PICPA
Pennsylvania Institute of CPAs

July 9, 2026

Demetrios Logothetis, Chair
Office of the Secretary
Public Company Accounting Oversight Board
1666 K St. NW
Washington, DC 20006-2803
comments@pcaobus.org

Re: PCAOB No. 2026-002, PCAOB Rulemaking Docket Matter No. 057

Dear Chair Logothetis:

The Pennsylvania Institute of Certified Public Accountants (PICPA) appreciates the opportunity to provide input on the Public Company Accounting Oversight Board's (PCAOB) Supplemental Request for Comment: Proposed Amendments to QC 1000, A Firm's System of Quality Control, and Related Rule and Forms. The PICPA is a professional CPA association of about 16,000 members working to improve the profession and better serve the public interest. Founded in 1897, the PICPA is the second-oldest CPA organization in the United States. Membership includes practitioners in public accounting, education, government, and industry. The PICPA's comments are included below.

General Comments

The PICPA commends the Board for thoughtfully reconsidering several provisions of QC 1000 in response to implementation feedback from stakeholders. The proposed amendments address a number of concerns raised by practitioners regarding requirements that were unclear in their application, operationally challenging, unnecessarily prescriptive, or more costly to implement than originally anticipated. We believe these targeted amendments represent a meaningful step toward achieving the Board's stated objective of reducing implementation complexity while maintaining a strong focus on audit quality and investor protection.

Overall, we believe the proposed amendments will facilitate a more practical and scalable implementation of QC 1000, improve alignment with internationally recognized quality management standards where possible, and reduce unintended incentives for firms with inactive PCAOB practices to withdraw from PCAOB registration. We encourage the Board to continue evaluating opportunities to simplify the standard while preserving the principles-based framework necessary to promote effective quality management systems.

While we generally support the proposed amendments, we offer several recommendations that we believe would further improve the clarity, scalability, and effectiveness of the standard. Our detailed responses to the specific questions posed in the supplemental request for comment are included in the attached Appendix.

Additional Comments – See the attached Appendix for our comments to specific questions.

We appreciate your consideration of our comments and are available to discuss any of these comments with you at your convenience.

Sincerely,

Allison M. Henry, CPA
Vice President – Professional & Technical Standards
PICPA

Attachment: Additional Comments

Appendix - Comments to Specific Questions

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

   The PICPA supports the recission of the design-only requirement for firms not subject to applicable PCAOB professional and legal requirements with respect to any of it's engagements. The cost of designing a quality control system compliant with the PCAOB requirements for firms does not help ensure improved audit quality on any engagements as the QC system is not required to be implemented. Any design would be hypothetical at best and would likely become obsolete over time as practice conditions change, leading to the false pretense that these firms are in a position to immediately implement these standards. We agree with the statement included in the explanatory materials to PCAOB Release No. 2026 – 002; "We believe that the investor protection concerns encompassed by our statutory mandate are reduced where firms are not performing work that requires registration under the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") and PCAOB rules[31] (i.e., not leading or playing a substantial role in audits of issuers or broker-dealers)."

   While the value to the public interest is unclear as these inactive firms are not performing engagements subject to PCAOB professional and legal requirements, the costs would be real and include training costs, consulting costs, professional time, but could also incentivize these firms to de-register from the PCAOB potentially further restricting the population of auditors. While firms that de-register can re-register this step adds time and effort to the process restricting a firm's ability to bid on work or quickly respond to the marketplace.

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?

   For the reasons indicated in our response to question #1, we do not support retaining any form of design-only requirement. We note that the work required under the two alternative approaches (i.e., linking a design requirement to the existing statutory requirement to include their quality control policies in their PCAOB registration applications, and a simplified design

requirement) would still require inactive firms who do not perform engagements subject to PCAOB oversight to incur training to understand these additional requirements and professional time to comply with these added requirements. It is unclear what problem is being solved with these added costs and it is clear that audit quality would not be meaningfully impacted.

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 comment.

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?

   The PICPA supports the proposed changes, which provide firms with the flexibility needed to ensure compliance with the standards and agrees with the addition in the new footnote 5A to paragraph .12," that an individual assigned operational responsibility for any of the roles in paragraph .12 who is not already associated with the firm would become an "associated person" of the firm by virtue of that assignment."

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

   We believe that the proposed conforming amendments are sufficiently clear.

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

We agree that allowing a firm to assign subject matter experts inside their firms, networks, etc. to specific compliance tasks is likely to yield higher quality results. Independence issues, for example, can be complex and are best addressed by individuals with deep knowledge of the standards and their application. Further, allowing smaller firms to access resources external to the network helps firm to achieve a higher level of 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. While the amendments are helpful to smaller firms, the concept of assigning more narrowly defined roles and responsibilities to individuals is not new and should allow firms to focus expertise and tailor training for specific individuals. For example, some firms deconstruct aspects of the audit work to teams that specialize in specific aspects of the audit (e.g., cash, payables, receivable, debt, etc.). With specialized teams, certain firms have achieved higher quality results. Ultimately, permitting firms flexibility in assigning responsibilities will yield the highest quality results.

8. Are there additional costs and benefits of the proposed removal of the EQCF requirement that should be considered?

   Firms are ultimately accountable for the operating effectiveness of their quality control system, which are subject to oversight through the PCAOB's inspection program.

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 do not support retaining the EQCF requirement for firms that issued audit reports for more than 500 issuers during the prior calendar year. Firms have noted challenges with identifying appropriate individuals that meet the overly prescriptive guidelines including individuals who:

- Are not partners, shareholders, members, other principals, or employees of the firm;
- Do not otherwise have a commercial, familial, or other relationship with the firm that would interfere with the exercise of independent judgment with regard to matters related to the QC system; and
- Have the experience, competence, authority, and time necessary to enable them to carry out the responsibilities assigned to the EQCF by the firm.

Finding an individual with the required experience and competence to carry out this role at a large international firm would be extremely challenging especially as the individual would also have to be independent of all of the firm's clients and couldn't be from another competing firm due to conflicts of interest. Developing the necessary understanding of a global firm's operating environment takes years, as would onboarding someone to the point where they could meet the PCAOB's baseline experience and competence requirements.

We therefore, do not support retaining the EQCF requirement for firms that issue audit reports for more than 500 issuers in the prior calendar year. Further, the answer cannot simply be that the incremental costs do not matter because the large firms can simply pass on the cost to clients. At a certain point, we must evaluate whether the incremental costs are achieving anything of value; specifically, will audit quality improve due to the deployment of an EQCF. We do not think so. Firms are required to establish and operate system of quality control to comply with PCAOB standards. The PCAOB, through its inspection program, effectively serves in an oversight role ensuring that firms are complying with the standards. Firms need flexibility to determine their governance structures to maintain compliance.

In the PCAOB's correspondence to the SEC on the adoption of File No. PCAOB-2024-02, *Proposed Rules on A Firm's System of Quality Control and Related Amendments to PCAOB Standards*, the PCAOB indicates that "the economic analysis points to academic research suggesting that greater independence on a board of directors is linked to benefits such as improved operating performance and increased company value." It is a stretch to apply the results of the academic research on companies to the operating environment within firms. We do not believe that it is appropriate to require something so challenging and costly based on

hypothetical academic research, without clear data-driven evidence specific to the accounting profession that it would improve audit quality at the firms impacted.

10. Is there an alternative threshold that would be appropriate? If so, what is that threshold and why would it be appropriate?

    We do not support this requirement for any firms.

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?

    We do not believe that the added costs would result in meaningful improvement in audit quality.

12. Are there other mechanisms that provide an independent oversight function that should be considered? If so, what are they, and what are their associated costs and benefits?

    No comment.

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

    We believe the proposed amendments are sufficiently clear and appropriate.

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 support allowing firms to provide an explanation of metrics on their website.

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

We appreciate the Board's efforts to narrow the circumstances under which firms must evaluate whether similar engagement deficiencies exist. The proposed revisions represent a meaningful step toward a more risk-based and scalable monitoring and remediation process. However, we remain concerned that the proposal continues to require significant engagement-level work before firms consider the underlying systemic cause of the deficiency through their quality management processes.

We also believe the proposed threshold for a "significant engagement deficiency" remains overly broad. As drafted, the definition could be interpreted to encompass any instance in which an engagement team failed to perform a procedure required by PCAOB standards, regardless of whether the omission affected the sufficiency or appropriateness of audit evidence supporting a material assertion or the engagement conclusions. Instead, the definition should incorporate the concepts of materiality, relevant assertions, and the significance of the deficiency to the overall audit. Doing so would better distinguish isolated procedural departures from deficiencies that truly indicate heightened audit quality risk.

We are particularly concerned with the example on page 28 involving the failure to perform confirmation procedures for an account that was not significant and therefore "did not result in a failure to obtain sufficient appropriate audit evidence on that engagement." Despite concluding that the omitted procedure had no impact on the sufficiency of audit evidence or the appropriateness of the audit opinion, the proposal would nevertheless require the firm to assess whether a similar deficiency on another engagement resulted, or could result, in a failure to obtain sufficient appropriate evidence. This effectively requires firms to perform a hypothetical assessment across other engagements even after determining that the instance of noncompliance (which is labeled a deficiency in the standard) was not significant in the context of the engagement in which it occurred. Such an approach creates substantial implementation effort with limited incremental investor protection and fails to appropriately consider the assessed risk of material misstatement at the relevant assertion level.

More broadly, while the proposal moves QC 1000 closer to a risk-based framework, it remains more prescriptive than ISQM 1. Under ISQM 1, engagement findings are evaluated within the

firm's monitoring and remediation process to determine whether they indicate a deficiency in the system of quality management, with the nature and extent of any additional investigation driven by professional judgment, root cause analysis, and an assessment of the severity and pervasiveness of the issue. QC 1000, by contrast, continues to require specified engagement-level procedures before firms may exercise that judgment.

We believe the Board could further enhance the proposal by aligning more closely with ISQM 1 and permitting firms to leverage their existing monitoring, root cause analysis, and quality risk assessment processes to determine when broader engagement reviews are warranted. Such an approach would preserve investor protection by focusing firm resources on deficiencies that present genuine systemic audit quality risks, while reducing unnecessary implementation costs associated with isolated engagement-specific issues that do not affect audit quality or the reliability of the engagement conclusion.

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

See answer at Question 15.

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

See answer at Question 15.

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?

We agree with the proposed changes to the definition of QC deficiency to take into account other quality responses.

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

The PICPA supports the proposed amendment to permit the firm to choose its evaluation date. This allows the firm to align its evaluation with each firm's unique circumstances including the timing of its engagements, staffing, resource availability, aligning with peer review and internal monitoring cycles, fiscal year ends, compensation and review cycles to align with its commitment to audit quality. Providing firms with the flexibility to create efficiencies and align resources sets the firm up for the highest level of quality.

PICPA also notes that the supplemental request does not specifically solicit feedback on the proposed 60-day reporting deadline in paragraph .79. We encourage the Board to reconsider this requirement, particularly as it applies to smaller and resource-constrained firms.

For many smaller firms, completing the annual evaluation of the system of quality control, hiring and coordinating external resources, obtaining the necessary internal reviews and approvals, and preparing the required report within 60 days may not be practicable. Imposing an accelerated reporting deadline could encourage firms to prioritize meeting the filing deadline over conducting a thorough and thoughtful evaluation of the effectiveness of their quality management system. Rushing this process is unlikely to enhance audit quality and may, in fact, detract from the objective of promoting meaningful self-assessment and continuous improvement.

We recommend that the Board adopt a more scalable approach by providing smaller firms with additional time to complete the evaluation and submit the required report. For example, permitting firms below an appropriate threshold to file within 180 days of their evaluation date would provide sufficient time to perform a robust assessment while reducing unnecessary administrative burden. Such an approach would better reflect the resource constraints of smaller firms without compromising the Board's oversight objectives or investor protection and would be consistent with the Board's stated objective of making the standard more practical while preserving audit quality.

Clarification is also needed regarding the scope of the engagement monitoring. See NOTE at our answer to question 20.

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 interpret this question to ask whether, given QC 1000's December 15, 2026 effective date and the proposal permitting firms to select their own annual evaluation date, it is appropriate to require a firm whose selected evaluation date falls as early as May 31, 2027 to perform its first annual evaluation after approximately five months of operation.

Generally, we believe five months is an appropriate minimum period for most firms. Because a significant majority of issuer audits have December 31 financial statement year ends, most firms will have had sufficient opportunity to operate their quality control system across a meaningful number of engagements before conducting their first evaluation.

However, additional guidance is needed for firms whose issuer engagements fall outside this timeframe. For example, a firm whose issuer clients primarily have June 30 fiscal year ends may have few, if any, engagements subject to QC 1000 that have progressed sufficiently through the audit process by a May 31, 2027 evaluation date. In those circumstances, the evaluation may not provide meaningful information regarding the operating effectiveness of the firm's quality control system. We therefore encourage the Board to clarify how firms should approach the initial evaluation when they have little or no engagement activity within the evaluation period.

NOTE - The proposal also raises important questions regarding the scope of engagements included in the evaluation. Specifically, the Board should clarify whether engagements are included based on the financial statement year end or the date the auditor's report is issued. This distinction has practical implications. We understand that recent PCAOB inspections have, in some instances, requested engagement populations based on financial statement

year end, whereas firms historically understood engagement selection to be based on report issuance dates.

Clarification is particularly important because using financial statement year ends as the determining factor could create unnecessary operational challenges. For example, engagements with year ends falling within the evaluation period may not yet have been issued or archived by the time the firm's quality control evaluation must be completed within the required 60-day window. Firms could therefore be required to evaluate engagements that remain in process, creating uncertainty regarding the completeness of the evaluation and increasing implementation complexity.

Accordingly, we recommend that the Board clarify both the minimum engagement activity expected for an initial evaluation and the criteria used to determine which engagements fall within the scope of the evaluation. Clear guidance in these areas will promote consistent implementation while ensuring that firms' initial evaluations are both meaningful and operationally feasible.

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?

    We agree with the proposed changes and enhanced alignment with ISQM 1.

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

    PICPA agrees with the objective of providing firms with a structured framework for evaluating the severity and pervasiveness of unremediated quality control deficiencies. However, we believe proposed paragraph .78 is unnecessarily complex and prescriptive. The number of required considerations and the overlap among several of the factors may lead to inconsistent application, increase documentation burden, and shift attention away from the exercise of professional judgment.

In particular, we are concerned with the proposed factor that considers the "significance of the engagement to the firm's practice." This wording could unintentionally imply that some engagements are less important than others when evaluating the impact of a quality control deficiency. Every engagement should be performed in accordance with professional standards regardless of its size, revenue, or prominence within the firm's portfolio. We recommend instead focusing on the significance of the deficiency to the firm's practice, including whether the deficiency indicates a systemic weakness that could affect other engagements or the firm's ability to achieve the reasonable assurance objective.

PICPA believes the AICPA Peer Review Program guidance provides a more practical model for evaluating deficiencies. The peer review standards focus on the nature, cause, pattern, and effect of deficiencies in determining whether they are isolated or systemic and whether they indicate weaknesses in the firm's system of quality management. This principles-based approach has proven effective over many years while allowing reviewers and firms to exercise appropriate professional judgment.

Accordingly, we encourage the PCAOB to simplify paragraph .78 by consolidating the factors into a smaller number of broader considerations that focus on whether the deficiency:

- Indicates an isolated event or a systemic weakness;
- Affects the firm's ability to obtain reasonable assurance that engagements are performed in accordance with applicable professional and legal requirements;
- Is likely to affect other engagements or components of the quality control system; and
- Has been appropriately remediated or otherwise mitigated.

A more streamlined framework would improve consistency, reduce unnecessary complexity, better align with established quality management frameworks, and preserve the professional judgment necessary to evaluate the true significance of quality control deficiencies.

Suggested Revision to Paragraph .78

When evaluating the severity and pervasiveness of an unremediated quality control deficiency, the firm should consider the nature, cause, and effect of the deficiency, including:

a. Whether the deficiency is isolated or indicative of a systemic weakness in the firm's system of quality control;
b. The significance of the deficiency to the firm's practice, including the likelihood that similar deficiencies exist or could occur in other engagements or components of the quality control system;
c. The effect of the deficiency on the firm's ability to achieve the reasonable assurance objective; and
d. The extent to which remedial actions have been implemented and demonstrated to be effective.

This approach captures the essential concepts of severity and pervasiveness while eliminating unnecessary detail, avoiding the implication that some engagements are inherently more important than others, and more closely reflecting the principles-based evaluation approach that has been successfully applied for many years under the AICPA Peer Review Program.

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

PICPA supports the proposed removal of the defined term "major QC deficiency." We believe this amendment simplifies the standard, improves alignment with ISQM 1, and removes terminology that is not necessary to support a robust and consistent evaluation of a firm's system of quality management. The proposal appropriately shifts the focus from assigning new labels to evaluating the severity and pervasiveness of unremediated quality control deficiencies in determining the overall effectiveness of the QC system.

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 generally agree with the realignment with ISQM 1 conclusions.

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

As discussed in our response to question 19, the 60-day timeframe is overly burdensome for small to medium-sized firms with resource constraints. We request that this 60-day timeframe for firms to provide this report to the PCAOB to be lengthened to 180 days for small to medium-sized firms. This change would need to be included in Rule 2203A (b)(1).

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?

PICPA does not support a binary evaluation conclusion. Rather, we believe that the effectiveness of a firm's system of quality management exists on a continuum and is too nuanced to be accurately conveyed through a simple "effective" or "not effective" conclusion. A binary outcome risks obscuring meaningful differences in the severity and pervasiveness of quality issues and provides stakeholders with less useful information about the actual state of a firm's quality management system.

Our experience administering and evaluating the results of the AICPA Peer Review Program.[1] over several decades demonstrates that audit quality is not appropriately characterized as either satisfactory or unsatisfactory. Historically, approximately 80 to 86 percent of firms receive a pass rating, 10 to 13 percent receive a pass with deficiencies, and only 4 to 7 percent receive a fail rating. These results reflect three distinct levels of performance that meaningfully differentiate firms requiring limited corrective action from those with pervasive quality control failures.

Based on our extensive experience reviewing peer review results, there is a significant difference between a firm that receives a pass with deficiencies and one that receives a fail rating. Firms in the former category generally have quality management systems that are fundamentally operating effectively but require targeted improvements, whereas firms receiving a fail rating exhibit more pervasive deficiencies that call into question the effectiveness of the firm's system of quality management as a whole. Collapsing these

[1] AICPA 2025 Annual Report on Oversight, 2025%20Annual%20Report%20on%20Oversight

fundamentally different outcomes into a single "not effective" conclusion would diminish the informational value of the evaluation and fail to recognize important distinctions in audit quality.

International experience similarly supports a more graduated approach. The inspection results published by the Institute of Chartered Accountants in England and Wales (ICAEW) and the U.K. Financial Reporting Council (FRC).[2] likewise demonstrate that audit quality is more appropriately communicated through multiple categories rather than a binary conclusion. For Tier 1 firms, the overwhelming majority of inspections are assessed as good or generally acceptable, with a smaller proportion requiring improvement and only a very limited number requiring significant improvement. While the distribution for Tier 2 and Tier 3 firms reflects greater quality concerns, the use of three performance categories continues to provide meaningful insight into the nature and severity of quality issues rather than reducing all outcomes to a simple pass/fail determination.

We are concerned that a binary reporting model could unintentionally create the perception that a firm's quality management system is either "perfect" or "failing," when in reality quality exists across a spectrum. This concern mirrors one of the challenges with the current PCAOB inspection reporting model, under which all instances of nonconformity are characterized as "deficiencies," regardless of their relative significance. As a result, users of inspection reports may be unable to distinguish between isolated findings and systemic quality concerns. We understand that the PCAOB's Inspection Modernization Council is actively considering improvements to inspection reporting, and we support those efforts. Adopting a binary QC evaluation framework would risk reinforcing the same unintended consequence by eliminating meaningful distinctions between varying levels of quality system effectiveness.

Accordingly, PICPA supports an evaluation framework that recognizes graduated levels of effectiveness consistent with the underlying principles of ISQM 1. A framework that distinguishes between effective systems, effective systems requiring targeted remediation, and ineffective systems would provide more decision-useful information to regulators, audit committees, and other stakeholders while better reflecting the realities of quality

[2] FRC Annual Review of Audit Quality 2025, https://www.frc.org.uk/docs/8396/html/

management in practice. Such an approach would also promote greater international consistency, facilitate implementation for firms operating under multiple regulatory frameworks, and enhance the credibility and usefulness of quality management reporting.

Given the Board's stated objective of bringing QC 1000 into closer alignment with ISQM 1 while reducing unnecessary complexity, retaining a more nuanced evaluation framework would better achieve both objectives without diminishing investor protection.

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?

See our response to Question 26. In addition, regardless of whether the Board adopts a binary or graduated evaluation framework, practitioners will still need to understand and apply the factors used to arrive at an appropriate conclusion regarding the effectiveness of the firm's system of quality control. Simply relocating those factors from the standard to implementation guidance does not reduce the analysis required or the professional judgment that firms must exercise.

We therefore support including the evaluation factors in implementation guidance, provided the guidance is clear, concise, and principles-based. Well-developed guidance can promote greater consistency in the evaluation process and improve comparability of conclusions across firms while allowing the Board greater flexibility to refine the guidance over time without amending the standard. However, as discussed in our response to Question 26, we believe the factors themselves should be simplified to reduce unnecessary complexity and better support the consistent exercise of professional judgment.

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

The PICPA generally agrees with the changes made to paragraph .84. However, we request that the PCAOB reconsider the extent of the documentation requirements in paragraph .93 as further discussed at question #29.

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

PICPA supports reducing the documentation retention period from seven years to five years but encourages the Board to further evaluate whether an even shorter retention period would adequately satisfy its oversight objectives. It is unclear why five years of QC documentation is necessary for the PCAOB to fulfill its inspection, enforcement, and oversight responsibilities. In practice, PCAOB inspections primarily focus on more recent periods, current quality management activities, and the firm's response to identified deficiencies. Similarly, the Board's proposed annual evaluation framework emphasizes the firm's current assessment of the effectiveness of its QC system rather than historical system designs. Given this focus, it is unclear why documentation older than five years materially contributes to its oversight activities. The supplemental release does not provide empirical evidence demonstrating that documentation older than several years is routinely relied upon in inspections or enforcement matters, nor does it explain why a five-year period, rather than a shorter period, is required to protect investors.

We also request a narrowing of the scope of the documentation requirement to focus on key actions and specific conclusions rather than the all-encompassing requirement, at paragraph .83.b., that practitioners retain documentation in sufficient detail to: "Enable an experienced auditor that understands QC systems, but has no experience with the design, implementation, and operation of the firm's QC system, to understand the design, implementation, and operation of the QC system, including the quality objectives, quality risks, quality responses, monitoring activities, remedial actions, and basis for the conclusions reached in the evaluation of the QC system."

Quality management systems are inherently dynamic. Firms continually identify quality risks, implement new quality responses, remediate deficiencies, and modify policies and

procedures in response to changes in professional standards, technology, firm structure, and inspection findings. As a result, documentation from many years earlier may have limited relevance in evaluating the effectiveness of a firm's current system of quality management.

Further, quality management systems are unlike an audit engagement in which firms have self-contained, well-developed systems for gathering and retaining sufficient appropriate audit evidence. Instead, quality management systems cross many technology platforms and vendors (human resource, independence, monitoring and inspection, engagement, etc.) and it may be impossible to retain all data from every system even for later retrieval. We request that the documentation requirements be amended to provide for a more risk-based approach that retains only documentation relating to significant quality control matters, unresolved remediation activities, or ongoing enforcement proceedings. Such an approach would reduce unnecessary compliance costs while preserving the information necessary to support effective regulatory oversight.

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

These amendments appear appropriate.

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?

The usefulness of this data is unclear as the firm would have to apply QC 1000 once it is required to comply with applicable professional and legal requirements with respect to any "engagement," as defined in QC 1000.

32. With respect to the design and implementation costs associated with the QC 1000 requirements currently under consideration for amendment by the Board, what are the costs firms have already incurred and anticipate incurring, and how have or will those costs impact audit fees? To the extent feasible, please quantify your response and explain your methodology.

With the exception of firms that would only have been subject to the proposed design-only requirements, most small- and mid-sized PCAOB-registered firms have already begun preparing for implementation of QC 1000. Consistent with the Board's decision to retain the December 15, 2026 effective date, firms generally indicated that they have been investing in understanding the requirements that extend beyond the AICPA's Statements on Quality Management Standards, evaluating available implementation tools, and developing plans to operationalize the standard.

Implementation efforts have included evaluating and documenting quality objectives and responses, redefining internal quality control roles and responsibilities, assessing governance structures, implementing technology solutions, and identifying appropriate monitoring processes. Several firms also reported engaging external advisors to assist with the design and implementation of their quality management systems.

One firm indicated that it engaged a third-party consultant to assist with the initial design and implementation of its QC system and plans to continue using that provider to perform ongoing monitoring activities. The firm also implemented a commercially available quality management technology platform to administer its QC 1000 compliance program. In addition to these direct investments, the firm reassigned experienced personnel from client service roles to internal quality management responsibilities. Collectively, the firm estimates these implementation efforts have increased annual operating costs by approximately 1% to 1.5% of firm revenue.

Another firm, with approximately 75 issuer and broker-dealer audit engagements, reported that it initially assigned QC 1000 implementation responsibilities to its existing national office before determining that the effort warranted the addition of a dedicated managing director focused exclusively on quality management. The firm also leveraged experienced client-facing professionals to assist its internal operations team in designing and enhancing quality management processes, controls, and initial testing procedures. By integrating implementation activities into periods of lower client demand and utilizing existing personnel

where practical, the firm has largely absorbed these costs within its existing overhead structure.

These examples illustrate that firms have made meaningful progress toward implementation and have generally approached the effort as a long-term investment rather than a short-term compliance exercise. At the same time, they demonstrate that implementation has required significant commitments of personnel, technology, governance resources, and, in many cases, external expertise. The Board's proposed amendments to reduce unnecessary complexity, improve scalability, and better align QC 1000 with other quality management frameworks should help ensure that these investments remain focused on enhancing audit quality rather than addressing requirements that provide limited incremental benefit.

33. How would the proposed amendments impact the costs you expect firms will incur to design, implement, and operate a QC 1000-compliant system? To the extent feasible, please quantify your response and explain your methodology.

See answer to question 32.

34. Have the economic considerations fairly considered the potential impacts of the proposed amendments? If not, please describe any other potential economic impacts of the proposed amendments. To the extent feasible, please quantify your response and explain your methodology.

See answer to question 32.

35. Would the proposed amendments have a disproportionate impact on smaller audit firms or EGCs? If so, please describe how. To the extent feasible, please quantify your response and explain your methodology.

We believe that the proposed amendments will have a positive impact on smaller firms by removing unnecessarily burdensome requirements, clarifying the evaluation of engagement deficiencies, permitting greater professional judgement and flexibility for firms to determine

how to comply with the standards (e.g., assigning resources, determining the quality control period, etc.). Overall, these changes are beneficial to smaller firms and will greatly assist in the successful implementation of QC 1000.

36. Are there alternative approaches that would better achieve our regulatory objectives? How would these approaches impact the costs you expect firms will incur to design, implement, and operate a QC 1000-compliant system? To the extent feasible, please quantify your response and explain your methodology.

Revisit Inspection Thresholds (100 issuers)

The current binary distinction between "large" and "smaller" firms does not fully capture the meaningful differences in risk profiles, operational complexity, and resource demands across firms. For example, a firm with a limited number of issuer clients with significant public float may face risks, complexity, and quality control challenges that are more comparable to those of larger firms than to other firms currently classified as "smaller." Conversely, firms auditing a higher number of very small issuers may have fundamentally different risk exposures and operational considerations. A tiering model that incorporates the relative market capitalization or public float of issuer clients would better align regulatory focus with the underlying risk to investors.

Further, it is important for the PCAOB to recognize and more explicitly reflect the distinct structural, operational, and resource differences among firms currently defined as smaller firms. For example, there are several top 25 audit firms that have alternative practice structures and similar resources to the large firms (over 100 registrants). Alternatively, the vast majority of smaller firms operate with:

- less complex organizational and governance structures,
- narrower service offerings and industry concentrations, and
- fewer personnel dedicated exclusively to quality control, monitoring, and remediation activities.

While these firms remain subject to the same overarching standards, these differences are relevant in considering scalability, implementation burdens, and inspection expectations, particularly in the context of new requirements such as QC 1000.

A more granular, multi-tiered framework would allow the PCAOB to tailor its inspection approach, risk assessment, and standard-setting considerations to the diversity of firms it oversees. It would also promote greater consistency with broader regulatory trends toward risk-based differentiation and improve the comparability of firms within similar tiers. It would also provide for the opportunity to revisit the inspection cycle and add a tier that provides for a 5-year cycle, providing a solution for the smallest of the small firms for the largest challenge in capacity.

This approach would be consistent with the SEC's recent rule proposal related to amending filer status which likely achieves similar objectives for firms as it is intending to achieve with public companies, namely the economic incentives for a smaller firm to audit public companies and continue to audit public companies. Ultimately, this would benefit the public company with greater competition among a greater number of smaller firms.

37. Are there any other studies or data that would inform our analysis of the potential economic impacts of the proposed amendments or potential alternative approaches? If so, please direct us to them and explain how they would inform our analysis.

No comment.