrase 'or could result in' is not an objection to evaluating these scenarios. Rather, our concern is that without further context, the term 'could' effectively sets a threshold closer to a remote possibility, which, in practice, would require firms to evaluate an unbounded population of engagements.

As an alternative approach, we suggest the Board consider refining the text to specify that the requirement applies '*where there is a reasonable possibility*' that an engagement deficiency could result in such outcomes. This clarification would distinguish between circumstances that present a reasonable likelihood of a failure to obtain sufficient appropriate audit evidence or inappropriate overall conclusion and those that represent more remote possibilities. This refinement would further support the Board's objectives by improving the practical operability of the requirement and allowing firms to focus their evaluation based on risk.

16. What, if any, additional direction is needed regarding paragraph .68d?

We continue to encourage the Board to issue written implementation guidance in this area. Such guidance should outline factors the Board expects firms to consider when evaluating whether an identified engagement deficiency that was not the result of failing to obtain sufficient appropriate evidence to

[14] PCAOB Release No. 2026-002, page 29.

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support an audit conclusion or reaching an inappropriate overall conclusion could result in deficiencies elsewhere in the firm's portfolio.

We further suggest the Board release illustrative examples across a range of practical scenarios to help firms consistently apply the standard in practice, including fact patterns that would meet the threshold for a .68d evaluation and those that would not. We would welcome the opportunity to participate in the development or review of such illustrative examples in advance of publication. Engaging with firms during this process may help support a shared understanding of the Board's expectations around paragraph .68d and promote more consistent application of the standard in practice.

17. Would the proposed amendments to .68d reduce the complexity, subjectivity, or costs associated with evaluating engagement deficiencies across other engagements? Please explain.

The proposed amendments represent a practical step toward reducing complexity, subjectivity, and cost by narrowing the population of deficiencies subject to a paragraph .68d evaluation. However, as noted in our detailed response to Question 15, the addition of the phrase 'or could result in' introduces practical implementation challenges that may offset these intended benefits.

18. Are the proposed amendments to the definition of QC deficiency to take into account other quality responses (e.g., compensating responses) appropriate and clear? Why or why not?

Yes, the proposed amendments to the definition of a QC deficiency in paragraph .A8 are both appropriate and sufficiently clear. This amendment recognizes that firms often design and implement a quality control system that operates as an interconnected framework of multiple overlapping quality responses to mitigate identified quality risks.

The initially adopted definition created uncertainty as to whether a QC deficiency would exist if one specific response failed, even when other compensating responses successfully achieved the relevant quality objective. Additionally, this approach aligns more closely with the principles-based framework of other quality management standards, such as ISQM 1.

F. Evaluation of and Reporting on the QC System

19. Is permitting firms to choose their own evaluation date to conclude on the effectiveness of the QC system appropriate? Why or why not?

Yes, permitting firms to choose their own evaluation date to conclude on the effectiveness of their QC system is appropriate. We appreciate the Board's responsiveness to the practical implementation challenges identified by the profession and believe providing this flexibility will enhance the operability of the standard.

Many firms already operate under other regulatory frameworks that align QC reporting cycles to a firm's fiscal year-end. Allowing each firm to select an evaluation date that aligns to its business and reporting cycles is a practical approach that promotes both efficiency and effectiveness. We also share the Board's view[15] that this change can be implemented without impairing the PCAOB's ability to carry out its inspection program. This proposed amendment represents a balanced solution that supports the Board's objectives while recognizing the operational realities of firms in the industry.

While we support enabling firms to choose their evaluation date, we acknowledge that some firms may face additional challenges in completing their quality control evaluation if engagement inspections are

[15] PCAOB Release No. 2024-005, page 34.

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ongoing at the evaluation date or during the time period from the evaluation date to the submission of Form QC.

20. Is five months an appropriate amount of time for the firm's QC system to operate before requiring the firm to evaluate its QC system for the first time as of its selected evaluation date? If not, what length of time would be appropriate?

We appreciate the Board's recognition that, with the new flexibility to choose an evaluation date, a firm might otherwise be required to conduct an evaluation after its QC 1000 system has been operational for only a brief period of time. A five-month operating period before a firm performs its initial evaluation based on its selected evaluation date is appropriate. To enable consistent application, we recommend that the Board issue guidance to clarify that the five-month period commences on the first day of the month immediately following the triggering event. This bright-line approach would prevent confusion regarding mid-month triggers and allow firms a full, five-month operating period on which to base their evaluation.

Further, we respectfully request clarification regarding how this timeframe intersects with the evaluation of remedial actions. Specifically, we ask the Board to clarify in the adopting release that this five-month period applies solely to the initial operation of the broader QC system and does not establish a mandatory minimum operating period for concluding that a specific remedial action is effective.

21. Is the proposed evaluation framework for concluding on the effectiveness of a firm's QC system, including the three proposed conclusions in paragraph .77, sufficiently clear and appropriate? Why or why not?

Yes, the proposed evaluation framework in paragraph .77, including the three-conclusion model, is sufficiently clear and appropriate. We appreciate the Board's consideration of stakeholder feedback in developing this amended approach. Our support for this framework is grounded in two key points.

First, the proposed framework supports a risk-based assessment of a firm's QC system by aligning the evaluation more closely with the reasonable assurance objective of quality control. By introducing the concept of 'reasonable assurance' into the conclusions, the proposed framework recognizes that an effective system of quality control is not defined by the absence of any QC deficiencies, but by its ability to achieve its overall objectives. Additionally, the addition of the new note to paragraph .77a provides clarity by confirming that a firm can conclude its system provides reasonable assurance even if it has unremediated QC deficiencies, provided those deficiencies are not severe. This refinement shifts the focus of the evaluation to the severity and pervasiveness of deficiencies, rather than their existence alone.

Second, the Board addresses the implementation challenges and concerns raised by the profession by aligning the evaluation conclusions more closely with those in other quality management standards, such as ISQM 1 and SQMS 1.

We also appreciate the Board's clarification in the Note to paragraph .77 that allows firms to implement remedial actions as of the evaluation date, and test and determine effectiveness of remedial actions between the evaluation date and the date of the Form QC filing. This clarification provides helpful flexibility and better reflects how remediation occurs in practice. Allowing firms to consider information obtained in the period between the evaluation date and the date of the Form QC filing supports a more complete and informed evaluation, while remaining consistent with the objective of assessing whether the system of quality control provides reasonable assurance at the evaluation date.

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22. Are the factors to evaluate the severity and pervasiveness of unremediated QC deficiencies sufficiently clear and appropriate? Why or why not?

The proposed factors in paragraph .78 provide a sound, risk-based framework for evaluating the severity and pervasiveness of unremediated QC deficiencies. We appreciate the Board's multi-step approach, which requires firms to first determine severity based on qualitative factors and subsequently evaluate whether a severe deficiency is so pervasive that it prevents the system from providing reasonable assurance.

However, the proposed amendments to paragraph .78 also introduce the phrase 'or could result in' within two of the evaluation factors (specifically factors *e* and *f*). As noted in our detailed response to Question 15, because 'could' encompasses even remote possibilities, evaluating against this threshold borders on requiring absolute assurance, which contradicts the standard's foundational objective of reasonable assurance. To improve the clarity of these factors, we respectfully recommend the Board refine this text to specify that these considerations apply '*where there is a reasonable possibility*' that an unremediated QC deficiency could result in such outcomes.

Further, the profession would benefit from written implementation guidance and illustrative examples outlining how firms should weigh these factors in practice, including specific scenarios that illustrate when a severe QC deficiency crosses the threshold of pervasiveness and prevents the achievement of the reasonable assurance objective.

23. Is the proposed removal of "major QC deficiency" from QC 1000 appropriate? Why or why not?

Yes, we support the proposed removal of the "major QC deficiency" concept for two reasons. First, removing the term brings QC 1000 into closer alignment with other quality management frameworks, including ISQM 1 and SQMS 1, which do not use a comparable classification, thereby reducing the complexity of applying different terminology across quality management frameworks. Second, the initially adopted "major QC deficiency" concept relied on presumptions that could elevate certain QC deficiencies into that category without sufficient regard to the underlying facts and circumstances, which limited a firm's ability to apply professional judgment. We believe the proposed approach provides a more practical framework because it incorporates those concepts into the qualitative factors in paragraph .78 and requires firms to evaluate each QC deficiency in context, including its nature and effect on the system of quality control, rather than relying on a fixed categorization.

24. What, if any, additional direction is needed regarding the possible conclusions on the effectiveness of the firm's QC system in paragraph .77?

We suggest that the Board provide illustrative examples that focus on how to apply a new step in the evaluation framework. As shown in Figure 2 on page 42 of the release, the distinction between an 'effective except for' conclusion and a 'not effective' conclusion depends on whether a severe QC deficiency is 'so severe' that it prevents the firm from achieving the reasonable assurance objective.

This 'so severe' concept is new and applying it will require judgment in practice. Additional illustrative examples would help firms understand how to apply this threshold, particularly in distinguishing between deficiencies that would lead to an 'effective except for' conclusion and those that would result in a 'not effective' conclusion. Providing examples that cover both outcomes would support a more consistent application of the framework across firms.

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Appendix 1

25. Are the proposed conforming amendments to Rule 2203A and Form QC appropriate? Why or why not?

Yes, the proposed conforming amendments to Rule 2203A and Form QC are appropriate. The amendments align the reporting requirements with the revised evaluation framework in QC 1000, including the updated conclusions in paragraph .77. Allowing firms to file Form QC within 60 days of the selected evaluation date, along with requiring 30 days' notice for changes to that date, are practical provisions that support the flexibility introduced by the revised evaluation framework.

26. Would the alternative evaluation framework with a binary conclusion (i.e., that the QC system is either effective or not effective in achieving the reasonable assurance objective) be more appropriate for evaluating the effectiveness of the QC system? Why or why not?

Although a binary evaluation framework may appear more straightforward, we do not believe it would be more appropriate for evaluating the effectiveness of the QC system. Our perspective is rooted in our support for the Board's current proposed three-conclusion model, as described in our detailed response to Question 21. Further, the proposed three-conclusion model represents alignment with the evaluation structures of ISQM 1 and SQMS 1. Adopting a binary framework could re-introduce the cross-jurisdictional comparability issues that the profession has raised in discussions with PCAOB staff.

27. Under the alternative evaluation framework with a binary conclusion, would it be appropriate to retain the factors in paragraph .78 as adopted? Why or why not? Are there other factors that would be helpful in determining the evaluation conclusion? If so, what are they, and how would they be helpful?

If the Board were to adopt a binary evaluation model, we believe it would be essential to retain the factors in paragraph .78 as adopted.

Under a binary framework, the distinction between a system that provides reasonable assurance and one that is ineffective becomes a single 'pass/fail' threshold. In that setting, the factors in paragraph .78 would provide the structure for how firms assess the severity and pervasiveness of deficiencies. We also believe the Board has identified the most relevant and appropriate criteria in its current draft, including the nature of the deficiency, its root cause, and its effect on the system.

G. Documentation

28. Are the proposed amendments to paragraph .84 sufficiently clear and appropriate? If not, why not?

The shift in paragraph .84 from a requirement to retain documentation that is "assembled for retention" to retaining documentation "in a manner that permits timely retrieval" is a meaningful change that appropriately recognizes that compiling point-in-time snapshots of live data is often difficult, costly, and impractical. Allowing documentation to remain within its original source systems also reduces the need for firms to build and maintain centralized archives solely for retention purposes. At the same time, the release text indicates that firms are expected to retrieve documentation from live systems "as it existed at the time that it was considered complete." In continuously updating systems, underlying data is often updated or modified, and retrieving a historical view without capturing a static snapshot may not be feasible in practice. For example, within a firm's client acceptance and continuance process, an entity's risk profile and corporate structure are dynamically updated over time to reflect current information. If a firm is later required to demonstrate what was evaluated at the time a continuance decision was made, retrieving that exact point-in-time view directly from the system is often not possible because the underlying data has been overwritten by routine updates. This outcome appears to reintroduce the same

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operational challenges the proposed amendment is intended to alleviate.

To that end, we respectfully suggest that the Board consider issuing implementation guidance clarifying that reasonable evidence of the underlying data, such as standard system-generated reports or other reproducible outputs, would satisfy this requirement. We understand the Board's objective of being able to evaluate what existed at a specific point in time without the risk of retroactive alteration. Relying on these verifiable, system-derived outputs, which are generated by systems subject to the firm's controls, provides the staff with reliable evidence of how the system operated historically, allowing firms to meet the documentation objective without the cost and complexity of maintaining duplicative, point-in-time records.

29. Is the proposed amendment to retain documentation for five years sufficiently clear and appropriate? If not, why not?

We support the reduction of the retention period from seven to five years for documentation supporting the design, implementation, and operation of the quality control system under paragraphs .81 through .83 and paragraph .85. This revision reflects a thoughtful response to stakeholder feedback. We agree with the Board's view that a five-year retention period would not adversely affect a firm's ability to monitor its quality control system or the PCAOB's ability to perform its inspection activities and would otherwise not impact audit quality.

IV. PROPOSED AMENDMENTS TO OTHER PCAOB FORMS

30. Are the proposed amendments to Form 1 and Form 2 in Appendix 3 appropriate? If not, why not?

Yes, the proposed amendments to Form 1 and Form 2 in Appendix 3 are appropriate. These changes are a logical extension of the proposed rescission of the design-only requirement. If firms without active PCAOB engagements are no longer required to design a QC 1000-compliant system, it would not be appropriate to require those firms to represent, through Form 1 or Form 2, that such a system has been designed. Aligning the forms with this revised requirement avoids creating conflicting obligations between the standard and the reporting framework.

31. Should a firm applying for registration be required to report on Form 1 which quality management standard(s) (e.g., QC 1000, ISQM 1, or SQMS 1) its QC policies are based on?

We believe it is reasonable to request that a firm disclose on Form 1 the quality management standard(s) upon which its QC policies are based. Disclosing whether a firm operates under an established framework such as ISQM 1 or SQMS 1 may provide the PCAOB and other stakeholders with useful contextual information regarding the firm's starting point and its readiness to transition to QC 1000 if it later performs PCAOB engagements.

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Appendix 2

Written Implementation Guidance

In addition to the implementation guidance needs identified in Appendix 1, we highlight below specific matters for which we believe written guidance and clarification will promote consistent interpretation of the standard across the profession.

Experienced Auditor and Reperformance

As discussed elsewhere in this letter, we strongly encourage the PCAOB to update its publicly available guidance on the inspection process, including how quality control systems will be reviewed under QC 1000. For example, one area that would benefit from transparent guidance and stakeholder discussion is how QC 1000's requirement for firms to prepare documentation in sufficient detail to allow an experienced auditor to understand the design, implementation, and operation of the firm's system of quality control (including quality objectives, risks, responses, monitoring activities, remedial actions, and the rationale for conclusions reached (QC 1000.83)) will be applied. While AS 1215, *Audit Documentation* provides a well-established understanding of an experienced auditor in the context of an audit engagement, there is currently no equivalent definition or shared understanding of this concept as it applies to a firm-wide system of quality control.

While we recognize that professional judgment is central to both audit engagements and a system of quality control, evaluating a QC system involves fundamentally different activities and requires qualitative professional judgments that differ from those involved in executing an audit engagement; therefore, translating the AS 1215 concept directly to QC 1000 could create unintended challenges. For example, we understand that the intention of this requirement is not at a level of reperformance, where documentation must be detailed enough for an outside party to be able to independently recreate and reperform judgmental quality control decisions and evaluations. We further understand, for example, the principles of AS 1105, *Audit Evidence*, to evaluate the relevance and reliability[16] of information used in a firm's system of quality control were not intended by the Board to be applied to QC 1000.

Accordingly, we respectfully request the Board issue written guidance clarifying the intended definition and perspective of an experienced auditor within the specific context of a QC system. Specifically, we recommend defining the experienced auditor in the QC context as an individual who understands quality management systems and the firm's operating environment but is not expected to independently reperform the underlying execution of controls. The documentation standard should be deemed met if it is sufficient to allow this individual to understand the design of the system and the *basis* for the firm's overall evaluation conclusion. Aligning this expectation with other quality management standards, including ISQM 1 and SQMS 1, would also support consistent documentation practices.

Rescission of Appendix K and Form AP Reporting

The rescission of SEC Practice Section (SECPS) 1000.45 Appendix K, *SECPS Member Firms With Foreign Associated Firms That Audit SEC Registrants,* upon the effective date of QC 1000 removes the regulatory framework that historically positioned SEC foreign filing reviews as outside the audit engagement. This rescission creates ambiguity regarding existing PCAOB Staff Guidance[17] on Form AP, which excluded Appendix K reviewers from Form AP reporting requirements. Without this basis, there is a risk of divergent interpretations across the industry regarding whether successor SEC foreign filing reviews designed under QC 1000 constitute a contemporaneous quality control function or the

[16] PCAOB Release No. 2024-005 May 13, 2924, page 182, 183.

[17] Staff Guidance Form AP, *Auditor Reporting of Certain Audit Participants*, and Related Voluntary Audit Report Disclosure Under AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion* – Updated as of July 1, 2024, page 9.

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performance of audit procedures requiring inclusion in Form AP reporting.

We believe that SEC foreign filing reviewers should not be included in Form AP reporting, as they serve in a contemporaneous quality control function rather than as members of the engagement team. They do not perform audit procedures, nor do they assist the engagement partner in fulfilling planning or supervisory responsibilities under AS 2101, *Audit Planning,* or AS 1201, *Supervision of the Audit Engagement*. We respectfully request the Board provide written clarification that these quality control reviews remain excluded from Form AP reporting to support the profession in maintaining consistent and accurate disclosures.

Amended AS 2901, *Responding to Engagement Deficiencies After Issuance of the Auditor's Report*

We understand that an engagement deficiency related to a substantive procedure requires evaluation across all periods presented in an auditors' report on which users continue to rely. However, the expectation for control-related deficiencies identified after the issuance of the auditors' report is less clear. Based on our interpretation, which is informed by discussions with staff from the Board's OCA, amended AS 2901 would require a firm to retrospectively evaluate every current-year control deficiency to determine if the deficiency existed in each prior period for which users are relying on the relevant auditors' report and whether it impacted the substantive procedures performed in those historical years (e.g. due to the historical substantive procedures being performed based on a controls-reliance strategy).

For example, assume a firm is conducting the 2026 audit of an issuer with a calendar year-end such that investors are relying on the most recent 2025 auditors' reports covering the 2023, 2024 and 2025 financial statements and the issuer's ICFR as of December 31, 2025. We understand that if a control deficiency in the issuer's ICFR is identified during the 2026 audit, a potential engagement deficiency in a prior audit may exist and therefore the firm would need to assess the severity of the issuer ICFR control deficiency with respect to both the 2026 and the 2025 ICFR opinion. The evaluation of severity for 2023 or 2024 would not be required because only the 2025 ICFR report continues to be relied upon. However, the firm's evaluation of the impact of the issuer ICFR control deficiency identified during the 2026 audit on the auditors' report over the financial statements would extend across all three prior years (e.g. 2023, 2024, and 2025) to determine (i) whether the issuer ICFR control deficiency existed during those periods and (ii) whether reliance on controls affected the audit strategy by reducing the extent of substantive procedures. We understand that if the firm determines that the issuer ICFR control deficiency existed in one or more of the prior three years such that reliance on controls was inappropriate in any of those years, an engagement deficiency exists and the firm would be required to perform additional substantive procedures to address that inappropriate reliance. This interpretation is expected to require a significant effort given the frequency with which control deficiencies are identified. Further, in some circumstances, issuers and auditors will be challenged to perform the additional analysis necessary to comply with the amended AS 2901 requirements. This is due to the passage of time and the lack of available information in those years to determine whether the issuer ICFR deficiency identified in the current year existed in one of the three prior years and to evaluate the impact on the audit strategy. The significant effort and cost associated with operationalizing this interpretation may not have been fully contemplated in the Board's economic analysis.

We respectfully request the Board clarify through written guidance whether this expansive look-back expectation is intended. We suggest this implementation guidance also include examples illustrating the expected scope of these retrospective evaluations, and we welcome the opportunity to work with the staff to share fact patterns that could help inform this guidance.

AS 1310, *Notification of Termination of the Auditor-Issuer Relationship*

AS 1310 recodifies the existing requirements of SECPS §1000.08(m) regarding notifications of

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Appendix 2

resignations and dismissals. At the same time, as drafted, it retains certain legacy terms that predate more recent PCAOB amendments to other auditing standards, which may create ambiguity around the intended scope of paragraph .02. Specifically, paragraph .02 refers to the 'principal auditor' and 'an other auditor whose report is being referenced', and introduces the term 'significant subsidiary' without a corresponding definition.

We believe it would be helpful for the Board to clarify through written guidance or conforming amendments that (i) the terms 'principal auditor' and 'an other auditor whose report is being referenced' in AS 1310.02 correspond to 'lead auditor' and 'referred-to auditor', respectively, as defined in paragraphs .A4 and .A6 of AS 2101 (as updated by PCAOB Release No. 2022-002); and (ii) the term 'significant subsidiary' in AS 1310.02 is applied consistently with the definition in Rule 210.1-02 of Regulation S-X, which is also used in connection with auditor change disclosures under Item 304 of Regulation S-K.

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