Comments of the Auditing Standards Committee of the Auditing Section of the American Accounting Association on the PCAOB's Proposed Amendments to QC 1000

Participating Committee Members

Dereck Barr-Pulliam
University of Louisville
College of Business
School of Accountancy

Sean A. Dennis
University of Central Florida
College of Business
Kenneth G. Dixon School of Accountancy

Travis P. Holt
Auburn University
Harbert College of Business
School of Accountancy

John D. Keyser (Committee Chair)
Arizona State University
W.P. Carey School of Business
School of Accountancy

Michelle McAllister
Northern Arizona University
The W.A. Franke College of Business
Department of Economics, Finance, and Accounting

Aleksandra B. Zimmerman
Florida State University
Herbert Wertheim College of Business
Department of Accounting

Note: The views expressed in this letter are those of the participating members of the Committee and do not reflect an official position of the American Accounting Association. The comments do not necessarily reflect the views of every member.

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SUMMARY: On June 9, 2026, the Public Company Accounting Oversight Board (PCAOB) issued a supplemental request for comment regarding proposed amendments to QC 1000 (PCAOB 2026). This comment letter summarizes the views of the participating members of the Auditing Standards Committee of the Auditing Section of the American Accounting Association. Overall, the Committee supports the objectives of the proposal, which are to reduce unnecessary implementation costs and better align QC 1000 with other audit firm quality management standards.

Generative AI technology has not been used in the preparation of this manuscript.

I. INTRODUCTION

In June 2026, the Public Company Accounting Oversight Board (PCAOB or the Board) proposed certain amendments to QC 1000, *A Firm's System of Quality Control* (PCAOB 2026). QC 1000 was finalized by the Board on May 13, 2024, and approved by the Securities and Exchange Commission (SEC) on September 9, 2024 (PCAOB 2024, SEC 2024). The committee previously comments on the Board's proposed quality control standard (Boland, Ege, Harding, Hermanson, Prewett, and Pyzoha 2023). This comment letter summarizes the participating committee members' observations related to the proposed amendments to the quality control standard. Overall, we support the Board's objectives to modify requirements in response to implementation challenges that evidence unnecessary costs and to more closely align QC 1000 with other audit firm quality management standards including those of the International Auditing and Assurance Standards Board (IAASB) and the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA).

II. RESPONSES TO SELECTED QUESTIONS

Question 1: Is the proposed recission of the design-only requirement appropriate? Why or why not?

Yes. We support the Board's proposal to rescind the design-only requirement. As discussed in our previous comment letter, we believe it would be difficult for firms to design a QC system based on hypothetical circumstances (Boland et al. 2023). The Board notes in its proposal that most registered firms that do not perform PCAOB audits are subject to International Standards of Quality Management (ISQM) 1 or Statements of Quality Management Standards (SQMS). Thus, these firms will have a system of quality controls that "shares a common basic structure with QC 1000" (PCAOB 2026, 13).

It is also concerning that some firms have withdrawn from registration in response to QC 1000 (PCAOB 2026, 13). This is an unintended consequence of the design-only requirement that could be detrimental to the quality of audits of multinationals. For example, firms may seek creative ways to complete these audits when a registered firm cannot be found in a particular jurisdiction. The PCAOB has disciplined firms in the past for the use of unregistered accounting firms in foreign jurisdictions (e.g., PCAOB 2023, 2022, 2021).

Question 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. The Board already requires firms, at the time of registration, to provide a description of their QC policies. However, the registration function is not a gatekeeping function, and the Board does not thoroughly investigate the firms at the time of registration (Keyser 2024). Since the Board would only thoroughly examine a firm's quality control at the time of inspection, registered firms that are not inspected should not be required to meet the design-only requirement.

Question 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. At the time a registered firm accepts a PCAOB engagement, it should meet all the QC 1000, including design, implementation, and operation of a system of quality control. Registered firms that are actively proposing on PCAOB engagements would be wise to design and implement a QC 1000 compliant system of quality control, but the PCAOB's should not mandate, for example, that registered firms meet a design-only requirement prior to proposing on a PCAOB engagement.

Question 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. In our previous comment letter, we expressed concern that the accountability framework in QC 1000 is outcome based and focused on negative outcomes (Boland et al. 2023). While this concern remains, we support the proposal to make the requirement more principles based and flexible so that each firm can assign responsibilities for QC functions in a manner that is consistent with its individual structure.

Question 7: Should the proposed amendments to paragraphs .12 and .15-.17 be available only on a scaled basis (e.g., only 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 proposed amendments should apply to all firms. Even the largest accounting firms have expressed concern regarding the inflexibility of the requirement (e.g., Deloitte &

Touche LLP 2025; EY 2025; KPMG 2025; PwC 2025a). We see no reason to retain the rigidity of extant QC 1000 for these firms while granting greater flexibility to smaller firms that are more likely to have individuals serving in multiple or combined roles.

Question 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?

Most of the committee members agree with the Board's proposal to eliminate the EQCF requirement entirely and do not support retaining the EQCF requirement for firms that audit more than 500 issuers annually. The Board has not explained how the EQCF requirement provides an incremental improvement to audit quality beyond other mechanisms including PCAOB oversight through inspection and enforcement as well as other QC 1000 requirements such as the assignment of roles and responsibilities related to the firm's system of quality control.

A minority of committee members would retain the EQCF requirement for annually inspected firms. These committee members observe that the largest firms have voluntarily established functions that could be upgraded to comply with the EQCF requirement. PwC has an "assurance quality advisory committee" that consists of three external members and is currently chaired by a former FASB chair (PwC 2025b). EY has an "Independent Audit Quality Committee" has four members, including a former PCAOB member (EY 2026). KPMG has an "Independent Audit Quality Advisory Committee" that consists of retired academics and former standard setters (KPMG 2026, 14). Deloitte has an "Audit Quality Advisory Council" that consists of two former PCAOB staff members.

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

Most of the committee would impose the EQCF requirement on firms operating through alternative practice structures.[1] Since 2021, many registered accounting firms have accepted private equity investments through alternative practice structures. Although the accounting firm partners retain decision-making authority with respect to audits (e.g., identification of risks of material misstatement, audit procedures, conclusions regarding audit reporting), private equity investors control the firms through administrative services agreements (Keyser and Smith 2026). Alternative practice structures "structurally embed pressures that reshape firm priorities, compensation systems, and strategic decision making" (Donahoo, Nielson, and Pickerd 2026). The Board should therefore consider retaining the EQCF requirement for firms that have accepted any form of outside investment other than traditional debt financing and operate through an alternative practice structure.

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

Yes. We support the Board's proposal to narrow the scope of the requirement to only information made publicly available.

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

No. Paragraph .68d would still require the audit firm, after finding an engagement deficiency in one engagement, to evaluate whether similar deficiencies exist in all other completed engagements. The cost of this requirement could be extremely high, and it is unclear

[1] One committee member dissents to this recommendation. It is this member's view that private equity investment may enhance, rather than diminish audit quality.

whether the benefit would outweigh the cost. At a minimum, the Board should change the requirement so that examining a completed engagement would be required only when, based on the information available at the time, the firm believes it is probable that the financial statements are materially misstated and the likelihood is more than remote that the audit report is still being relied upon.

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

Yes. We support this amendment to make it clear that auditors may consider other quality responses (i.e., compensating controls) when evaluating the severity of a QC observation.

Question 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. It makes sense to permit firms to select the evaluation date that is most appropriate based on their individual facts and circumstances. This is especially important because the September 30 evaluation date could be detrimental to audit quality for some firms if it requires the diversion of resources away from remediation efforts, training, policy updates, or interim audit procedures.

Question 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. We support the amendment to align the evaluation framework with that of ISQM 1.

Question 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?

No. A binary approach would be less informative to users. The three proposed conclusions enable firms that have less severe quality control observations to disclose these issues without concluding that the QC system is not effective.

Question 29: Are the proposed amendments to paragraph .84 sufficiently clear and appropriate? If not, why not?

Yes.

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