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SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 19b-4

Proposed Rules

By

Public Company Accounting Oversight Board

In accordance with Rule 19b-4 under the
Securities Exchange Act of 1934

1. Text of the Proposed Rules

(a) Pursuant to the provisions of Section 107(b) of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act"), the Public Company Accounting Oversight Board (the "Board" or the "PCAOB") is filing with the Securities and Exchange Commission ("SEC" or "Commission") proposed rule amendments to QC 1000, *A Firm's System of Quality Control*, related amendments to a PCAOB rule and PCAOB forms, and technical amendments to AS 2101, *Audit Planning* (collectively, the "proposed rules"). The proposed rules are attached as Exhibit A to this rule filing. In addition, to the extent necessary, the Board is requesting the SEC's approval, pursuant to Section 103(a)(3)(c) of the Sarbanes-Oxley Act, of the application of the proposed rules to audits of emerging growth companies ("EGCs"), as that term is defined in Section 3(a)(80) of the Securities Exchange Act of 1934. *See* Exhibit 3.

(b) The proposed rules would revise QC 1000, Rule 2203A, Forms QC, 1 and 2, and AS 2101.

(c) Not applicable.

2. Procedures of the Board

(a) The Board approved the proposed rules, and authorized them for filing with the SEC, at its open meeting on September 9, 2026. No other action by the Board is necessary for the filing of the proposed rules.

(b) Questions regarding this rule filing may be directed to Dominika Taraszkiewicz, Acting Chief Auditor (202/591-4143 taraszkiewiczd@pcaobus.org), Drew Dropkin, Senior Associate General Counsel (202/591-4393, dropkind@pcaobus.org), or Jennifer Gurzenski, Associate General Counsel (202/591-4173, gurzenskij@pcaobus.org).

3. Board's Statement of the Purpose of, and the Statutory Basis for, the Proposed Rules Change

(a) Purpose

The Board adopted QC 1000, *A Firm's System of Quality Control* ("QC 1000"), on May 13, 2024,[1] to lead registered public accounting firms ("firms") to significantly improve their quality control ("QC") systems. The Board believes that, as firms prepare for the effective date of QC 1000, many such improvements have been and will continue to be implemented as firms develop more rigorous QC systems. The Board's experience during the implementation period led us, however, to consider whether the new standard imposes costs that may not be necessary for us to achieve the Board's regulatory goals and, relatedly, whether there were certain aspects of QC 1000 that could be brought into closer alignment with other audit firm quality management standards.[2]

The Board adopted amendments to QC 1000 that it believes address concerns regarding the implementation challenges identified by firms and better align certain provisions with other quality management standards. These amendments are designed to reduce compliance costs while maintaining the investor protection benefits of QC 1000.

The principal amendments the Board adopted:

- Rescind the "design-only" requirement so that QC 1000 imposes requirements only on firms that are required to comply with applicable professional and legal

[1] *A Firm's System of Quality Control and Other Amendments to PCAOB Standards, Rules, and Forms*, PCAOB Rel. No. 2024-005 (May 13, 2024) ("QC 1000 2024 adopting release").

[2] *See* International Standard on Quality Management ("ISQM") 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* ("ISQM 1"), issued by the International Auditing and Assurance Standards Board; Statement on Quality Management Standards ("SQMS") No. 1, *A Firm's System of Quality Management* ("SQMS 1"), issued by the Auditing Standards Board of the American Institute of CPAs.

requirements with respect to any “engagement” as defined in QC 1000 (QC 1000.06 and .07d);

- Provide increased flexibility in filling certain specified roles in the QC system by permitting roles to be assigned to non-firm personnel and divided among multiple individuals (QC 1000.12);
- Rescind the requirement to have an External QC Function (“EQCF”) (QC 1000.28);
- Narrow and simplify communication requirements relating to metrics that the firm communicates to external parties about its audit practice, firm personnel, or engagements (QC 1000.53e);
- With respect to identified engagement deficiencies, require evaluation of whether similar engagement deficiencies exist on other engagements only if the identified deficiency resulted or could result in (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 (QC 1000.68d);
- Revise the definition of QC deficiency to make clear that, when firms have implemented more than one quality response to address the same quality risk, they can take those other quality responses (e.g., compensating responses) into account when determining whether a QC deficiency exists (QC 1000.A8);
- Allow firms to select the date as of which they annually evaluate the effectiveness of their QC system, rather than requiring firms to evaluate as of September 30 (QC 1000.77);

- Revise the QC system evaluation conclusions to align more closely with the conclusions in other quality management standards, while retaining a structured process, including specified factors for consideration, to guide the evaluation (QC 1000.77 and .78); and
- Simplify the requirements for retention of QC system documentation and abbreviate the retention period from seven to five years (QC 1000.84 and .86).

Several of the amendments the Board adopted bring QC 1000 into closer alignment with other quality management standards, both internationally and in the United States. However, differences remain in areas where the Board continues to believe that alternative or incremental provisions of QC 1000 better address its legal and regulatory environment, the needs and priorities of the Board's stakeholders, and the Board's statutory mandate of protecting investors and the public interest.

QC 1000 and the related amendments to PCAOB standards, rules, and forms adopted in 2024 will take effect on December 15, 2026. If approved by the SEC, the amendments to QC 1000 that the Board adopted and the related amendments to a PCAOB rule and PCAOB forms will also take effect on December 15, 2026.

The proposed rules also include technical amendments to AS 2101, *Audit Planning*, to remove references to an auditing standard that was rescinded by another rulemaking.[3] The Board adopted these amendments as final due to their technical nature, and the Board did not seek public comment on these amendments. These amendments will be effective upon SEC approval.

See Exhibit 3 for additional discussion of the purpose of this project.

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[3] *See General Responsibilities of the Auditor in Conducting an Audit and Amendments to PCAOB Standards*, PCAOB Rel. No. 2024-004 (May 13, 2024) (rescinding AS 1015, *Due Professional Care in the Performance of Work*).

(b) Statutory Basis

The statutory basis for the proposed rules is Title I of the Sarbanes-Oxley Act.

4. Board's Statement on Burden on Competition

Not applicable. The Board's consideration of the economic impacts of the standard and amendments is discussed in Exhibit 1 and in Exhibit 3.

5. Board's Statement on Comments on the Proposed Rules Change Received from Members, Participants or Others

The Board issued a supplemental request regarding proposed amendments to QC 1000 and related amendments to the PCAOB reporting rule and related PCAOB forms for public comment in PCAOB Release No. 2026-002 (June 9, 2026). The Board received 25 written comment letters on the concept release. The Board also received 26 comment letters in response to a request for public comment on the PCAOB strategic priorities in PCAOB Release No. 2026-001 (March 31, 2026), four comment letters in response to a request for public comment on PCAOB standard setting in PCAOB Release No. 2026-005 (June 23, 2026), and one comment letter in response to a request for public comment on the Draft 2026-2030 Strategic Plan Goals and Objective in PCAOB Release No. 2026-006 (July 20, 2026), which all raised comments specifically to QC 1000, among other things. *See* Exhibits 2(a)(B) and 2(a)(D).

6. Extension of Time Period for Commission Action

The Board does not consent to an extension of the time period specified in Section 19(b)(2) of the Securities Exchange Act of 1934.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

Not applicable.

8. Proposed Rules Based on Rules of Another Board or of the Commission

Not applicable.

9. Exhibits

Exhibit A –	Text of the Proposed Rules.
Exhibit 1 –	Form of Notice of Proposed Rules for Publication in the *Federal Register*.
Exhibit 2(a)(A) –	PCAOB Release No. 2026-002 (Jun. 9, 2026).
Exhibit 2(a)(B) –	Alphabetical List of Comments and Written Comments on the proposed rules in PCAOB Release No. 2026-002.
Exhibit 2(a)(C) –	Transcripts from the IAG meeting on Apr. 29, 2026 and SEIAG meeting on May 6, 2026.
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Exhibit 2(a)(D) –	Alphabetical List of Comments and Written Comments on the proposed rules in PCAOB Release No. 2026-001, PCAOB Release No. 2026-005, and PCAOB Release No. 2026-006.
Exhibit 3 –	PCAOB Release No. 2026-007 (Sept. 9, 2026).

10. Signatures

Pursuant to the requirements of the Sarbanes-Oxley Act and the Securities Exchange Act of 1934, as amended, the Board has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Public Company Accounting Oversight Board

By: _____
Phoebe W. Brown
Secretary

September 10, 2026

EXHIBIT A – TEXT OF THE PROPOSED RULES

The Board adopted amendments to QC 1000, *A Firm's System of Quality Control*, related amendments to PCAOB Rule 2203A and PCAOB forms, and technical amendments to AS 2101, Audit Planning to delete references to a rescinded standard.

The text of these proposed rule amendments is set forth below.

AMENDMENTS TO QC 1000

I. QC 1000 is amended by revising the beginning of paragraph .05 to read as follows:

.05 A properly conducted *engagement* and the related report enhance the confidence of investors and other market participants in the company's information to which the firm's report relates. The objective of the firm is to design, implement, and operate an effective QC system. An effective QC system protects investors by facilitating the consistent preparation and issuance of informative, accurate, and independent *engagement* reports in accordance with *applicable professional and legal requirements*. To accomplish this, an effective QC system consistently provides a firm with reasonable assurance that:

* * *

II. QC 1000 is amended by revising paragraph .06 and footnote 4 to read as follows:

.06 A firm must design, implement, and operate an effective QC system in compliance with this standard at all times when the firm is required to comply with *applicable professional and legal requirements* with respect to any of the firm's *engagements*,[3] and thereafter through the following *evaluation date*.[4]

[3] With respect to firm responsibilities subsequent to the issuance of an audit report, *see*, for example, AS 2901, *Responding to Engagement Deficiencies After Issuance of the Auditor's Report*; AS 2905, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*; AS 4101, *Responsibilities Regarding Filings Under Federal Securities Statutes*.

[4] *See* paragraph .77 (requiring evaluation of the effectiveness of the QC system as of the *evaluation date*).

III. QC 1000 is amended by revising paragraph .07 and the Note to read as follows:

.07 The requirement to design, implement, and operate the QC system applies as follows:

a. During the time the firm's QC system is required to be operating effectively, the firm's QC system must operate over any audit, attestation, review, or other work performed under PCAOB standards by the firm, regardless of the level of the firm's participation in such work (i.e., even if the firm plays less than a substantial role).[5]

b. A firm that is required to design, implement, and operate its QC system is also required to annually evaluate its QC system as of the *evaluation date* and report on that evaluation (*see* paragraphs .77-.80).

Note: Any obligations under QC 1000 that exist at the time a firm is no longer required to design, implement, and operate the QC system, such as obligations to evaluate and report on the QC system for previous periods, will continue.

[5] *See* PCAOB Rule 1001(p)(ii).

IV. QC 1000 is amended by revising paragraph .12 and the Note and adding footnote 5A to read as follows:

.12 The firm must assign other roles and responsibilities with respect to the QC system to individual(s)[5A] who understand and are accountable for their roles and responsibilities and who have the experience, competence, authority, and time needed to enable them to carry out their assigned responsibilities.[6] Such roles should include the following:

a. Operational responsibility and accountability for the QC system as a whole;

b. Operational responsibility for the firm's compliance with ethics and independence requirements;

c. Operational responsibility for the monitoring and remediation process; and

d. If appropriate based on the nature and circumstances of the firm, operational responsibility for other components of the QC system.

Note: Depending on the nature and circumstances of the firm (including its size and structure) and its *engagements*, the firm (i) may assign one individual to more than one of the roles identified in paragraphs .11 and .12 and (ii) may divide responsibilities of a role identified in paragraph .12 among multiple individuals.

[5A] Such individuals are "associated persons" of the firm. *See* PCAOB Rule 1001(p)(i).

[6] *See* Note in paragraph .44a. of this standard for a description of competence.

V. QC 1000 is amended by revising paragraphs .15, .16, and .17 to read as follows:

.15 The individual(s) assigned operational responsibility and accountability for the QC system as a whole should:

a. Supervise, within the scope of their assigned responsibilities, the design, implementation, and operation of the firm's QC system in accordance with *applicable professional and legal requirements* and the firm's policies and procedures; and

b. Certify the firm's report to the PCAOB on its annual evaluation of the QC system (*see* paragraph .79).

.16 The individual(s) assigned operational responsibility for the firm's compliance with ethics and independence requirements should, within the scope of their assigned responsibilities:

a. Supervise the design, implementation, and operation of the firm's ethics and independence component (*see* paragraphs .30-.36); and

b. Communicate, on a timely basis, violations of ethics or independence requirements, including personal independence violations, to the individuals assigned (1) operational responsibility for the firm's monitoring and remediation process and (2) operational responsibility and accountability for the QC system as a whole.

.17 The individual(s) assigned operational responsibility for the monitoring and remediation process should, within the scope of their assigned responsibilities:

a. Supervise the design, implementation, and operation of the firm's monitoring and remediation process (*see* paragraphs .58-.76) and the annual evaluation of the QC system (*see* paragraphs .77-.78), including:

(1) The evaluation of the results of the monitoring activities;

(2) The evaluation of whether remedial actions are implemented as designed and operate effectively to remediate *QC deficiencies* and, if not, the taking of timely action until such *QC deficiencies* are remediated; and

(3) The firm's other policies and procedures with regard to monitoring and remediation.

b. Communicate, on a timely basis, to the individuals assigned (1) ultimate responsibility and accountability for the QC system as a whole and (2) operational responsibility and accountability for the QC system as a whole, a description of:

(1) Monitoring activities performed and the results of such activities, including, if applicable, monitoring activities performed by a network;

(2) Identified *engagement deficiencies* and *QC deficiencies*, including the nature, severity, and pervasiveness of such deficiencies; and

(3) Actions taken to address *engagement deficiencies* and *QC deficiencies*.

VI. QC 1000 is amended by revising paragraph .28 to read as follows:

.28 [Reserved]

VII. QC 1000 is amended by revising paragraph .53e and adding a Note to paragraph .53e to read as follows:

.53 The *quality objectives* established by the firm with respect to information and communication should include the following:

* * *

e. If a firm communicates firm-level or *engagement*-level information with respect to the firm's audit practice, *firm personnel*, or *engagements*, such as firm or *engagement* metrics, to external parties:

(1) Such information is accurate and not misleading; and

(2) With respect to any such metrics that are communicated in writing and made publicly available by the firm, the communication provides an explanation in reasonable detail of how the metrics were determined and, if applicable, how the method of determining them changed since the metrics were last communicated.

Note: The communication may provide an explanation either within the communication itself or by referring to a publicly available explanation presented elsewhere, such as the firm's website.

VIII. QC 1000 is amended by revising footnote 39 to paragraph .53g to read as follows:

[39] The most recent evaluation of the *other participant* firm's QC system refers to that firm's evaluation under paragraph .77 of this standard as of the most recent *evaluation date* (as defined in paragraph .A4A), if such an evaluation was performed. If the *other participant* firm did not evaluate its QC system under paragraph .77 of this standard as of the most recent *evaluation date*, then this provision refers to the most recent QC evaluation performed by the *other participant* firm under any professional standard.

IX. QC 1000 is amended by revising paragraph .68a and adding footnote 40A to read as follows:

.68 When an *engagement deficiency* exists, the firm should:

a. For *engagement deficiencies* relating to in-process *engagements*, take action to address the deficiency in accordance with *applicable professional and legal requirements* (to the extent necessary, before the issuance of the related *engagement* report(s)), such that the *engagement* is free of significant engagement deficiencies;[40A]

[40A] A significant engagement deficiency exists when (1) the engagement team failed to obtain sufficient appropriate evidence or failed to perform interim review or attestation procedures necessary in the circumstances in accordance with the standards of the PCAOB, (2) the engagement team reached an inappropriate overall conclusion on the subject matter of the *engagement*, (3) the *engagement* report is not appropriate in the circumstances, or (4) the firm is not independent of its client. This concept aligns with "significant engagement deficiency" in AS 1220, *Engagement Quality Review* (*see* Notes to AS 1220.12, .17, .18B), but applies to all *engagements* as defined in this standard.

X. QC 1000 is amended by revising paragraph .68d and adding a Note to read as follows:

d. For *engagement deficiencies* that resulted or could result in (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*, evaluate whether similar *engagement deficiencies* exist on:

(1) Other in-process *engagements*, or would arise if remedial action is not taken;

(2) Other completed *engagement*s, unless it is probable that the *engagement* report(s) are not being relied upon; and

(3) Work performed by the firm on other firms' *engagements*;

and if so, take actions described in paragraphs .68a.-c. above, as applicable.

Note: Understanding the circumstances that led to the *engagement deficiency* may assist the firm in identifying other *engagements* or work performed by the firm on other firms' *engagements* to evaluate for similar *engagement deficiencies*.

XI. QC 1000 is amended by revising paragraph .77, including the Note to this paragraph, revising footnote 44, and adding a Note to paragraph .77a to read as follows:

.77 Once a firm has been subject to the requirement to design, implement, and operate a QC system under paragraph .06 for at least five consecutive months, the firm must annually evaluate the effectiveness of its QC system, based on the results of its monitoring and remediation activities, and conclude, as of the *evaluation date*,[44] that its QC system:

a. Is effective in achieving the reasonable assurance objective; or

Note: The firm's QC system is effective in achieving the reasonable assurance objective under paragraph .77a if, as of the *evaluation date*, there are no unremediated *QC deficiencies* other than those that, individually or in combination, are not severe.

b. Is effective in achieving the reasonable assurance objective except for unremediated *QC deficiencies* that have a severe but not pervasive effect on the design, implementation, and operation of the QC system (and do not render the QC system not effective); or

c. Is not effective in achieving the reasonable assurance objective.

Note: An unremediated *QC deficiency* is one for which remedial actions that completely address the *QC deficiency* have not been fully implemented, tested, and found effective. For this purpose, implementation must be completed as of the *evaluation date* and testing and the determination of effectiveness must be completed no later than the date Form QC is due under paragraph .79 (or, if earlier, the date Form QC is filed).

[44] The selection of the firm's *evaluation date* may be influenced by the nature and circumstances of the firm and its *engagements*, including, for example, the firm's fiscal year-end or the timing of monitoring activities. If the firm changes its *evaluation date*, the firm is required to provide notice of such change on Form QC.

XII. QC 1000 is amended by revising paragraph .78 and adding footnote 44A, to read as follows:

.78 In performing the evaluation and reaching the conclusion required by paragraph .77, the firm should evaluate the severity (i.e., the seriousness, including potential impact on the firm's ability to achieve the reasonable assurance objective) and the pervasiveness (i.e., the breadth of impact on the firm's QC system or across the firm's portfolio of *engagements*) of all unremediated *QC deficiencies*, individually and in combination, considering both quantitative and qualitative implications. In evaluating severity and pervasiveness, the firm should consider the following factors:

a. The number and nature of components of the firm's QC system or *quality objectives* directly or indirectly affected;

b. The extent to which the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* relates to a component, *quality objective*, or *quality response* that affects the design or operation of other aspects of the QC system;

c. The number and pervasiveness of root causes;

d. The persistence of the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* over time;

e. Whether the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* has resulted or could result in significant engagement deficiencies;

f. Whether the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* has resulted or could result in the need for revisions to *engagement* reports, or is or could be associated with restatements of financial statements or reissuances of company-prepared reports that are the subject of audit or attestation *engagements*;[44A]

g. With respect to the factors in subparagraphs d.-f., the number and significance (to the firm's portfolio of *engagements*) of *engagements* that are affected by the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* or are likely to be affected in the future in the absence of remediation, and the nature of the effect; and

h. The effects of any remedial actions that have been implemented, tested, and found to be effective.

[44A] Company-prepared reports subject to audit or attestation *engagements* include the report on internal control over financial reporting and broker-dealer compliance and exemption reports.

XIII. QC 1000 is amended by revising paragraphs .79 and .80 to read as follows:

.79 The firm must report annually to the PCAOB on Form QC, in accordance with the instructions to that form, the results of the evaluation of its QC system no later than 60 days after the *evaluation date*.

.80 The contents of the firm's reporting to the PCAOB must include the following:

a. The firm's conclusion that, as of the *evaluation date*, the firm's QC system:

(1) Is effective in achieving the reasonable assurance objective;

(2) Is effective in achieving the reasonable assurance objective, except for unremediated *QC deficiencies* that have a severe but not pervasive effect on the design, implementation, and operation of the QC system (and do not render the QC system not effective); or

(3) Is not effective in achieving the reasonable assurance objective.

b. If, as of the *evaluation date*, the firm has any unremediated *QC deficiencies*, a description of each unremediated *QC deficiency* consisting of:

(1) The requirements of this standard or the *quality objective(s)* to which it relates;

(2) The firm's basis for determining it was a *QC deficiency* as of the *evaluation date*; and

(3) A summary of the remedial actions taken and planned to be taken to address the *QC deficiency*, as well as the timing and the status of such actions, including a summary of actions taken or to be taken by the firm to address the risk that the *QC deficiency* resulted or could result in significant engagement deficiencies.

XIV. QC 1000 is amended by revising paragraph .84 and deleting footnote 48 to read as follows:

.84 No later than 14 days after Form QC is filed (or due to be filed, if earlier) ("QC documentation completion date"), the firm should complete the documentation required by paragraphs .81-.83 with respect to the period covered by the firm's annual evaluation and retain it in a manner that permits timely retrieval.

XV. QC 1000 is amended by revising paragraph .86 to read as follows:

.86 The firm must retain the documentation of its QC system required under paragraphs .81-.83 and paragraph .85 for five years from the QC documentation completion date, unless a longer period of time is required by law.

XVI. QC 1000 is amended by adding paragraph .A4A to read as follows:

.A4A Evaluation date – The date selected by the firm as of which to evaluate its QC system under paragraph .77.

XVII. QC 1000 is amended by revising paragraph .A6 to read as follows:

.A6 [Reserved]

XVIII. QC 1000 is amended by revising paragraph .A8 to read as follows:

.A8 QC deficiency – A *QC observation* that, based on the evaluation under paragraph .72, individually, or in combination with one or more other *QC observations*, evidences:

(1) That the likelihood of the firm not achieving the reasonable assurance objective or one or more *quality objectives* has not been reduced to an acceptably low level;

Note: The likelihood of not achieving the reasonable assurance objective or one or more *quality objectives* would be above an acceptably low level if, for example, a *quality objective* is not established, a *quality risk* is not properly identified or assessed, or a *quality response* is not properly designed or implemented or is not operating effectively and other *quality responses* do not achieve the relevant objective(s).

(2) Noncompliance with requirements of this standard, other than those under "Documentation"; or

(3) Noncompliance with requirements of this standard under "Documentation" that adversely affects the firm's ability to comply with any of the other requirements of this standard.

AMENDMENTS TO PCAOB RULE 2203A

I. The title of Rule 2203A is amended to read as follows:

Rule 2203A. Reporting on the Evaluation of the Firm's System of Quality Control

II. Rule 2203A is amended by revising paragraphs (a) and (b) to read as follows:

(a) If a registered public accounting firm is required to perform an evaluation of its QC system under paragraph .77 of QC 1000, *A Firm's System of Quality Control*, the firm must file with the Board a report on such evaluation and notification of any change in the firm's "evaluation date" (as defined in QC 1000.A4A) on Form QC, by following the instructions to that form.

(b) Unless directed otherwise by the Board, the registered public accounting firm must file electronically with the Board through the Board's Web-based system:

(1) each report on the evaluation of its QC system and exhibits thereto no later than 60 days following the evaluation date; and

(2) each such notification of a change in evaluation date no later than 30 days after the firm's decision to change the evaluation date.

AMENDMENTS TO FORM QC

I. Form QC is amended by revising General Instructions 3 and 4 to read as follows:

GENERAL INSTRUCTIONS

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3. When Report is Due and Considered Filed. Reports on the evaluation of the Firm's QC system on this Form are required to be filed each year no later than 60 days following the *evaluation date*. A Form QC is considered filed when the Firm has submitted to the *Board* a Form QC in accordance with Rule 2203A that includes the signed certifications required in Parts III and V of Form QC.

   Reports on this Form are required to notify the Board of a change to the Firm's *evaluation date* and to be filed no later than 30 days after the Firm's decision to change the *evaluation date*. A Form QC is considered filed when the Firm has submitted to the Board a Form QC in accordance with Rule 2203A that includes completed Part I and the signed certification in Part V of Form QC.

4. Period Covered by this Report. The reporting period, which the Firm should enter in Item 2.1, is the period beginning the day after the most recent previous *evaluation date*, except as provided in a. and b. below, and ending on the *evaluation date*.

   a. If a firm has not previously been required to evaluate its QC system under QC 1000, the reporting period begins on the date the firm first incurred an obligation to implement and operate a QC system under QC 1000.06.

   b. If a firm was previously required to evaluate its QC system under QC 1000, but such obligation lapsed because the firm ceased having any obligations under *applicable professional and legal requirements* with respect to one or more *engagements*, the reporting period begins on the date the firm subsequently incurred an obligation to implement and operate a QC system under QC 1000.06.

II. Form QC is amended by revising the title of Part I to read as follows:

PART I – IDENTITY OF THE FIRM AND, IF APPLICABLE, BOARD NOTIFICATION OF CHANGE OF EVALUATION DATE

III. Form QC is amended by adding Item 1.2 to read as follows:

Item 1.2 Change to the *Evaluation Date*

a. Indicate, by checking the box corresponding to this item, whether the Firm is filing this Form QC to report a change to the Firm's *evaluation date*;

b. State the Firm's new *evaluation date*; and

c. Briefly describe the Firm's rationale for making the change.

IV. Form QC is amended by revising Items 2.2, 2.3, and 2.4 to read as follows:

Item 2.2 Overall Conclusion on the Effectiveness

Indicate, by checking the applicable box, the Firm's conclusion on whether, as of the *evaluation date*, the Firm's QC system:

a. Is effective in achieving the reasonable assurance objective; or

b. Is effective in achieving the reasonable assurance objective except for unremediated *QC deficiencies* that have a severe but not pervasive effect on the design, implementation, and operation of the QC system (and do not render the QC system not effective); or

c. Is not effective in achieving the reasonable assurance objective.

Item 2.3 Reporting on Unremediated *QC Deficiencies*

If, as of the *evaluation date*, the Firm has any unremediated *QC deficiencies*, provide the number of unremediated *QC deficiencies*:

Note: For purposes of Items 2.3 and 2.4, an unremediated *QC deficiency* is one for which remedial actions that completely address the *QC deficiency* are not fully (i) implemented as of the *evaluation date* and (ii) tested and found effective as of the date Form QC is due under QC 1000.79 (or, if earlier, the date Form QC is filed).

Item 2.4 Reporting on an Unremediated *QC Deficiency*

a. Provide a description of the unremediated *QC deficiency*.

b. Indicate, by checking all boxes that apply, the area(s) the unremediated *QC deficiency* relates to:

1. Roles and responsibilities

2. The firm's risk assessment process

3. Governance and leadership

4. Ethics and independence

5. Acceptance and continuance of engagements

6. Engagement performance

7. Resources

8. Information and communication

9. Monitoring and remediation process

10. Evaluation of and reporting on the QC system

11. Documentation

c. Furnish, as a correspondingly numbered item in Exhibit 2.4, the following:

1. The *quality objective(s)*, or requirement(s) of QC 1000, to which the unremediated *QC deficiency* relates.

2. The Firm's basis for determining it was a *QC deficiency* as of the *evaluation date*.

3. A summary of the remedial actions taken and planned to be taken to address the *QC deficiency*, as well as the timing and the status of such actions, including a summary of the actions taken or to be taken by the Firm to address the risk that the *QC deficiency* resulted or could result in significant engagement deficiencies.

V. Form QC is amended by rescinding Item 2.5.

VI. Form QC is amended by revising Item 3.2 paragraphs 1 and 3(b) and Notes 1 and 2 to read as follows:

Item 3.2 Certification of the Report on the Evaluation of the Firm's QC System

* * *

1. I have reviewed this report on Form QC on the evaluation of [Firm]'s quality control system (QC system) as of [evaluation date], [year];

* * *

3. [The Firm's other certifying officer(s) and] I [are/am] responsible and accountable for [Firm]'s QC system as a whole and have:

* * *

(b) Evaluated the effectiveness of the Firm's QC system and presented in this report [my/our] conclusions about the effectiveness of the QC system as of [evaluation date], [year]; and

* * *

Note 1: Other than the insertion of the Firm name, the name and role of the signing individual, and the *evaluation date*, Exhibits 3.2.a and 3.2.b must be in the exact words contained in this instruction.

Note 2: If more than one individual is identified in Item 3.1.a or Item 3.1.b, Exhibits 3.2.a or 3.2.b, as the case may be, must be signed by each such individual. If the same individual is identified in Items 3.1.a and 3.1.b, he or she may sign a single certificate indicating both capacities.

* * *

VII. Form QC is amended by revising Exhibit 2.4, deleting Exhibit 2.5, and revising Exhibit 3.2.b under Part VII to read as follows:

PART VII - EXHIBITS

To the extent applicable under the foregoing instructions or the *Board's rules*, each Form QC must be accompanied by the following exhibits:

Exhibit 2.4 Reporting on an Unremediated *QC Deficiency* in Item 2.4

* * *

Exhibit 3.2.b Certification of the Report on the Evaluation of the Firm's QC System by the individual(s) assigned operational responsibility and accountability for the Firm's QC system as a whole

Note: Where an exhibit consists of more than one document, each document must be numbered consecutively (e.g., Exhibit 3.2.a.1, Exhibit 3.2.a.2, etc.), and the firm must provide a list of the title or description of each document comprising the exhibit.

AMENDMENTS TO PCAOB FORMS 1 AND 2

I. Form 1 is amended by revising General Instruction 1 to read as follows:

1. The definitions in the *Board's rules* apply to this form. Italicized terms in the instructions to this form are defined in the *Board's rules*. See Rule 1001.

II. Form 1 is amended by revising General Instruction 3 to read as follows:

3. In addition to these instructions, the *rules* contained in Section 2 of the *Board's rules* govern applications for registration. Please read these *rules* and the instructions carefully before completing this form.

III. Form 1 is amended by rescinding Item 4.2 of this Form.

III. Form 2 is amended by rescinding Item 3.1A of this Form.

TECHNICAL AMENDMENTS TO OTHER PCAOB STANDARD (AS 2101)

I. AS 2101 is amended by revising footnote 4H to paragraph .06H to read as follows:

[4H] *See* AS 2301.05(a), which describes making appropriate assignments of significant engagement responsibilities.

II. AS 2101 is amended by revising footnote 8 to paragraph .09 to read as follows:

[8] *See, e.g.*, AS 1201.06, which describes how to determine the extent of supervisory activities necessary for proper supervision of engagement team members. *See also* AS 1201.08-.15, which further describe procedures to be performed by the lead auditor with respect to the supervision of the work of other auditors, in conjunction with the required supervisory activities set forth in AS 1201.

III. Appendix A to AS 2101 is amended by revising footnote 4 to paragraph .A4 to read as follows:

[4] *See* paragraph .05a of AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*, which describes making appropriate assignments of significant engagement responsibilities.

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-XXXXX; File No. PCAOB-2026-01]]

[Date]

Public Company Accounting Oversight Board; Notice of Filing of Proposed Rules on Amendments to QC 1000, *A Firm's System of Quality Control*, and Related Rule and Forms

Pursuant to section 107(b) of the Sarbanes-Oxley Act of 2002 (the "Act"), notice is hereby given that on September 10, 2026, the Public Company Accounting Oversight Board (the "Board" or the "PCAOB") filed with the Securities and Exchange Commission (the "Commission" or the "SEC") the proposed rules described in items I and II below, which items have been prepared by the Board. The Commission is publishing this notice to solicit comments on the proposed rules from interested persons.

I. Board's Statement of the Terms of Substance of the Proposed Rules

On September 9, 2026, the Board adopted proposed rule amendments to QC 1000, *A Firm's System of Quality Control*, related amendments to PCAOB Rule 2203A, PCAOB forms, and technical amendments to AS 2101, *Audit Planning*. (collectively, the "proposed rules"). The text of the proposed rules appears in Exhibit A to the SEC Filing Form 19b-4 and is available on the Board's website at https://pcaobus.org/about/rules-rulemaking/rulemaking-dockets/docket-057.

II. Board's Statement of the Purpose of, and Statutory Basis for, the Proposed Rules

In its filing with the Commission, the Board included statements concerning the purpose of and basis for the proposed rules and discussed any comments it received on the proposed rules. The text of these statements may be examined at the places specified in Item IV below. The Board has prepared summaries, set forth in sections A, B, and C

below, of the most significant aspects of such statements. In addition, to the extent necessary, the Board is requesting that the Commission approve the proposed rules pursuant to section 103(a)(3)(C) of the Act for application to audits of emerging growth companies ("EGCs"), as that term is defined in section 3(a)(80) of the Securities Exchange Act of 1934 ("Exchange Act"). The Board's request is set forth in section D.

A. Board's Statement of the Purpose of, and Statutory Basis for, the Proposed Rules

(a) Purpose

The Board adopted QC 1000, *A Firm's System of Quality Control* ("QC 1000"), on May 13, 2024,[1] to lead registered public accounting firms ("firms") to significantly improve their quality control ("QC") systems. The Board believes that, as firms prepare for the effective date of QC 1000, many such improvements have been and will continue to be implemented as firms develop more rigorous QC systems. The Board's experience during the implementation period led us, however, to consider whether the new standard imposes costs that may not be necessary for us to achieve the Board's regulatory goals and, relatedly, whether there were certain aspects of QC 1000 that could be brought into closer alignment with other audit firm quality management standards.[2]

The Board adopted amendments to QC 1000 that it believes address concerns regarding the implementation challenges identified by firms and better align certain

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[1] A Firm's System of Quality Control and Other Amendments to PCAOB Standards, Rules, and Forms, PCAOB Rel. No. 2024-005 (May 13, 2024) ("QC 1000 2024 adopting release").

[2] See International Standard on Quality Management ("ISQM") 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements ("ISQM 1"), issued by the International Auditing and Assurance Standards Board; Statement on Quality Management Standards ("SQMS") No. 1, A Firm's System of Quality Management ("SQMS 1"), issued by the Auditing Standards Board of the American Institute of CPAs.

provisions with other quality management standards. These amendments are designed to reduce compliance costs while maintaining the investor protection benefits of QC 1000.

The principal amendments the Board adopted:

- Rescind the "design-only" requirement so that QC 1000 imposes requirements only on firms that are required to comply with applicable professional and legal requirements with respect to any "engagement" as defined in QC 1000 (QC 1000.06 and .07d);
- Provide increased flexibility in filling certain specified roles in the QC system by permitting roles to be assigned to non-firm personnel and divided among multiple individuals (QC 1000.12);
- Rescind the requirement to have an External QC Function ("EQCF") (QC 1000.28);
- Narrow and simplify communication requirements relating to metrics that the firm communicates to external parties about its audit practice, firm personnel, or engagements (QC 1000.53e);
- With respect to identified engagement deficiencies, require evaluation of whether similar engagement deficiencies exist on other engagements only if the identified deficiency resulted or could result in (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 (QC 1000.68d);
- Revise the definition of QC deficiency to make clear that, when firms have implemented more than one quality response to address the same quality risk,

they can take those other quality responses (e.g., compensating responses) into account when determining whether a QC deficiency exists (QC 1000.A8);

- Allow firms to select the date as of which they annually evaluate the effectiveness of their QC system, rather than requiring firms to evaluate as of September 30 (QC 1000.77);
- Revise the QC system evaluation conclusions to align more closely with the conclusions in other quality management standards, while retaining a structured process, including specified factors for consideration, to guide the evaluation (QC 1000.77 and .78); and
- Simplify the requirements for retention of QC system documentation and abbreviate the retention period from seven to five years (QC 1000.84 and .86).

Additional amendments the Board adopted, including conforming amendments, are discussed below.

Several of the amendments the Board adopted bring QC 1000 into closer alignment with other quality management standards, both internationally and in the United States. However, differences remain in areas where the Board continues to believe that alternative or incremental provisions of QC 1000 better address its legal and regulatory environment, the needs and priorities of the Board's stakeholders, and the Board's statutory mandate of protecting investors and the public interest.

QC 1000 and the related amendments to PCAOB standards, rules, and forms adopted in 2024 will take effect on December 15, 2026. If approved by the SEC, the amendments to QC 1000 that the Board adopted and the related amendments to a PCAOB rule and PCAOB forms will also take effect on December 15, 2026.

The proposed rules also include technical amendments to AS 2101, *Audit Planning*, to remove references to an auditing standard that was rescinded by another rulemaking.[3] The Board adopted these amendments as final due to their technical nature, and the Board did not seek public comment on these amendments. These amendments will be effective upon SEC approval.

(b) Statutory Basis

The statutory basis for the proposed rules is Title I of the Act.

B. Board's Statement on Burden on Competition

Not applicable. The Board's consideration of the economic impacts of the proposed rules is discussed in section D below.

C. Board's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The Board released proposed rule amendments for public comment on June 9, 2026, in its release titled *Supplemental Request for Comment: Proposed Amendments to QC 1000, A Firm's System of Quality Control, and Related Rule and Forms*, PCAOB Release No. 2026-002. The Board received 25 comment letters in response to that supplemental request for comment. *See* Comment Letters for Docket 057, https://pcaobus.org/about/rules-rulemaking/rulemaking-dockets/docket-057/comment-letters. The Board also received 26 comment letters in response to a request for public comment on the PCAOB strategic priorities, identified at footnote 12 below, and 4 comment letters in response to a request for public comment on PCAOB standard setting,

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[3] See General Responsibilities of the Auditor in Conducting an Audit and Amendments to PCAOB Standards, PCAOB Rel. No. 2024-004 (May 13, 2024) (rescinding AS 1015, Due Professional Care in the Performance of Work).

identified at footnote 289 below, and 1 comment letter in response to a request for public comment on the Draft 2026-2030 Strategic Plan Goals and Objective, identified at footnote 300 below, which all raised comments specifically to QC 1000, among other things. *See* Comment Letters on the PCAOB website available at https://pcaobus.org/about/strategic-plan-budget/public-comments-on-pcaob-strategic-priorities, https://pcaobus.org/oversight/standards/standard-setting-research-projects/agenda-consultation--request-for-public-comment-on-pcaob-standard-setting, and https://pcaobus.org/about/strategic-plan-budget/public-comments-on-goals-and-objectives-for-pcaob-strategic-plan-2026-2030, respectively. The Board has carefully considered all comments received. The Board's responses to the comments received, including revisions to the proposed rule amendments, are discussed below.

BACKGROUND

This section presents background information on this rulemaking, including recent rulemaking history and staff implementation support efforts since SEC approval of QC 1000 in September 2024.

RECENT RULEMAKING HISTORY

On May 13, 2024, the Board adopted QC 1000 and related amendments. They were approved by the SEC on September 9, 2024, with an effective date of December 15, 2025.[4]

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[4] For more details regarding the rulemaking history of QC 1000, *see* Rulemaking Docket No. 046 on the Board's website, *available at* https://pcaobus.org/about/rules-rulemaking/rulemaking-dockets/docket-046-quality-control; *see also Public Company Accounting Oversight Board; Order Granting Approval of QC 1000, A Firm's System of Quality Control and Related Amendments to PCAOB Standards, Rules, and Forms*, SEC Rel. No. 34-100968 (Sept. 9, 2024).

On August 28, 2025, to provide firms with additional time for implementation, the Board proposed to delay the effective date of QC 1000 and the related amendments to December 15, 2026, and that postponement became immediately effective.[5] The SEC received 15 comment letters in response to its notice regarding the postponement.[6] Commenters generally supported providing additional implementation time but raised concerns regarding certain provisions of QC 1000 that they viewed as more prescriptive than other quality management standards and as creating unnecessary operational complexity and cost.

On July 23, 2025, and March 20, 2026, the PCAOB received letters from a firm-related group regarding implementation of QC 1000 and related implementation challenges.[7]

On March 31, 2026, the Board issued a request for public comment on the PCAOB's strategic priorities, including future standard-setting activity.[8] Several commenters provided observations regarding QC 1000.[9] The comments relating to QC 1000 were generally consistent with themes raised in comment letters submitted to the

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5 See 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, SEC Rel. No. 34-103803 (Aug. 28, 2025).

6 The comment letters received are available on the SEC's webpage, *available at* https://www.sec.gov/comments/pcaob-2025-01/pcaob202501.htm.

7 *See* letter from the Center for Audit Quality dated July 23, 2025, *available at* https://www.thecaq.org/comment-letter-pcaob-requesting-deferral-qc-1000; and letter from the Center for Audit Quality dated March 20, 2026, *available at* https://www.thecaq.org/letter-to-the-pcaob-on-qc1000-implementation-experience-and-costs.

8 See Request for Public Comment, PCAOB Strategic Priorities, PCAOB Rel. No. 2026-001 (Mar. 31, 2026).

9 The comment letters received are on the Board's website, *available at* https://pcaobus.org/about/strategic-plan-budget/public-comments-on-pcaob-strategic-priorities.

PCAOB and SEC in connection with the extension of the effective date of QC 1000. Most commenters urged the Board to adopt or align more closely with ISQM 1, suggesting it may better support global implementation, while emphasizing that differences in structure, terminology, and prescriptive requirements in QC 1000 create operational challenges, limit firm judgment, and increase complexity for global firms.

After considering feedback and information obtained through implementation support efforts,[10] on June 9, 2026, the Board issued a supplemental request for comment on potential targeted amendments to certain provisions of QC 1000 and related amendments to the QC reporting rule and PCAOB forms.[11] The Board received 26 comment letters.[12] Commenters included firms and firm-related groups, investor-related groups, and others. Firms, firm-related groups, and most other commenters generally supported the Board's objective of making targeted amendments to QC 1000

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[10] *See* discussion below regarding PCAOB staff's implementation support efforts, including implementation guidance, workshops, stakeholder outreach, and feedback received from firms and other stakeholders regarding QC 1000 implementation.

[11] See Supplemental Request for Comment: Proposed Amendments to QC 1000, A Firm's System of Quality Control, and Related Rule and Forms, PCAOB Rel. No. 2026-002 (June 9, 2026) (proposing amendments to QC 1000, PCAOB Rule 2203A, and PCAOB Forms 1, 2, and QC).

[12] *See* comment letters on the *Supplemental Request for Comment* from the Auditing Standards Committee, Auditing Section - American Accounting Association (July 3, 2026) ("AAA"); Baker Tilly US, LLP (July 9, 2026) ("Baker Tilly"); BDO USA, P.C. (July 9, 2026) ("BDO"); CBIZ CPAs P.C. (July 9, 2026) ("CBIZ"); Center for Audit Quality (July 9, 2026) ("CAQ"); CFA Institute (Aug. 31, 2026) ("CFA"); Council of Institutional Investors (July 9, 2026) ("CII"); Crowe LLP (July 9, 2026) ("Crowe"); Deloitte & Touche LLP (July 9, 2026) ("Deloitte"); Ernst & Young LLP (July 9, 2026) ("EY"); Forvis Mazars, LLP (July 9, 2026) ("Forvis"); George R. Kramer (July 6, 2026) ("Kramer"); Grant Thornton LLP (July 9, 2026) ("GT"); International Corporate Governance Network (July 9, 2026) ("ICGN"); James Grosvenor (July 9, 2026) ("Grosvenor"); KPMG LLP (July 9, 2026) ("KPMG"); MaloneBailey, LLP (June 26, 2026) ("Malone Bailey"); Members of the Investor Advisory Group (July 9, 2026) ("MIAG"); Pennsylvania Institute of CPAs (July 9, 2026) ("PICPA"); Plante & Moran, PLLC (July 10, 2026) ("Plante & Moran"); PricewaterhouseCoopers LLP (July 9, 2026) ("PwC"); RSM US LLP (July 9, 2026) ("RSM"); St. Charles Consulting Group (June 12, 2026) ("SCCG"); Thomas H. Spitters (July 6, 2026) ("Spitters"); and Virginia Society of CPAs (July 9, 2026) ("VSCPA"). One additional comment letter was withdrawn.

and most of the proposed amendments, particularly those intended to increase flexibility, improve operability, reduce unnecessary compliance burdens, and better align QC 1000 with other quality management standards.[13] One investor-related group did not support the proposed amendments overall because of the proposed rescission of the EQCF requirement.[14] Other investor-related groups generally supported the proposed amendments that reduce compliance costs without reducing audit quality, but opposed the removal of the EQCF requirement, emphasizing the importance of independent oversight and investor protection, and other amendments they viewed as weakening investor-protection-focused provisions of QC 1000.[15] Many commenters, particularly firms and firm-related groups, also requested implementation guidance and clarification in certain areas discussed below.[16]

The Board considered all comments received on the supplemental request for comment. As discussed below, the Board is adopting the proposed amendments to QC 1000, with certain modifications.

IMPLEMENTATION SUPPORT EFFORTS

Since SEC approval of QC 1000, PCAOB staff have supported implementation through guidance, workshops, outreach activities, and engagement with stakeholders, which provided insight into implementation progress, challenges, and questions and

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13 *See, e.g.*, comment letters from AAA, Baker Tilly, BDO, CAQ, CBIZ, Crowe, Deloitte, EY, Forvis, Grosvenor, GT, KPMG, Kramer, Malone Bailey, PICPA, Plante & Moran, PwC, RSM, SCCG, Spitters, and VSCPA.

14 *See* comment letter from CII.

15 *See* comment letters from CFA, ICGN, and MIAG.

16 *See, e.g.*, comment letters from Baker Tilly, BDO, CAQ, CBIZ, Crowe, Deloitte, EY, Forvis, GT, KPMG, Kramer, Plante & Moran, RSM, SCCG, and VSCPA.

informed the Board's consideration of the proposed amendments.[17] Additionally, as part of inspection outreach activities, the Board obtained feedback on the progress made by firms in implementing QC 1000 in their QC systems.[18]

As part of staff implementation support efforts, the PCAOB staff released *QC 1000 Questions and Answers* ("QC 1000 Q&As") in August 2026.[19] The QC 1000 Q&As provide technical guidance on various aspects of QC 1000, including roles and responsibilities, evaluation and reporting, documentation, and other areas of designing, implementing, operating, and evaluating a firm's QC system. The QC 1000 Q&As were developed in response to questions and requests for clarification received from firms through staff implementation support efforts and are intended to reduce uncertainty and support firms' implementation of the standard.

The QC 1000 Q&As do not address the specific topics that are the subject of the amendments to QC 1000 that the Board adopted, but they do address some questions and clarification requests on other topics that were included in comment letters submitted in response to the supplemental request for comment. As implementation continues, additional guidance, including updates to the QC 1000 Q&As, may be issued to help

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17 *See* PCAOB, *Quality Control—Implementation Resources*, *available at* https://pcaobus.org/oversight/standards/implementation-resources-PCAOB-standards-rules/quality-control, which includes staff guidance and other materials issued to support implementation of QC 1000 and the related amendments.

18 See section titled "Need" under "Economic Considerations" below for additional information on data received through these inspection outreach activities.

19 *See QC 1000 Questions and Answers*, *available at* https://pcaobus.org/oversight/standards/standard-setting-research-projects/quality-control/qc-1000-questions-and-answers.

address other areas identified by commenters or through staff implementation support efforts.

AMENDMENTS TO QC 1000, PCAOB RULE 2203A, AND PCAOB FORM QC

This section describes the requirements of QC 1000, Rule 2203A, and Form QC that the Board amended.

REQUIREMENT TO DESIGN, IMPLEMENT, AND OPERATE A QC SYSTEM

As originally adopted, QC 1000.06 requires all firms to design a QC system that complies with the standard, regardless of whether the firm is subject to applicable professional and legal requirements with respect to an engagement as defined in QC 1000. As explained in the supplemental request for comment, the Board understands that this "design-only" requirement would impose costs on firms that do not perform engagements requiring registration under the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley")[20] or PCAOB rules[21] without commensurate benefits for investors and the public. Therefore, the Board proposed to eliminate the requirement and sought comment on potential alternatives, as well as any circumstances that potentially could trigger a design requirement. As proposed in the supplemental request for comment, paragraphs .05 through .07 of QC 1000 would be revised to eliminate the separate obligation to design a QC system and would maintain unchanged the obligation to design, implement, and operate a QC system in compliance with QC 1000 when a firm is subject to applicable professional and legal requirements with respect to any of the firm's engagements.

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[20] *See* section 102(a) of Sarbanes-Oxley, 15 U.S.C. 7212(a).

[21] See PCAOB Rule 2100, Registration Requirements for Public Accounting Firms.

Many commenters supported the proposal to rescind the design-only requirement.[22] One commenter stated that they did not object to rescinding the design-only requirement when a firm neither performs nor intends to perform PCAOB engagements.[23] One of the commenters supporting rescission stated that it did not believe registered firms should be required to comply with PCAOB standards until the firm undertakes an engagement requiring compliance with those standards and that the design-only requirement was inconsistent with the text of Sarbanes-Oxley.[24] Commenters that addressed the question of whether the Board should adopt an alternative design-only requirement generally did not support such a requirement.[25]

However, one commenter stated support for a QC design requirement that included effective operation of a system of quality management under relevant standards for the jurisdiction in which the firm operates, such as ISQM 1 or SQMS 1.[26] This commenter noted that, in practice, registered firms would already maintain some form of a system of quality management to support their PCAOB registration.[27] The Board does not believe QC 1000 should explicitly require compliance with rules of local jurisdictions, as PCAOB standards generally do not impose such requirements. Another

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22 *See* comment letters from AAA, Baker Tilly, BDO, CAQ, Crowe, Deloitte, GT, KPMG, Kramer, MIAG, PICPA, PwC, and RSM. *But see* comment letters from ICGN and Spitters. One commenter expressed support for eliminating the "design-only reporting requirement," described as the "requirement for firms to report once a quality control system has merely been designed." *See* comment letter from VSCPA.

23 *See* comment letter from CFA.

24 *See* comment letter from RSM.

25 *See* comment letters from AAA, BDO, GT, KPMG, Kramer, and PICPA.

26 *See* comment letter from RSM.

27 See id.

commenter noted that, although some registered firms do not conduct audits, that fact does not necessarily signify the need for an exemption from standard best practices or audit quality requirements; such firms should be subject to QC 1000 on the level of preparedness or some QC regime that parallels QC 1000 in its design, implementation, and operation.[28] The Board does not believe that the suggestion to base a design-only requirement on a level of preparedness or a system paralleling QC 1000 is workable because it is too vague as to the requirements that would apply to firms not performing PCAOB engagements.

Commenters raised concerns over the costs of the design-only requirement in relation to the benefits.[29] One commenter stated that the requirement would have resulted in unnecessary costs of compliance without commensurate benefits.[30] Another commenter similarly stated that requiring firms not performing PCAOB engagements to comply with the design-only requirement did not provide a commensurate benefit to investor protection, as such firms do not present risk to U.S. capital markets.[31] Another commenter stated that requiring firms to build compliance infrastructure for work they may never undertake imposes cost without a corresponding investor benefit.[32] Another commenter observed that, because firms performing engagements would be fully subject to the requirement to design, implement, and operate a QC 1000-compliant system,

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28 *See* comment letter from Spitters.

29 *See, e.g.*, comment letters from KPMG, PICPA, and PwC.

30 *See* comment letter from PwC.

31 *See* comment letter from KPMG.

32 *See* comment letter from CFA.

rescinding the requirement for firms not performing such work would preserve the Board's objective of promoting high-quality audits, while reducing unnecessary burdens for those firms.[33] Another commenter stated that, while the value to the public of the design-only requirement was unclear, the costs would be real in the form of training costs, consulting costs, and professional time.[34] Other commenters noted the limited benefits of the requirement for investors, stating that rescission would not diminish investor protection[35] or introduce any risk to investors,[36] or that retaining the requirement would not help ensure improved audit quality.[37]

Two commenters also raised concerns about requiring firms to address hypothetical situations. One of these commenters stated that it would be difficult for a firm not subject to applicable professional and legal requirements with respect to any engagement to design a QC system based on hypothetical circumstances.[38] The second commenter stated that such a firm's QC system "would be hypothetical at best and would likely become obsolete over time as practice conditions change, leading to the false pretense that [the firm is] in a position to immediately implement these standards."[39]

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33 *See* comment letter from GT.

34 *See* comment letter from PICPA.

35 *See* comment letter from GT.

36 *See* comment letter from Baker Tilly.

37 *See* comment letter from PICPA.

38 *See* comment letter from AAA.

39 *See* comment letter from PICPA.

The Board is rescinding the design-only requirement and adopting paragraphs .05 through .07 as proposed.[40] The Board believes rescinding the design-only requirement will reduce costs for firms without any significant detriment to audit quality.

As confirmed by commenter feedback, implementing the design-only requirement has proven more difficult and costly than originally anticipated. The requirement may compel some firms that have no intention of performing PCAOB engagements in the foreseeable future to design a QC 1000-compliant system, perhaps based on hypothetical circumstances. As described in the supplemental request for comment, the Board believes that the design-only requirement may have contributed to an increase in withdrawals from registration by firms that are not performing engagements. Although the impact of such activity on the marketplace (discussed below in the economic analysis) may be limited, the Board believes investors and the public interest are better served by incentivizing firms to register and consider seeking PCAOB engagements, thereby promoting competition.[41]

In the Board's view, rescission of the design-only requirement would entail foregoing the benefits associated with greater preparedness of firms to take on a PCAOB engagement for the first time. The Board believes this benefit to be modest, as any firm

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40 As noted in the supplemental request for comment, the Board does not believe that this action would violate the mandate in section 103(a)(2)(B) of Sarbanes-Oxley, 15 U.S.C. 7213(a)(2)(B), to adopt requirements "for every registered public accounting firm" that address certain enumerated areas in "the quality control standards that [the PCAOB] adopts with respect to the issuance of audit reports." Under the Board's approach, QC 1000 will apply to every firm with respect to the issuance of "audit reports" (which are limited under Sarbanes-Oxley to those relating to audits of issuers and broker-dealers).

41 As noted in the supplemental request for comment, some firms may register with the Board to perform activities not subject to the PCAOB's jurisdiction. *See, e.g.,* Guiding and Establishing National Innovation for U.S. Stablecoins Act, Pub. L. No. 119-27 (July 18, 2025), section 4(a)(3)(A), 12 U.S.C. 5903(a)(3)(A) (requiring month-end reports of permitted payment stablecoin issuers to be examined by a PCAOB-registered firm).

that actually takes on such an engagement will have become subject to the requirement to design, implement, and operate a QC 1000 system.[42] In any event, and as noted by one commenter, registered firms that do not perform PCAOB engagements are generally well-positioned to implement QC 1000 if or when required to do so.[43] This is so because most such firms, as some commenters observed, are generally either non-U.S. firms subject to international auditing standards or U.S.-based firms that conduct private company audits under the standards of the Auditing Standards Board of the American Institute of CPAs ("AICPA"); as such, those firms would be subject to ISQM 1 or SQMS 1, which both share a common basic structure with QC 1000.[44] Finally, as stated in the supplemental request for comment, the investor protection concerns encompassed by the Board's statutory mandate are reduced where a firm is not performing PCAOB engagements.

Based on the above considerations, the Board decided not to adopt any of the design-only alternatives discussed in the supplemental request for comment.

The Board also considered whether to include provisions in QC 1000 specifying an earlier trigger for the requirement to design, implement, and operate a QC 1000-compliant system under QC 1000.06-.07. In this regard, one commenter encouraged the Board to consider whether compliance with QC 1000 after its December 15, 2026

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42 Firms could still choose to design (and for that matter, implement and operate) a QC system that complies with QC 1000. Firms may choose to do so if, for example, they are planning to bid for a PCAOB engagement, are taking on work on other firms' engagements that could potentially constitute a substantial role, or otherwise want to put themselves in a position to implement and operate a QC 1000-compliant system on short notice.

43 *See* comment letter from KPMG.

44 *See* comment letters from AAA, CAQ, KPMG, and PwC.

effective date could be tied to an established evaluation period and measurement date rather than a specific triggering event.[45] The same commenter suggested that under such an approach, a firm would determine at the beginning of its selected evaluation cycle whether it is required to comply with QC 1000 during that period.[46] Another commenter stated that a firm must have "an appropriately designed and operational QC system before accepting or commencing PCAOB audit work."[47] Another commenter suggested that "a QC system must be in place prior to a firm tendering an offer for a public company audit and/or getting registered."[48] Another commenter requested that the Board specify an earlier trigger—for example, when a firm bids for or is appointed to issuer or broker-dealer work—by which time a compliant QC system must be designed and operating, well in advance of the firm commencing that work.[49]

While an earlier trigger may promote readiness by firms to commence PCAOB engagements, the Board expects that the effort required to design, implement, and operate a QC 1000-compliant system may vary significantly across firms. That variation could arise from several different factors, including the status of their existing QC systems, the nature of their assurance practice (if any), the experience of their personnel, and the nature of their governance systems, operating processes, and technology, among other things. The Board also understands that some firms may pursue engagements for issuers

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45 *See* comment letter from BDO.

46 *See id*.

47 *See* comment letter from MIAG.

48 *See* comment letter from ICGN.

49 *See* comment letter from CFA.

and broker-dealers months, or even years, before these firms are awarded and commence such work. In light of these considerations, it may not be necessary in all circumstances for a firm to have a QC system that fully complies with QC 1000 before it pursues an issuer or broker-dealer engagement that might not be awarded to it or that might not commence for a significant period of time. Therefore, the Board believes that requiring firms to design, implement, and operate a QC 1000-compliant system when a firm becomes subject to applicable professional and legal requirements with respect to any engagement is appropriate, and an earlier trigger is not warranted.

ROLES AND RESPONSIBILITIES

1. ASSIGNMENT OF ROLES AND RESPONSIBILITIES

As originally adopted, QC 1000 requires that the operational roles and responsibilities specified in paragraph .12 be assigned only to "firm personnel."[50] The note to paragraph .12 provides that responsibility for the roles in subparagraphs a-c cannot be shared and is required to be assigned to only one individual, to reinforce that the individual assigned to a specified role would be responsible and accountable for the role.

The Board proposed amendments to paragraph .12 to allow flexibility in assigning the specified roles and responsibilities to any individual (whether firm personnel or an "other participant"[51]), rather than limiting those roles and responsibilities to firm personnel. In connection with that change, the Board proposed a new footnote 5A to paragraph .12 to clarify that such individuals would be "associated persons" of the firm.

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[50] *See* QC 1000.A5.

[51] *See* QC 1000.A7.

As the Board explained in the supplemental request for comment, any individual who was not already an associated person would become an associated person by virtue of that assignment.[52] The proposed amendments would align with ISQM 1 and SQMS 1 by permitting any qualified individual to fill the specified QC system roles.

To preserve the accountability and responsibility objectives of paragraph .12, the Board also proposed an amendment to emphasize that the individuals assigned specific roles understand and be accountable for their roles and responsibilities. The Board also proposed an amendment to the note to paragraph .12 to allow firms to divide the responsibilities of a role specified in paragraph .12 among multiple individuals. The proposed amendments align with ISQM 1 and SQMS 1.

Commenters generally supported allowing the specified roles to be assigned to other participants and divided among multiple individuals.[53] Many commenters indicated the amendments would promote audit quality, for example, by enabling the firm to place the most experienced and qualified individuals in those roles.[54] Several commenters also supported allowing firms the flexibility to assign roles and responsibilities to multiple individuals based on their specialized expertise and capacity, including within their existing structures, while maintaining accountability.[55] Several commenters stated that the proposed amendments to paragraph .12 were sufficiently clear and appropriate.[56]

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52 *See* PCAOB Rule 1001(p)(i).

53 *See* comment letters from AAA, Baker Tilly, BDO, CAQ, CBIZ, Crowe, Deloitte, EY, Forvis, GT, ICGN, KPMG, Kramer, MIAG, PICPA, PwC, RSM, SCCG, and Spitters.

54 *See* comment letters from CAQ, Deloitte, GT, KPMG, MIAG, PICPA, RSM, SCCG, and Spitters.

55 *See* comment letters from AAA, Baker Tilly, CAQ, CFA, EY, GT, KPMG, and SCCG.

56 *See* comment letters from GT, KPMG, MIAG, RSM, and Spitters.

A commenter stated that the proposed amendments would be especially helpful to firms that issued audit reports with respect to less than 100 issuers.[57] Another commenter supported the addition of footnote 5A, which clarifies that an individual assigned operational responsibility for any of the roles in paragraph .12 would become an associated person of the firm by virtue of that assignment.[58] One commenter recommended retaining clear firm-level accountability and documentation requirements to avoid diffusion of responsibility.[59] Another commenter recommended the final standard require clear identification of those ultimately responsible for the QC system and key QC areas; this commenter further suggested that the PCAOB encourage firms to consider the firms' retirees for QC system roles, as such individuals would provide valuable experience.[60]

One commenter did not support assigning roles to individuals outside the firm because individuals outside the firm may have conflicting interests, and they cannot provide the day-to-day ownership the roles require.[61] The same commenter stated that there remains a need for an ultimate point of accountability and there needs to be assurance that accountability is not diffused when responsibilities are divided.[62] Further, the commenter requested that whenever a QC role is divided among multiple individuals,

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57 *See* comment letter from Kramer.

58 *See* comment letter from PICPA.

59 *See* comment letter from SCCG.

60 *See* comment letter from MIAG.

61 *See* comment letter from CFA.

62 *See id*.

the firm's reporting to the PCAOB identify (1) who holds ultimate responsibility and accountability for the QC system as a whole; (2) who is accountable for each function, such as ethics, independence, monitoring, and remediation; and (3) the scope of each individual's assigned responsibilities, so that no part of any role is left unassigned.[63]

As to the question of whether the flexibility afforded by the proposed amendments should be available only on a scaled basis to certain firms, many commenters generally favored applying the amendments to all firms.[64] Several of these commenters emphasized that the flexibility the proposed amendments would offer is important for firms of all sizes, although for reasons that may differ between larger and smaller firms.[65] One commenter said such flexibility appears appropriate regardless of firm size, while noting that larger firms may be better equipped to operate under a more restrictive and specialized set of requirements.[66] Another commenter stated they would not be opposed to a limited degree of scaling these requirements to address cost considerations for small and large firms.[67]

After consideration of the comments received, the Board is adopting these amendments as proposed. The Board believes the flexibility afforded by the amendments should be available to all firms rather than on a scaled basis, because audit quality is enhanced when firms can assign the specified roles and responsibilities to the most

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63 *See id*.

64 *See* comment letters from AAA, BDO, CAQ, CBIZ, GT, KPMG, PICPA, PwC, RSM, and Spitters.

65 *See* comment letters from AAA, BDO, CAQ, CBIZ, GT, KPMG, PwC, and RSM.

66 *See* comment letter from Kramer.

67 *See* comment letter from ICGN.

qualified individuals, whether or not they are firm personnel. In the Board's view, the amendments will expand the pool of individuals with the requisite experience, competence, authority, and time to serve in specified roles. For example, a firm may improve its QC system and overall audit quality by assigning to one individual operational responsibility for ethics and to another individual operational responsibility for independence, where each individual has specific expertise in their respective area.

In response to commenters that recommended clear firm-level accountability and documentation when roles are divided, paragraph .27 requires a firm to establish and maintain clear lines of responsibility and supervision within the QC system, including defining authorities, responsibilities, accountabilities, and supervisory and reporting lines for roles within the firm up to and including the principal executive officer(s). Additionally, paragraph .82a requires the firm to document the lines of responsibility and supervision required by paragraph .27. In response to a commenter's call for specific reporting to the PCAOB about divided roles, the Board notes that Item 3.1 of Form QC requires firms to disclose (1) who holds ultimate responsibility and accountability for the QC system as a whole and (2) which individual or individuals have operational responsibility for ethics and independence and for monitoring and remediation. Although the specific scope of each individual's assigned responsibilities would not be reported, that information must be documented under paragraph .82a and would be available to the PCAOB in connection with its oversight activities, including inspections.[68]

2. RESPONSIBILITIES FOR ROLES WITH OPERATIONAL RESPONSIBILITY

[68] *See* PCAOB Rule 4000(b), *General*.

To align with the amendments to QC 1000.12, the Board proposed conforming amendments to paragraphs .15-.17 that would acknowledge the possibility that multiple individuals could share the specified roles and clarify that such individuals' obligations would be limited to the scope of their assigned responsibilities.

In addition, the Board proposed amendments to paragraph .17b(2) through (3) to delete the communication requirements related to major QC deficiencies to align with the amendments to the evaluation requirement in paragraph .77 discussed below.

Commenters who addressed these amendments supported the proposed changes to paragraphs .15-.17 and stated they are sufficiently clear.[69] Two commenters acknowledged that the conforming amendments are appropriately aligned with the revisions to paragraph .12.[70] One commenter stated the conforming amendments reinforce a more principles-based approach[71] and another commenter stated the conforming amendments increase flexibility.[72] After consideration of the comments received, the Board is adopting these conforming amendments as proposed.

EXTERNAL QC FUNCTION

As originally adopted, paragraph .28 of QC 1000 includes a specified quality response that requires firms with a larger PCAOB audit practice[73] to incorporate into

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69 *See* comment letters from CAQ, GT, KPMG, PICPA, RSM, and Spitters.

70 *See* comment letters from GT and RSM.

71 *See* comment letter from GT.

72 *See* comment letter from KPMG.

73 Firms with a larger PCAOB audit practice are considered those firms that issued audit reports for more than 100 issuers in the prior calendar year.

their governance structure an EQCF for the QC system composed of one or more persons 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.

The EQCF's responsibilities include, at a minimum, evaluating the significant judgments made and the related conclusions reached by the firm when evaluating and reporting on the effectiveness of its QC system.

The Board proposed rescinding the EQCF requirement based on information obtained in connection with staff implementation support efforts and outreach discussions, which revealed that implementing this requirement had proven more difficult and more costly than originally anticipated. The Board was concerned that the potential benefits may not justify the potential costs of the EQCF requirement, except potentially for the largest U.S. global network firms.

Many commenters expressed support for rescinding the EQCF requirement.[74] Some of these commenters said rescission would allow firms the flexibility to utilize existing external governance structures to promote audit quality in a manner tailored to

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[74] *See* comment letters from AAA (majority of AAA committee members), Baker Tilly, BDO, CAQ, CBIZ, Crowe, Deloitte, EY, Forvis, GT, KPMG, PICPA, Plante & Moran, PwC, RSM, and VSCPA.

their specific circumstances.[75] Some commenters stated that removing the EQCF requirement would not diminish the focus on quality because QC 1000 advances the objectives of strengthening trust in governance, reinforcing accountability, and supporting a commitment to quality through other provisions in the standard.[76] Other commenters offered support for the proposed rescission by asserting that existing governance structures, leadership accountability, monitoring activities, reporting processes, and PCAOB inspections already provide meaningful oversight or help promote the effective operation of the QC system.[77]

In addition, many commenters observed that the costs associated with the EQCF requirement, as well as any incremental benefits to audit quality, remain uncertain.[78] Some commenters who supported removing the requirement cited significant implementation challenges and costs associated with identifying, recruiting, and onboarding individuals with the necessary expertise, independence, and availability to serve in the role.[79] Other commenters pointed to additional costs, including obtaining liability insurance and making governance-related structural changes, as further reasons to support the proposed rescission.[80] One commenter cautioned that rescission of the EQCF requirement would remove a level of assurance with respect to internal processes

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75 *See* comment letters from BDO, CBIZ, Deloitte, EY, GT, KPMG, Plante & Moran, PwC, RSM, and VSCPA.

76 *See* comment letters from BDO, CBIZ, Crowe, KPMG, and PwC.

77 *See* comment letters from CAQ, EY, PICPA, and VSCPA.

78 *See* comment letters from CAQ, Deloitte, GT, KPMG, PICPA, Plante & Moran, and RSM.

79 *See* comment letters from BDO, CAQ, Crowe, EY, GT, PICPA, and VSCPA.

80 *See* comment letters from BDO, Deloitte, KPMG, PICPA, and RSM.

and audit quality in firms but described the requirement as expensive, redundant, overreaching, and unnecessary.[81] Two commenters acknowledged the narrow responsibilities of an individual serving in an EQCF role, but asserted that the Board may have overstated the potential costs of the EQCF requirement by using particular benchmarks involving compensation of non-employee company directors to estimate potential costs.[82] These commenters also suggested that the Board may have understated the potential benefits of the EQCF requirement by failing to consider the ongoing trend of private equity investing in accounting firms.[83] Another commenter stated that many of the firms most likely to be affected already use external advisers and that the incremental burden of establishing the mandated function may be less substantial than the proposal implies.[84] This commenter also stated that the Board did not have direct evidence on the cost of the EQCF to firms.[85]

One commenter raised concerns that the size and complexity of a large firm's QC system would create practical constraints on the depth of engagement individuals serving in the EQCF role can achieve, thereby limiting the EQCF's overall effectiveness and value beyond the oversight already available through existing channels.[86] Another

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81 *See* comment letter from Spitters.

82 *See* comment letters from CII and MIAG.

83 *See id*.

84 *See* comment letter from CFA.

85 *See id*.

86 *See* comment letter from Deloitte.

commenter supported rescission of the EQCF requirement because its current form is not scalable for firms only moderately above the 100-issuer threshold.[87]

Some commenters opposed the proposed rescission of the EQCF requirement.[88] Two commenters disagreed with the PCAOB's reasoning "that the benefits of the requirement may not justify the costs, except potentially for the largest U.S. global network firms."[89] The same commenters, while acknowledging concerns related to potential costs, liability, and implementation, stated that some form of independent challenge remains a critical component of an effective QC system.[90] Another commenter viewed the EQCF as essential to audit quality.[91] One commenter expressed concern that rescinding the EQCF requirement would leave judgments about the firms' QC systems entirely to the firms themselves.[92] This commenter stated the EQCF is the clearest structural safeguard against the commercial and network pressures and interests that can affect a firm's judgments regarding its QC system.[93] This commenter further asserted that, as the PCAOB moves the focus of its audit inspections to the firm rather than the engagement level, and as private-equity ownership and other commercial pressures

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87 *See* comment letter from Baker Tilly.

88 *See* comment letters from AAA (minority of AAA committee members), CFA, CII, ICGN, and MIAG.

89 *See* comment letters from CII and MIAG.

90 *See id*.

91 *See* comment letter from ICGN.

92 *See* comment letter from CFA.

93 *See id*.

within the auditing profession continue to grow, retaining such a safeguard is particularly important.[94]

Two commenters also asserted that the requirement for larger PCAOB audit practices to have an EQCF would be applicable to only five firms.[95] However, absent rescission of the EQCF requirement, 13 firms, based on 2025 data, would become subject to that requirement.[96]

In responding to the question regarding an alternative threshold for the EQCF requirement, many commenters stated it was not necessary to impose the EQCF requirement on any firm, regardless of size or number of issuers audited.[97] Some commenters did not support an alternative threshold (e.g., restricting the requirement only to firms auditing more than 500 issuers) because retaining the requirement in any form would not resolve the underlying concerns about operability, costs, availability of qualified individuals, and uncertain incremental benefit.[98] Some commenters said that firms should have the flexibility to create governance structures that align with the nature and extent of their existing structure and risks of the firm.[99]

One commenter stated that if the Board concludes that some relief is necessary, it is better to retain the EQCF requirement as adopted for firms auditing more than 500

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94 *See id*.

95 *See* comment letters from CII and MIAG.

96 *See* footnote 401 for a list of the 13 firms.

97 *See* comment letters from Baker Tilly, BDO, Crowe, GT, PICPA, PwC, and RSM.

98 *See* comment letters from BDO, CAQ, GT, KPMG, PICPA, and RSM.

99 *See* comment letters from BDO, CAQ, Crowe, and KPMG.

issuers because it would apply to the five firms where nearly all U.S. public market capitalization sits.[100] One commenter stated that if the current 100-issuer threshold were not retained, they would not oppose amending the threshold to firms that issued audit reports for more than 200 issuers during the prior calendar year, because they believe that the large revenue base received from those firms' issuer audit clients could support the incremental costs associated with the EQCF requirement.[101] One commenter suggested 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.[102] In addition, one commenter who opposed removing the EQCF requirement expressed the view that smaller firms (under 100 audits per year) should not be exempted from robust and functioning alternative EQCF requirements if the PCAOB were to scale the provisions.[103] Another commenter noted that, given the unchanged effective date of QC 1000, adopting alternative oversight frameworks could present implementation challenges and leave firms with limited time to thoughtfully design and integrate new requirements into their governance structures.[104]

In the supplemental request for comment, the Board sought input on the alternative of reverting the requirement for an independent oversight function to that contained in the 2022 proposal. Several commenters did not support such an

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100 *See* comment letter from CFA.

101 *See* comment letter from MIAG.

102 *See* comment letter from AAA.

103 *See* comment letter from ICGN.

104 *See* comment letter from KPMG.

alternative.[105] One commenter stated that the 2022 proposed requirement lacked sufficient clarity and could create uncertainty regarding whether existing firm governance and oversight arrangements would satisfy such a requirement.[106] Another commenter indicated that the effect or impact of adopting the requirement as initially proposed in 2022 could not be determined.[107] One commenter did not support reverting back to the 2022 proposed requirement because it carried no defined duty to evaluate the firm's QC conclusions—the very check the EQCF was adopted to provide.[108]

After consideration of the comments received, the Board is rescinding the EQCF requirement. Based on staff implementation support efforts, the Board understands that implementation of this requirement may have proven more difficult and costly than originally anticipated. The Board also acknowledges the concerns raised by commenters about the costs, operability, and potential limited benefit of the EQCF requirement, including the availability of qualified individuals to serve in an EQCF role, for firms of any size. In the Board's view, rescinding the EQCF requirement means giving up the benefits of an external second look. That external second look would have focused on the significant judgments made and related conclusions reached when evaluating and reporting on the effectiveness of firms' QC systems. The Board believes those incremental benefits are difficult to quantify and potentially limited. They would come from the fresh perspectives of an individual serving in an EQCF role, beyond the benefits

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105 *See* comment letters from CAQ, CFA, GT, KPMG, PICPA, PwC, and RSM.

106 *See* comment letter from KPMG.

107 *See* comment letter from Spitters.

108 *See* comment letter from CFA.

already provided by other aspects of QC 1000. See below for further discussion on economic impacts.

The Board believes that the implementation concerns apply equally to all firms, including those operating under alternative practice structures or accepting private equity investments, regardless of the number of issuers they audit.

One commenter opposed the rescission, asserting that firm leadership should be held accountable through independent oversight.[109] Further, the commenter suggested that firms might lack the ability to "convince investors they can do the right thing when left to their own judgment."[110] As designed, though, the EQCF lacks a mechanism or the authority to hold firm leadership accountable; the EQCF is not required to provide concurring approval of the firm's evaluation or reporting.[111] Nor would the EQCF supplant the firm's judgment.

Furthermore, the Board notes that the QC 1000 quality objectives for the governance and leadership component continue to call for (i) firm leadership to communicate and promote the firm's commitment to quality; (ii) the firm to clearly define leadership's responsibility for quality and hold them accountable; (iii) firm leadership to demonstrate a commitment to quality through actions and behaviors; (iv) the firm's strategic decisions and actions to be consistent with and support the firm's commitment to quality; and (v) resources to be obtained, developed, allocated, and assigned in a manner that enables an effective QC system and the performance of

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109 See id.

110 See id.

111 *See* PCAOB Rel. No. 2024-005, at 121.

engagements in accordance with applicable professional and legal requirements.[112] To achieve these quality objectives, firms are required to design and implement quality responses that are based on the related quality risks and on the reasons for the assessments given to the quality risks and to reduce to an appropriately low level the risk that quality objectives will not be achieved. The Board has also observed that several firms already incorporate external advisors into their organizational and governance structures and they may continue to do so as part of their response to the quality risks associated with these quality objectives. The Board has long considered firm governance and leadership to be an important aspect of firms' QC systems that will continue to be subject to oversight by the PCAOB, including as part of PCAOB inspections.

INFORMATION AND COMMUNICATION

QC 1000 requires a firm to establish a quality objective that, if the firm communicates firm-level or engagement-level information with respect to the firm's audit practice, firm personnel, or engagements, such as firm or engagement metrics, to external parties, such information is accurate and not misleading and, with respect to any such metrics that are communicated in writing, the communication explains in reasonable detail how the metrics were determined and, if applicable, how the method of determining them changed since the metrics were last communicated.

As discussed in the QC 1000 2024 adopting release, the information that this requirement applies to includes public communications about firm-level or engagement-level information, such as firm metrics and financial data.[113] For example, some firms

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112 *See* QC 1000.25.

113 *See* PCAOB Rel. No. 2024-005, at 186.

publish transparency or audit quality reports, either voluntarily or in response to the requirements of other jurisdictions, that contain data such as:

- Revenue breakdown by service line, by year, or by geographic segment;
- Professional staff ratios;
- Staff turnover ratios;
- Average training hours per professional; and
- Partner workload.

Firms may also communicate such data via webpages or other media, such as promotional publications, social media, interviews, or presentations via webcast or video.[114]

In the supplemental request for comment, the Board proposed to narrow the requirements of QC 1000.53e regarding the need for an explanation of written metrics to those metrics that the firm makes publicly available. This was consistent with the initial focus of the requirement on public communications.[115] The Board believes that recipients of nonpublic communications regarding metrics, such as regulators, company management, and audit committees, are generally in a position to request additional information about the metrics if they desire it. Further, some nonpublic metrics may already be calculated in accordance with a method prescribed by the recipient (for example, in response to a regulatory requirement or an audit committee request for proposal). In contrast, where metrics are publicly available, such as in firm transparency reports or promotional publications, these are usually one-way communications in which

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[114] *See* PCAOB Rel. No. 2024-005, at 186-187.

[115] See id.

the external parties do not have the ability to ask questions or request clarification from the firm.

Several commenters supported the proposed amendments to paragraph .53e.[116] One commenter said they did not object to confining the explanation requirement to metrics the firm makes publicly available.[117] One of these commenters stated that the proposed amendments were generally clear and seem appropriate but suggested that the term "metric" be defined or explained in the rule text.[118] Another commenter stated that the PCAOB must clearly communicate to firms that the intent of the provision is that firms ensure that the explanation remains accurate and publicly available.[119] Another commenter encouraged the Board to make explicit that simplification of communication requirements does not alter the firm's monitoring obligations.[120] One commenter stated that it would be helpful to further clarify whether the requirement applies only to those communications required under applicable professional and legal requirements or to all such metrics publicly disclosed.[121] The commenter further requested clarification of whether all changes to the calculation of disclosed metrics to which this requirement

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116 *See* comment letters from AAA, BDO, CAQ, Deloitte, EY, GT, KPMG, Kramer, MIAG, PICPA, RSM, SCCG, and Spitters.

117 *See* comment letter from CFA.

118 *See* comment letter from Kramer.

119 *See* comment letter from MIAG.

120 *See* comment letter from SCCG.

121 *See* comment letter from RSM.

applies must be explained or whether this requirement applies only to material changes in the calculation of the disclosed metrics.[122]

One commenter stated that the operability of the requirement could be further enhanced by restructuring the requirement into two distinct quality objectives—one that addresses whether the information is accurate and not misleading, and a second, conditional objective requiring an explanation for publicly communicated metrics.[123]

The Board is adopting the proposed amendments to QC 1000.53e with modifications. Specifically, the Board is revising paragraph .53e by adding subparagraphs .e(1) and .e(2) to more clearly distinguish firm responsibilities when communicating firm-level or engagement-level information to external parties and in written public communications. The Board agrees with the commenter that this change will improve the operability of paragraph .53e without changing a firm's responsibilities. In addition, the Board believes that the change will help to address a commenter's concern regarding the clarity of the provision's intent with respect to metrics communicated in writing and made publicly available by the firm.

The requirement in paragraph .53e(2) applies to any metrics that are communicated in writing and made publicly available by the firm—it is not limited in application to metrics that are required to be communicated under applicable professional and legal requirements. Paragraph .53e(2) also requires a firm to communicate how the method of determining any metrics changed since previously communicated, if applicable, and that requirement applies to any such change in methodology, without

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122 See id.

123 *See* comment letter from KPMG.

regard to the firm's assessment of its materiality. The Board does not believe that it is necessary to define the term "metric" for purposes of applying paragraph .53e(2). The Board believes the term is reasonably understood in practice, and the Board previously clarified, in the supplemental request for comment, that the Board intends for the requirement to apply only to calculated measures, not to underlying data.[124] As illustrated in the supplemental request for comment, if a firm publicly discloses its auditor-employee headcount for a region or office, the firm will not need to describe how it counted the employees.[125] The requirement will apply, however, to any calculated figures derived using that data, such as the average years of experience for audit personnel (i.e., total years of audit experience divided by auditor-employee headcount).

The Board also does not believe it is necessary to clarify that the proposed amendment would not alter a firm's monitoring obligations. As stated by the commenter who suggested doing so, the amendments simplify communication requirements but do not affect QC 1000 monitoring obligations.

The Board believes that the amendments will carry out its initial intent for public communications and avoid unnecessary costs associated with making additional disclosures to recipients who can request more information if they need it, while still ensuring that recipients of written public communications have access to an explanation of any metric provided.

In addition, the Board proposed adding a note to paragraph .53e stating that the explanation of the method for determining metrics can be provided either within the

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124 *See* PCAOB Rel. No. 2026-002, at 25-26.

125 See id.

public written communication that includes the metrics or by referring in the communication to a publicly available explanation presented elsewhere, such as the firm's website.

Several commenters supported allowing firms to provide explanations of metrics in a publicly available location, such as the firm's website.[126] One commenter stated that they supported the proposed amendment provided that those explanations are clear, balanced, accessible, and sufficiently specific to help users of the metrics.[127] Another commenter stated that they favored public disclosures in one place for ease of use and that placement on the relevant website seems appropriate as long as there are clear instructions on how to access the explanation.[128] The commenter further stated that, while disclosures on websites are useful, investors would want to make sure that any restatements, changes in definitions, or metrics are clearly noted, communicated in writing, and updated on a timely basis.[129] While one commenter agreed that publishing an explanation of metrics on a website would not adversely affect the utility of metrics made public, this commenter questioned whether public information about firm metrics should be subject to certification or verification before publication.[130] Another commenter said that an explanation that was accurate on the day it was published is of little use to an investor comparing metrics two or three years later, and that simplification of the

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126 *See* comment letters from BDO, CFA, GT, KPMG, MIAG, PICPA, and RSM.

127 *See* comment letter from CAQ.

128 *See* comment letter from ICGN.

129 See id.

130 *See* comment letter from Spitters.

requirement should not come at the expense of transparency or comparability over time within a single firm.[131] This commenter requested that the Board require that any report containing a publicly disclosed metric include, in the report itself, a hyperlink to the explanation of how that metric is calculated, maintained on the firm's own website, and stated that the hyperlink must remain stable, archived, and year specific.[132] This commenter also said that when a metric or its methodology changes from one year to the next, the change must be prominently identified in the base report itself—not only in the linked explanation—together with a description of the change and a presentation of the comparable prior year metric.[133]

After consideration of the comments received,[134] the Board is adopting the note to paragraph .53e as proposed but relocating it under new paragraph .53e(2).

The Board believes that allowing firms to explain metrics either in the same communication as the metric itself or by reference to another publicly available explanation would streamline firms' communications about their audit practices without adversely affecting the quality of information received by external parties. The Board does not believe that permitting firms this flexibility will create confusion for stakeholders. Given the volume of information that a firm might communicate about itself, and the possibility that the same information may be repeated through various

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131 *See* comment letter from CFA.

132 See id.

133 See id.

134 One commenter stated that the PCAOB should use existing artificial intelligence technology to aggregate metrics and related information from firms' websites or other public sources and make that information available in a centralized location on the PCAOB's website. *See* comment letter from MIAG. This suggestion is beyond the scope of this rulemaking.

communication platforms, the Board believes that permitting a firm to make reference to a single publicly available explanation could reduce unnecessary duplication of disclosures and provide additional clarity to stakeholders. Also for this reason, the Board believes it is not necessary to require a change made to a metric or its methodology be identified in the written communication. The Board is not requiring firms to provide hyperlinks for the metrics because the Board seeks to preserve the principles-based nature of the requirement and avoid prescribing a specific method that may become less effective as technology changes over time.

To satisfy paragraph .53e(2), any publicly available explanation, including one provided through a website, would need to be clear, accessible, and sufficiently specific to explain how the metric was determined and any changes in the method used to determine the metric since it was last communicated. In addition, the Board does not believe that requiring certification or verification of such explanations is necessary to achieve the objectives of paragraph .53e(2). Firms would need to ensure that their explanations remained specific as to the public metric to which they relate and are publicly available for as long as they continue to make available the written public communication that refers to the location of the metrics. Firms may update the publicly available explanation as necessary to maintain its accuracy; however, such updates do not require the issuance of a new written public communication identifying or describing those updates.

MONITORING AND REMEDIATION PROCESS

1. RESPONDING TO ENGAGEMENT DEFICIENCIES

Engagement monitoring activities are designed to provide information on whether engagement or QC system-level areas may require additional attention. These activities may identify pervasive issues where a number of engagements have similar problems, possibly highlighting the need to revise methodologies, provide additional training, or take other actions at the QC-system level. QC 1000 requires monitoring activities to include determining, on a timely basis, whether engagement deficiencies exist and, if so, taking certain actions in response to the identified engagement deficiencies.

QC 1000 defines an engagement deficiency as an instance of noncompliance with applicable professional and legal requirements by the firm, firm personnel, or other participants with respect to an engagement of the firm, or by the firm or firm personnel with respect to an engagement of another firm. Under QC 1000.68, a firm is required to take certain action when an engagement deficiency exists, with the required action depending on circumstances such as whether the engagement is completed or still in-process or is related to work performed on other firms' engagements.

i. Engagement deficiency related to an in-process engagement (QC 1000.68a)

As originally adopted, QC 1000 requires firms, for engagement deficiencies relating to in-process engagements, to take action to address the deficiency in accordance with applicable professional and legal requirements (to the extent necessary, before the issuance of the engagement report(s)), such that the engagement report(s) are appropriate in the circumstances.

The Board proposed to amend paragraph .68a to (i) replace the language "the engagement report(s) are appropriate in the circumstances" with "the engagement is free

of significant engagement deficiencies" and (ii) add a footnote describing what significant engagement deficiencies are. The concept of a significant engagement deficiency is derived from AS 1220, and the description used in the proposed footnote in paragraph .68a aligns with that in AS 1220. The footnote to QC 1000.68a also clarifies that the concept applies to all engagements as that term is defined in QC 1000 (which includes, for example, engagements performed pursuant to PCAOB interim attestation standards), not only those engagements described in AS 1220.

Many commenters supported the proposed amendments to paragraph .68a.[135] However, one commenter stated that the proposed threshold for a "significant engagement deficiency" remained overly broad and 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.[136] This commenter suggested that the definition should incorporate the concepts of materiality, relevant assertions, and the significance of the deficiency to the overall audit.[137]

The proposed description for when a significant engagement deficiency exists is consistent with concepts in AS 1220. Under AS 1220, an engagement quality reviewer ("EQR") may provide concurring approval of issuance only if, after performing with due professional care the review required by the standard, the EQR is not aware of a

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135 *See* comment letters from Baker Tilly, CAQ, Deloitte, GT, KPMG, Plante & Moran, and Spitters.

136 *See* comment letter from PICPA.

137 See id.

significant engagement deficiency.[138] The description of significant engagement deficiency in the proposed amendments to paragraph .68a appropriately focuses firms on matters that must be corrected before an audit report is issued or before an engagement conclusion is communicated to the company.[139] Therefore, the Board does not agree that the description is overly broad; a significant engagement deficiency would not be any instance in which an engagement team failed to perform a procedure required by PCAOB standards but rather is specifically related to the circumstances described in footnote 40A. Further, the Board believes the concept is well understood by the profession and does not require any revision.

The Board is adopting the amendments to paragraph .68a as proposed.

ii. Evaluating whether similar engagement deficiencies exist on other engagements (QC 1000.68d)

As originally adopted, QC 1000 requires that, when the firm determines that an engagement deficiency exists, the firm should evaluate whether similar engagement deficiencies exist in other in-process engagements, completed engagements (unless it is probable that the engagement report is not being relied upon), and work performed on other firms' engagements, and if so, take actions as required by paragraphs .68a-c, as applicable.

The Board proposed to limit the requirement to evaluate whether similar engagement deficiencies exist so it would apply only with respect to a subset of

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138 *See* Notes to AS 1220.12, .17, .18B.

139 See Proposed Auditing Standard—Engagement Quality Review and Conforming Amendment to the Board's Interim Quality Control Standards, PCAOB Rel. No. 2008-002 (Feb. 26, 2008), at 16 (describing significant engagement deficiencies).

engagement deficiencies, specifically those that resulted or could result (i) a failure to obtain sufficient appropriate evidence to support the conclusion reached on an engagement[140] or (ii) an inappropriate overall conclusion on the subject matter of an engagement.

Most commenters generally supported the proposed amendments to paragraph .68d.[141] The Board is adopting the amendments to paragraph .68d as proposed, along with a new note discussed further below.

The discussion below addresses specific commenter feedback related to the proposed amendments.

a. *"Resulted or could result in"*

Several commenters raised concern regarding the proposed language "resulted or could result in."[142] Commenters stated that the language would introduce new complexity[143] and interpretation challenges,[144] or would involve substantial implementation effort with limited incremental investor protection.[145] One commenter stated 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

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140 Because QC 1000 covers not only audit engagements but also review engagements and attestation engagements, reference to "sufficient appropriate evidence" is necessary as this concept aligns with the audit, review, and attestation standards.

141 *See* comment letters from Baker Tilly, BDO, CAQ, CBIZ, Deloitte, EY, GT, ICGN, KPMG, PICPA, Plante & Moran, RSM, SCCG, and Spitters.

142 *See* comment letters from BDO, GT, KPMG, PICPA, and RSM.

143 *See* comment letter from KPMG.

144 *See* comment letters from GT and KPMG.

145 *See* comment letter from PICPA.

population of engagements.[146] This commenter suggested that the Board consider revising the language to specify that the requirement applies "where there is a reasonable possibility" that an engagement deficiency could result in either a failure to obtain sufficient appropriate audit evidence or an inappropriate overall conclusion, to distinguish from those that represent more remote possibilities.[147] Another commenter recommended changing the proposed language to "reasonably could result."[148] Another commenter stated that it was not clear whether "could" should be assessed at the individual engagement level or at a broader thematic level, such as when a theme or trend of similar engagement deficiencies emerges.[149] Another commenter stated that a deficiency that appears immaterial on the engagement where it was first identified can still be a symptom of a firm-wide QC weakness and a narrower trigger reduces the number of opportunities a firm has to find that pattern before it results in an audit failure.[150] One commenter highlighted that the intended benefits of the proposed amendment could be offset by concerns regarding specific provisions (i.e., the "could result in" language).[151] Another commenter stated that it was difficult to determine whether the proposed amendment will meaningfully reduce complexity, subjectivity, or implementation costs.[152] The Board is concerned that some commenters may have

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146 *See* comment letter from KPMG.

147 See id.

148 *See* comment letter from BDO.

149 *See* comment letter from RSM.

150 *See* comment letter from CFA.

151 *See* comment letter from KPMG.

152 *See* comment letter from GT.

misinterpreted the intent of the phrase "could result in." As adopted, QC 1000 requires the firm to evaluate all engagement deficiencies under paragraph .68d. The goal of the amendment is to narrow the types of engagement deficiencies subject to the evaluation to only those that relate to obtaining sufficient appropriate evidence or the overall conclusion of an engagement.[153] Other engagement deficiencies would not need to be evaluated under paragraph .68d, as amended. Such other engagement deficiencies include, for example, engagement deficiencies related to communications to the audit committee; the filing of Form AP, *Auditor Reporting of Certain Audit Participants*; or the registration status of an other auditor that performed substantial role work.[154] In other words, this "could result in" language is not intended to introduce an assessment of the likelihood that the engagement deficiency could result in, for example, a failure to obtain sufficient appropriate evidence to support the conclusion on another engagement. This language is instead intended to help firms assess whether a particular engagement deficiency falls within either of the two types of engagement deficiencies subject to the evaluation under the revised paragraph .68d.

For example, if the engagement deficiency related to not making a required communication to the audit committee, this type of engagement deficiency does not affect the auditor's ability to obtain sufficient appropriate audit evidence or reach the

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153 With respect to examples of the type of engagement deficiencies that relate to reaching an inappropriate overall conclusion on the subject matter of an engagement, *see* PCAOB Rel. No. 2008-002, at 16 n.29, which states that "[i]nappropriate conclusions on the subject matter of the engagement would include, for example, a failure to appropriately modify the engagement conclusion in response to: (1) a material departure from generally accepted accounting principles or (2) a material weakness in internal control over financial reporting."

154 These types of engagement deficiencies would still be required to be addressed in accordance with paragraphs .68a-c and to be evaluated to determine whether QC deficiencies exist in accordance with paragraph .72.

appropriate overall conclusion of the engagement and, therefore, would not be within the scope of the revised paragraph .68d. In contrast, if the engagement deficiency related to the auditor not making or observing a physical inventory count in accordance with AS 2510, *Auditing Inventories*, this type of an engagement deficiency would be within the scope of paragraph .68d, because it relates to obtaining sufficient appropriate evidence.

Some commenters requested clarification of an example the Board provided in the supplemental request for comment.[155] To clarify and illustrate the application of the "resulted or could result in" language in paragraph .68d, consider the following scenario: During internal monitoring activities for the current year, a firm selected one of its completed engagements for inspection and identified that the engagement team failed to evaluate cash confirmation exceptions pursuant to AS 2310.20. As a result, the engagement team violated PCAOB requirements (i.e., applicable professional and legal requirements) and the firm determined that an engagement deficiency exists. Because noncompliance with the requirement of AS 2310.20 (that is, the failure to evaluate confirmation exceptions) relates to obtaining sufficient appropriate evidence (i.e., it could result in a failure to obtain such evidence), this engagement deficiency meets the requirement for evaluation under the revised language of paragraph .68d.[156]

The Board believes that the amendment appropriately focuses a firm's attention and efforts on the types of engagement deficiencies that represent the greatest risk to audit quality. It also reduces compliance costs by narrowing the population of engagement deficiencies that a firm is required to evaluate.

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155 *See* comment letters from Baker Tilly, BDO, CAQ, Deloitte, EY, GT, PICPA, and RSM.

156 The Board has provided a continuation of this example below.

b. *"Evaluate whether similar engagement deficiencies exist"*

A commenter stated that the nature and extent of the procedures required to evaluate whether similar engagement deficiencies exist should be more explicitly grounded in the root cause of the engagement deficiency identified and an assessment of whether that root cause suggests a potential QC deficiency.[157] This commenter suggested that an evaluation anchored to root cause would provide a more meaningful and risk-based framework for determining the scope of further procedures.[158] As it relates to the evaluation required under paragraph .68d, another commenter requested scenarios to help firms distinguish between engagement deficiencies and identified root causes that are (i) indicative of systemic issues and (ii) isolated incidents.[159]

As described in the QC 1000 2024 adopting release, understanding the nature of the engagement deficiency will assist the firm in determining the extent of the necessary evaluation.[160] The intent of the requirement to evaluate whether similar engagement deficiencies exist was not to require an unbounded look at every engagement the firm has. The Board believes understanding the circumstances that led to the engagement deficiency (e.g., the underlying cause) would help the firm identify other engagements to evaluate for similar engagement deficiencies. The Board acknowledges, as commenters suggested, that this was not clear in the proposed amendments. Therefore, the Board is adding a new note to paragraph .68d to indicate that understanding the circumstances that

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157 *See* comment letter from Deloitte.

158 See id.

159 *See* comment letter from GT.

160 *See* PCAOB Rel. No. 2024-005, at 225.

led to the engagement deficiency may assist the firm in identifying other engagements (or work performed by the firm on other firms' engagements) to evaluate for similar engagement deficiencies.

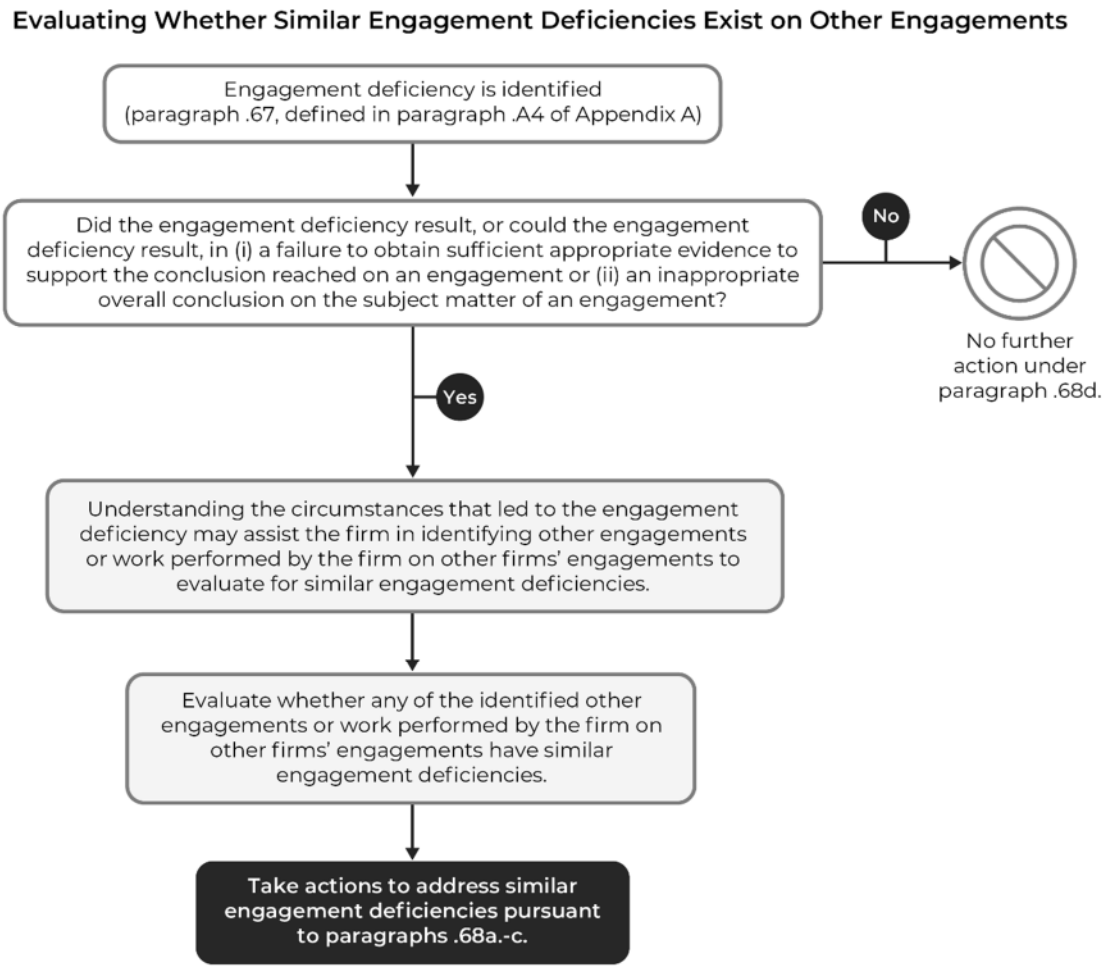
The procedures performed can be scalable and practical in the circumstances and may be developed based on the nature of the engagement deficiency. However, it would not be appropriate for a firm's evaluation to be based on narrower criteria than those underlying the cause(s) for the engagement deficiency, nor would it be appropriate to include only a subset of the engagements that are identified based on the understanding of the circumstances that led to the engagement deficiency.

To continue with the example provided above regarding cash confirmations, the firm then gained an understanding of the circumstances that led to the engagement deficiency (e.g., the underlying cause) to identify which other engagements to evaluate for similar engagement deficiencies. In this example, the firm might determine that the engagement deficiency was caused by an error in the firm's cash confirmations methodology, which is required to be used on all engagements that use cash confirmations. To identify whether other engagements used the same methodology (or, in the case of in-process engagements, are currently using the same methodology), the firm sends an inquiry email to each engagement partner. Based on the responses received to the emails and any follow-up with non-respondents, the firm identifies the engagements (and work performed on other firms' engagements) that followed the same methodology. It is these engagements and work performed on another firm's engagements that followed the same methodology that the firm will evaluate for similar engagement deficiencies.

If the firm identifies, for example, twenty engagements that followed the same cash confirmations methodology, the firm evaluates whether a similar engagement deficiency exists on each of the twenty engagements, i.e., a failure to evaluate confirmation exceptions pursuant to AS 2310.20. Out of the twenty engagements, if the firm identifies four engagements in which the engagement team did not perform procedures to evaluate confirmation exceptions pursuant to AS 2310.20, then the firm would need to take appropriate actions pursuant to subparagraphs a-c of paragraph .68 on each of those four engagements.

Importantly, paragraph .68d does not prescribe the manner in which the firm would identify engagements to evaluate. In the above example, the firm decided to send an email to each engagement partner to identify engagements that followed the same methodology. However, the firm could use other approaches, such as a data analysis tool or performing a search of engagement files, to identify engagements that followed the same methodology. The evaluation approach a firm takes may differ depending on the nature of the engagement deficiency, the circumstances that led to the engagement deficiency, and a firm's specific facts and circumstances. As discussed above, once the firm identifies the population of engagements subject to the evaluation of whether similar engagement deficiencies exist, it would not be appropriate for a firm's evaluation to be based on narrower criteria nor would it be appropriate to evaluate only a subset of the engagements that were identified.

The following graphic illustrates the process for evaluating whether similar engagement deficiencies exist:



c. *Response to other commenter feedback*

One commenter did not support a requirement that would require the firm, after finding an engagement deficiency in one engagement, to evaluate whether similar deficiencies exist in all other completed engagements.[161] This commenter stated that the cost of the requirement could be extremely high and it is unclear whether the benefit would outweigh the cost.[162] This commenter suggested that the Board instead change the requirement so that examining a completed engagement would be required only when,

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161 *See* comment letter from AAA.

162 See id.

based on the information available at the time, the firm believed that it was probable the financial statements were materially misstated and the likelihood was more than remote that the audit report was still being relied upon.[163] The Board does not agree with the commenter who stated that the amendment would require that the firm evaluate whether similar deficiencies exist in all other completed engagements, as the note to paragraph .68d indicates understanding the circumstances that led to the engagement deficiency may assist the firm in identifying other engagements to evaluate for similar engagement deficiencies.

A commenter stated that a deficiency found in one engagement should prompt the firm to ask whether the same problem exists in other engagements and why it occurred, with the answers feeding back into the firm's risk assessment.[164] The Board agrees that an engagement deficiency identified in one engagement may provide information that is relevant to the firm's broader monitoring and remediation and risk assessment processes. All engagement deficiencies are subject to action as required under paragraph .68a-c (in that particular engagement), and certain engagement deficiencies will require evaluation under paragraph .68d. Furthermore, all engagement deficiencies are treated as QC observations under paragraph .72 and must be evaluated to determine whether they are QC deficiencies. Additionally, under paragraph .20a(3), the firm obtains an understanding of information from the firm's monitoring and remediation activities, including its identification of engagement deficiencies, in identifying and assessing quality risks. In this way, the evaluation of engagement deficiencies represents one part

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163 See id.

164 *See* comment letter from CFA.

of the broader monitoring and remediation feedback loop: information identified through that process informs the firm's evaluation of QC observations and feeds back into the firm's identification and assessment of quality risks.

This commenter also stated that deficiency rates are not materially better than in the early years of the inspection program more than twenty years ago and suggested this is not the moment to narrow the lens through which firms look for systemic problems.[165] The Board believes that the amendments to paragraph .68d appropriately focus firms' evaluations on engagement deficiencies related to obtaining sufficient appropriate evidence to support the conclusion reached on an engagement or the overall conclusion on the subject matter of an engagement that may indicate systemic issues on the firm's engagements.

A commenter suggested that the Board could further enhance the proposed amendment by aligning more closely with ISQM 1, which permits firms to use their judgment to determine the nature and extent of any investigation of identified engagement deficiencies and whether those deficiencies might indicate a deficiency in the system of quality management.[166] The Board believes the requirement in paragraph .68d is fundamental to achieving the objective of the QC system that each engagement report issued by the firm is in accordance with applicable professional and legal requirements.[167]

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165 See id.

166 *See* comment letter from PICPA.

167 *See* QC 1000.05.

A commenter questioned why only items (1) and (2) from footnote 40A to proposed paragraph .68a were included in proposed paragraph .68d, while items (3) and (4) (the engagement report is not appropriate in the circumstances and the firm is not independent of its client, respectively) were not.[168] With regard to paragraph .68d, the amendment focuses on those types of engagement deficiencies that most directly affect the sufficiency and appropriateness of procedures performed on the engagement as well as the ultimate opinion expressed by the firm.

2. DEFINITION OF QC DEFICIENCY

As originally adopted, the note to paragraph .A8(1) of the definition of QC deficiency states that the likelihood of not achieving the reasonable assurance objective or one or more quality objectives would be above an acceptably low level if, for example, a quality objective is not established, a quality risk is not properly identified or assessed, or a quality response is not properly designed or implemented or is not operating effectively.

The Board proposed to amend this note to clarify that a failure of a quality response would be regarded as evidencing a QC deficiency only if other quality responses do not achieve the relevant objective(s). As stated in the QC 1000 2024 adopting release, the relationship across quality objectives, quality risks, and quality responses is generally not one-to-one.[169] Most quality objectives are likely to have multiple quality risks. Some quality risks may affect one or more quality objectives,

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168 *See* comment letter from Grosvenor.

169 *See* PCAOB Rel. No. 2024-005, at 42.

either within a single component or across several components, and may require multiple quality responses. Some quality responses may address multiple quality risks.

Many commenters supported the proposed amendment to the definition of QC deficiency,[170] noting, for example, that allowing firms to take compensating quality responses into account when determining whether a QC deficiency exists better reflects how a risk-based system of quality control operates in practice and also aligns more closely with the principles-based framework of other quality management standards, such as ISQM 1.

Two commenters suggested revisions to the proposed amendment.[171] One commenter stated that the rule text could clarify that multiple other quality responses are not necessarily required by adding the words "one or more" before "other quality responses" in the Note to paragraph .A8(1) for situations where there is just one other quality response.[172] The Board believes the rule text is sufficiently clear that the clause "and other quality responses do not achieve the relevant objective(s)" applies only if the firm has designed and implemented at least one other quality response relative to the objective(s). Another commenter suggested amending the definition as follows: "(other quality responses have been implemented to address the same risk, and) 'other quality responses do not achieve the relevant objectives.'"[173] The Board does not believe it is necessary for the rule text to specify that "other quality responses" must have been

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170 *See* comment letters from AAA, Baker Tilly, BDO, CAQ, Crowe, Deloitte, EY, GT, KPMG, Kramer, PICPA, Plante & Moran, PwC, RSM, and SCCG.

171 *See* comment letters from Kramer and Spitters.

172 *See* comment letter from Kramer.

173 *See* comment letter from Spitters.

designed and implemented to address the particular quality risk. As stated in the supplemental request for comment and reiterated here, when firms have implemented more than one quality response to address the same quality risk, they can take those other quality responses into account when determining whether a QC deficiency exists.

One commenter expressed concern that without a documented, inspectable basis for concluding that a "compensating response" actually operated effectively, this amendment risks becoming a way to explain away deficiencies rather than a genuine test of whether investors remain protected.[174] Another commenter expressed concern that the proposed amendment would give firms/networks additional temptation to identify compensating responses when the linkage is tenuous.[175] The Board believes the revised note makes clear that, when a quality response is not properly designed or implemented or is not operating effectively, the other quality responses would need to achieve the relevant objective(s), that is, they would need to be properly designed, implemented, tested, and found to operate effectively. And, as one commenter observed, paragraph .82 requires firms to document their evaluation of QC observations to determine whether QC deficiencies exist and the basis for each determination.[176]

Another commenter stated that it is unclear how allowing the evaluation of compensating controls will work in practice.[177] For example, where a quality risk has a single response that fails, the commenter stated it was unclear whether firms may

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174 *See* comment letter from CFA.

175 *See* comment letter from Grosvenor.

176 *See* comment letter from CFA.

177 *See* comment letter from RSM.

consider other responses that mitigate other identified risks to support achievement of the overall objective.[178] This commenter suggested that there may be responses where a precision level is too high to singularly address a specific risk on their own, but when considered collectively, may reduce the risk of failing to achieve the objective to an acceptable level.[179]

As explained in the QC 1000 2024 adopting release, the purpose of this note is to provide examples of circumstances where the likelihood of the firm not achieving the reasonable assurance objective or one or more quality objectives would not be reduced to an acceptably low level.[180] The amendments to this note further emphasize that, when a quality response is not properly designed or implemented or is not operating effectively and other quality responses do not achieve the relevant objective(s), the likelihood of the firm not achieving the reasonable assurance objective or one or more quality objectives has not been reduced to an acceptably low level. Under QC 1000, quality risks are defined as "[r]isks (whether or not related to intentional acts by *firm personnel* or *other participants* to deceive or to violate *applicable professional and legal requirements*) that, individually or in combination with other risks, have a reasonable possibility of occurring and, if they were to occur, a reasonable possibility of adversely affecting the firm's achievement of one or more *quality objectives.*" The amendment clarifies that, when firms have implemented more than one quality response to address the same quality risk, they can take those other quality responses into account when determining whether a QC

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178 See id.

179 See id.

180 *See* PCAOB Rel. No. 2024-005, at 231.

deficiency exists; if the other quality responses were effective in achieving the relevant objective(s), no QC deficiency would exist.

After consideration of the comments received, the Board is adopting the amendment to the definition of QC deficiency as proposed.

EVALUATION OF AND REPORTING ON THE QC SYSTEM

1. ANNUAL EVALUATION OF THE QC SYSTEM

i. Evaluation date

As originally adopted, QC 1000 requires that the firm perform an evaluation of the effectiveness of its QC system annually as of September 30.

The Board proposed to amend QC 1000 to permit firms to select their own annual evaluation date for their QC system by adding a new defined term, "evaluation date," defined as the date selected by the firm as of which to evaluate its QC system under paragraph .77, and making conforming changes to paragraph .77.

The Board also proposed to include language in a new footnote to guide the firm's selection of its evaluation date by recognizing that the firm's choice may be influenced by the nature and circumstances of the firm and its engagements, including, for example, the firm's fiscal year-end or the timing of monitoring activities.

All commenters who commented on this aspect of the proposed amendments expressed support.[181] One commenter, who did not object to this aspect of the proposed amendments, expressed concern that timing should not become a tool for managing findings and a firm should not be able to use its initial selection, or a later change of date,

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[181] *See* comment letters from AAA, Baker Tilly, BDO, CAQ, CBIZ, Crowe, Deloitte, EY, Forvis, GT, ICGN, KPMG, MIAG, PICPA, Plante & Moran, PwC, RSM, and Spitters.

to defer capturing known or anticipated inspection findings within an evaluation period.[182] This commenter, however, acknowledged that under the amendments, no period of time escapes evaluation altogether and any change of evaluation date must be reported to the Board together with the firm's rationale for the change.[183] The Board agrees with the commenter that these are useful guardrails.[184]

The choice of evaluation date is an aspect of QC system design and, as such, has to be made and documented by the time the firm becomes subject to the QC 1000.06 requirement to design, implement, and operate an effective QC system. The firm has to have the information needed to identify unremediated QC deficiencies and to reach a conclusion about the effectiveness of its QC system as of the evaluation date, and for the individuals with ultimate responsibility and accountability and operational responsibility and accountability for the QC system as a whole, acting with due professional care, to certify the firm's report to the PCAOB on its annual evaluation of the QC system. This suggests that the evaluation date and the firm's monitoring and remediation cycle ought to be coordinated so that sufficient, timely information is available when needed about the implementation and operation of the QC system (including the status of remediation efforts) and the compliance of the firm's engagements with applicable professional and legal requirements. Because of the relationship between the evaluation date and the firm's monitoring and remediation activities, The Board does not anticipate that firms will change their selected evaluation date without a specific reason (e.g., regulatory

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182 *See* comment letter from CFA.

183 See id.

184 See id.

requirements, business combination transactions, or changes in fiscal year or business cycles).

The Board is adopting these amendments as proposed.

The Board believes allowing each firm to select its evaluation date based on the firm's particular facts and circumstances responds to the implementation challenges experienced by some firms and, in particular, could reduce the burden and costs of multiple annual evaluations that some firms could have experienced due to differences in required evaluation dates under QC 1000 versus other regulations to which they are subject. This change better aligns with the flexibility provided by other quality management standards, which permit firms to choose their own evaluation date. Additionally, the Board does not believe that allowing firms to select their own evaluation date impairs the Board's ability to carry out its inspection program.

ii. Five-month threshold for the initial evaluation of the firm's QC system

The Board proposed to add language to paragraph .77 that would require a minimum period of operation before a firm is first required to evaluate its QC system. Under the proposed amendment, a firm would be required to evaluate its QC system once the firm has been subject to the requirement to design, implement, and operate a QC system under paragraph .06 for at least five consecutive months (whether due to the effectiveness of QC 1000 on December 15, 2026, or to the firm's later becoming subject to the requirements of QC 1000.06).

Most commenters who commented on this topic supported the proposed amendment.[185]

However, one commenter stated that the proposed approach may create practical challenges for firms seeking to align their QC 1000 evaluation process with evaluations performed under other quality management standards, which contemplate annual evaluation periods that generally do not exceed twelve months.[186] This commenter observed that a firm that has chosen, for example, March 31 as its evaluation date would likely be required to perform an evaluation under ISQM 1 or SQMS 1 as of March 31, 2027, while the corresponding QC 1000 evaluation would not occur until March 31, 2028, and would encompass a 15-month evaluation period.[187] This commenter suggested that the Board could permit firms to perform their initial evaluation of their QC system as of their selected evaluation date, consistent with their normal quality control processes, but require the first Form QC filing only for the first 12-month evaluation period ending after September 30, 2027.[188] This commenter believes that the Board could obtain information regarding that firm's initial evaluation, implementation progress, significant findings, and remediation activities through its oversight activities (e.g., inspections, implementation outreach, annual data requests, and other regulatory interactions) prior to the firm's first Form QC filing.[189] Another commenter stated that, combined with a free

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185 *See* comment letters from Baker Tilly, CAQ, ICGN, KPMG, PICPA, RSM, and Spitters.

186 *See* comment letter from BDO.

187 See id.

188 See id.

189 See id.

choice of evaluation date, the proposed five-month threshold could defer some firms' first evaluation well into 2028.[190] This commenter stated that the Board should set an outer limit so that every firm completes its first evaluation within a reasonable period of becoming subject to the standard.[191]

The Board acknowledges that, depending on the evaluation date chosen by the firm, the first evaluation period may encompass more than 12 months, but observes that subsequent periods would proceed on a 12-month cycle (absent a change of the evaluation date). The Board believes that this approach sets a reasonable outer limit for a firm's first evaluation. The Board also believes that the five-month minimum duration of the initial evaluation period ensures that firms have sufficient information to evaluate the effectiveness of their QC system. A firm can elect to voluntarily perform its initial evaluation covering a less-than-five-month period, but that evaluation would not be a required evaluation under QC 1000. Consequently, under General Instruction 4(a) to Form QC, the firm's first Form QC filing would be required to cover the period beginning on the date the firm first incurred an obligation to implement and operate a QC system under QC 1000.06 and ending on the firm's evaluation date.

Another commenter suggested that the five-month period should commence on the first day of the month immediately following the event that triggers the firm's obligation to design, implement, and operate its QC system, which would allow firms a full five-month operating period on which to base their evaluation.[192] This commenter

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190 *See* comment letter from CFA.

191 See id.

192 *See* comment letter from KPMG.

also requested that the Board clarify that the 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.[193] To clarify, as noted above, a firm becomes subject to the requirements of QC 1000 on (1) December 15, 2026 (the effective date of QC 1000), or (2) the day the firm becomes subject to the requirement to design, implement, and operate a QC system under paragraph .06. Therefore, in all circumstances, a firm's QC system will have operated for a full five months or longer before the firm is required to evaluate the effectiveness of its QC system. Additionally, because the five-month threshold refers to the evaluation of the effectiveness of the firm's QC system as a whole, it does not impose any minimum time requirement for any other purpose other than for QC 1000.77.

Another commenter also suggested that the Board clarify whether engagements should be included in a firm's evaluation based on the financial statement year-end or the date the auditor's report is issued.[194] This commenter encouraged the Board to clarify how firms should approach the initial evaluation when the completion of a firm's engagements falls outside this five-month timeframe and when the initial evaluation has little or no engagement activity within the evaluation period.[195]

QC 1000 requires that the firm design, implement, and operate a monitoring and remediation process to provide relevant, reliable, and timely information about the design, implementation, and operation of the QC system and to provide a reasonable

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193 See id.

194 *See* comment letter from PICPA.

195 See id.

basis for timely detection of engagement deficiencies and QC deficiencies.[196] Firms are required to monitor completed engagements.[197] A completed engagement is one for which the firm has issued an engagement report. Firms also are required, depending on the size of their PCAOB audit practice, to either perform in-process engagement monitoring[198] or consider doing so.[199] If the firm has no completed engagements during the firm's initial evaluation of its QC system, in-process monitoring could provide relevant, reliable, and timely information about the performance of the firm's engagements.

Finally, one commenter questioned the rationale behind the Board's decision to use five months as opposed to, for example, six months.[200] In developing the minimum time period for the initial QC system evaluation, the Board determined and continues to believe that the five-month threshold strikes the right balance such that the QC system has ample time to operate while also ensuring the PCAOB's timely receipt of information related to firms' QC systems.

Accordingly, the Board is adopting this amendment as proposed.

To illustrate how the five-month threshold for the initial evaluation of the firm's QC system would operate, if a firm that is subject to the requirements of QC 1000.06 when the standard becomes effective (on December 15, 2026) selects June 30 as its

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196 QC 1000.59a and b.

197 QC 1000.62a.

198 QC 1000.63a.

199 QC 1000.63b.

200 *See* comment letter from Spitters.

evaluation date, the firm would first evaluate the effectiveness of its QC system in accordance with QC 1000 as of June 30, 2027, because the firm would have been required to operate a QC 1000-compliant system for at least five months (specifically, from December 15 to June 30) as of June 30, 2027. Alternatively, if such a firm selects March 31 as its evaluation date, the firm would be required to first evaluate the effectiveness of its QC system as of March 31, 2028, because the firm would not have been required to operate a QC 1000-compliant system for at least five months as of March 31, 2027. As another example, if a firm first became subject to the requirements of QC 1000.06 on June 1, 2027 (because the firm became subject to applicable professional and legal requirements with respect to an engagement at that time), and the firm selects July 31 as its evaluation date, the firm would be required to first evaluate the effectiveness of its QC system as of July 31, 2028, because the firm would not have been required to operate a QC 1000-compliant system for at least five months as of July 31, 2027.

iii. Evaluation conclusions

As originally adopted, QC 1000 requires the firm to evaluate its QC system annually and conclude that the QC system is effective, is effective except for one or more unremediated QC deficiencies that are not major QC deficiencies, or is not effective (i.e., one or more major QC deficiencies exist).

The Board proposed to amend the above three conclusions to align QC 1000 more closely with other quality management frameworks. Under proposed paragraph .77, the firm would be required to conclude, as of the evaluation date, that its QC system:

- Is effective in achieving the reasonable assurance objective; or

- Is effective in achieving the reasonable assurance objective except for unremediated QC deficiencies that have a severe but not pervasive effect on the design, implementation, and operation of the QC system (and do not render the QC system not effective); or
- Is not effective in achieving the reasonable assurance objective.

To clarify when a firm may conclude that its QC system is effective in achieving the reasonable assurance objective under paragraph .77a, the Board proposed to include a note explaining that such a conclusion would be appropriate when, as of the evaluation date, there are no unremediated QC deficiencies other than those that, individually or in combination, are not severe. This clarification was intended to emphasize that the presence of unremediated QC deficiencies did not, in all cases, preclude a conclusion under paragraph .77a that the QC system is effective. Rather, the determination would depend on the severity of those deficiencies and their effect on the firm's ability to achieve the reasonable assurance objective. Under the proposed approach, QC deficiencies that are not severe, whether considered individually or in combination, would not indicate that the QC system is failing to operate effectively, which would be consistent with the ISQM 1 evaluation framework and the reasonable assurance objective of QC 1000.

Under proposed paragraph .77b, a firm would conclude that its QC system was effective in achieving the reasonable assurance objective except for unremediated QC deficiencies that have a severe but not pervasive effect on the design, implementation, and operation of the QC system (and do not render the QC system not effective). To clarify, when evaluating the effect of unremediated QC deficiencies on the QC system, a

firm would evaluate whether the QC deficiencies have a severe but not pervasive effect on each of the following: (1) the design of the QC system, (2) the implementation of the QC system, and (3) the operation of the QC system. Therefore, with respect to the conclusion under paragraph .77b, QC deficiencies may have a severe but not pervasive effect on the design, implementation, or operation of the QC system; they need not have such an effect on all three aspects of the QC system for a firm to reach the conclusion under proposed paragraph .77b. The parenthetical statement is intended to clarify that if QC deficiencies are so severe as to prevent the firm from achieving the reasonable assurance objective, the appropriate conclusion would be under proposed paragraph .77c. A firm would reach the conclusion set forth in paragraph .77c if its QC system was not effective in achieving the reasonable assurance objective.

QC 1000 specifies that an unremediated QC deficiency is one for which remedial actions that completely address the QC deficiency have not been fully implemented, tested, and found effective. The Board proposed to modify the existing note to paragraph .77 to explain that, while remedial actions must be fully implemented as of the evaluation date, they can be tested and found effective no later than the date Form QC is due under paragraph .79 (or, if earlier, the date Form QC is filed). The note distinguishes between the implementation of remedial actions and the demonstration of their effectiveness. For purposes of determining whether a QC deficiency is remediated, firms are expected to have fully implemented remedial actions as of the evaluation date, but the assessment of whether those actions are operating effectively may be supported by testing their operating effectiveness after the evaluation date but before the Form QC filing date.

Commenters supported the proposed amendments to the evaluation framework and evaluation conclusions, particularly the effort to align more closely with other quality management standards.[201] Several commenters noted that this alignment would reduce the complexity of managing evaluations under multiple frameworks and help avoid potential confusion among stakeholders.[202] Two commenters observed that the three-tiered conclusions framework better supports informed decision-making and meaningful communication with stakeholders, and reflects a more accurate representation of how QC systems operate in practice.[203] Two other commenters noted that the proposed evaluation framework would enhance transparency by allowing firms to distinguish among varying degrees of effectiveness, including through the use of the "except for" conclusion.[204] One commenter further stated that the proposed evaluation framework better aligns with the reasonable assurance objective because it clarifies that a QC system may provide reasonable assurance even when unremediated QC deficiencies exist.[205] In addition, some commenters indicated that the proposed conclusions in paragraph .77 were sufficiently clear and appropriate.[206] One commenter stated the evaluation framework in proposed paragraphs .77-.78 is generally clear but requested clarification on the latitude of firms to

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201 *See* comment letters from AAA, Baker Tilly, BDO, CAQ, CBIZ, Deloitte, EY, Forvis, GT, ICGN, KPMG, PICPA, Plante & Moran, PwC, and RSM.

202 *See* comment letters from Baker Tilly, Deloitte, EY, Forvis, and KPMG.

203 *See* comment letters from BDO and CBIZ.

204 *See* comment letters from Baker Tilly and GT.

205 *See* comment letter from KPMG.

206 *See* comment letters from GT, KPMG, and Spitters.

change their conclusions as of the evaluation date if, before the date that Form QC is filed, a firm identifies shortcomings when further testing its remedial actions.[207]

While commenters generally supported the proposed framework, one commenter recommended expanding the "except for" category to include both "severe but not pervasive" and "pervasive but not severe" unremediated QC deficiencies to minimize potential blurring among the conclusion categories.[208] This commenter expressed concern that a conclusion under paragraph .77a could be confusing because a firm may arrive at a favorable conclusion despite having experienced significant quality control issues during the evaluation period that were subsequently remediated.[209] The same commenter also noted that deficiencies may take time to become apparent and suggested requiring statements or certifications indicating that firms considered previously unidentified deficiencies relating to prior years in their evaluations.[210] Another commenter urged the Board to retain the "effective, with no unremediated QC deficiencies" conclusion as originally adopted.[211] The commenter expressed concern that allowing firms to reach an unqualified "effective" conclusion despite the existence of unremediated QC deficiencies would broaden the circumstances in which firms may reach a favorable conclusion.[212]

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207 *See* comment letter from Kramer.

208 *See* comment letter from Grosvenor.

209 See id.

210 See id.

211 *See* comment letter from CFA.

212 See id.

One commenter supported the proposed modification to the existing note to paragraph .77 because it provides helpful guidance and better reflects how remediation occurs in practice.[213] Another commenter questioned whether the phrase "completely address" in the first sentence of the note, which is not part of the proposed modification, establishes an unnecessarily stringent standard and suggested replacing it with "sufficiently address."[214] Another commenter requested clarification on the description in the release for determining whether a QC deficiency is remediated, specifically whether the phrase "may be supported by evidence obtained from testing after the evaluation date" refers to testing of instances that occurred before the evaluation date or the related response activities after the evaluation date.[215] One commenter requested clarification on how firms should assess the effect of remediation efforts when frequency constraints preclude testing enough instances of the remedial actions in evaluating remaining QC deficiencies.[216]

In developing the proposed amendments to paragraph .77, the Board also considered an alternative evaluation framework under which a firm would be required to reach a binary conclusion (i.e., that its QC system is either effective or not effective in achieving the reasonable assurance objective).

One commenter stated that a binary conclusion may be particularly appropriate for many triennial firms and suggested that a binary framework would simplify the

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213 *See* comment letter from KPMG.

214 *See* comment letter from Grosvenor.

215 *See* comment letter from RSM.

216 *See* comment letter from CBIZ.

evaluation process.[217] Another commenter stated that whether the alternative evaluation framework with a binary conclusion is more appropriate is undefined, and it would be appropriate and constructive to retain the factors included in paragraph .78 (which are discussed further below) under this alternative framework.[218]

Many commenters did not support the binary approach for the evaluation framework.[219] Some commenters were concerned that it would limit firms' ability to communicate the nature and severity of identified deficiencies and would decrease alignment with other quality management frameworks.[220] In addition, some commenters stated that a binary framework could provide insufficient information regarding significant deficiencies that are not pervasive enough to warrant a conclusion that the QC system is ineffective.[221] Two commenters noted that a binary framework would be less informative.[222] Another commenter expressed concern that the binary approach could reduce the rigor of the evaluation process.[223] Another commenter stated that the existing three-tiered conclusion structure provides more meaningful information by distinguishing QC systems with severe but not yet pervasive QC deficiencies and serves as an important

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217 *See* comment letter from Kramer.

218 *See* comment letter from Spitters.

219 *See* comment letters from AAA, Baker Tilly, BDO, CAQ, CBIZ, CFA, GT, ICGN, KPMG, MIAG, PICPA, PwC, and RSM.

220 *See* comment letters from BDO, CBIZ, and GT.

221 *See* comment letters from CAQ, KPMG, and PICPA.

222 *See* comment letters from AAA and MIAG.

223 *See* comment letter from MIAG.

early-warning mechanism.[224] This commenter also stated that the middle category allows severe but not yet pervasive unremediated QC deficiencies to be identified, escalated, and remediated before the QC system fails.[225]

After considering the comments received, the Board is adopting the amendments to paragraph .77 as proposed.

The Board believes that unremediated QC deficiencies that are pervasive but not severe may nevertheless allow the QC system to achieve its reasonable assurance objective and therefore support a conclusion under paragraph .77a. The Board also believes the evaluation framework appropriately focuses on the condition of the QC system as of the evaluation date and provides firms with the incentive to timely and effectively remediate identified QC deficiencies as of the evaluation date to reach a conclusion under paragraph .77a.

The Board notes that, despite increased alignment between the evaluation conclusions under QC 1000 and other quality management standards, the possibility remains that firms may reach different conclusions regarding the effectiveness of their QC systems under QC 1000 and ISQM 1 or SQMS 1. For example, there are differences in the professional and legal requirements that apply to a firm's audit practice under PCAOB standards compared to other standards, including variations between applicable auditing standards and independence requirements. The relevant populations of engagements are different. There could also be differences relating to the individuals who perform such engagements or perform activities within the QC system, including with

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224 *See* comment letter from CFA.

225 See id.

regard to training and supervision. In addition, QC 1000 would continue to require a more structured approach to the evaluation process than other standards, including through the application of specific defined terms and factors that are required to be considered. The Board believes this more structured approach is important both in supporting consistent and appropriate evaluation of the QC system by firms and in providing a foundation for PCAOB oversight in the future.

The Board does not believe that an additional certification requirement, as suggested by one commenter, is necessary because QC 1000 already requires firms to consider the results of prior monitoring activities and remedial actions when determining the nature, timing, and extent of the firm's monitoring activities. The Board is also retaining the phrase "completely address" in the first sentence of the note to paragraph .77 describing the meaning of an unremediated QC deficiency. The commenter's suggested phrase "sufficiently address" could introduce subjectivity regarding whether a QC deficiency has been adequately remediated. The Board believes the phrase "completely address" conveys the expected level of remediation necessary before concluding that a QC deficiency is fully remediated.

With respect to requests for clarifications of (i) the phrase "may be supported by evidence obtained from testing after the evaluation date" and (ii) frequency constraints on testing remedial actions, the note to paragraph .77 distinguishes between the implementation of remedial actions and the demonstration of their effectiveness. For purposes of determining whether a QC deficiency is remediated, firms are expected to have fully implemented remedial actions as of the evaluation date, but the assessment of whether those actions are operating effectively may be supported by testing their

operating effectiveness after the evaluation date but before the Form QC filing date. For example, when a remedial action has been implemented prior to the evaluation date but evidence from multiple instances of operation is needed to conclude that the remediation is effective, the firm may test one or more instances of operation of the remedial action that took place after the evaluation date but before the filing of Form QC to demonstrate effectiveness of the remedial action. However, if multiple instances of operation are needed to conclude that a remedial action is effective and, due to frequency constraints, only one instance of operation can be tested before the filing of Form QC, then the QC deficiency would be considered an unremediated QC deficiency.

Regarding the requested clarification of a firm's ability to change its conclusion on QC effectiveness between the evaluation date and the date Form QC is filed, the Board notes that the firm's final conclusion about the effectiveness of its QC system is the conclusion reported on Form QC. When additional information related to the QC system as of the evaluation date becomes available before Form QC is filed, the firm is expected to evaluate that information and make appropriate determinations regarding the information in a timely manner and report any relevant conclusions it reaches.

iv. Evaluating the severity and pervasiveness of unremediated QC deficiencies

As originally adopted, QC 1000.78 includes the concept of a "major QC deficiency" and provides presumptions and factors to determine whether a major QC deficiency exists and, therefore, the QC system is not effective. The Board proposed to eliminate the concept of a "major QC deficiency," including the associated presumptions.

The Board proposed to retain, in modified form, the factors to consider in evaluating the severity and pervasiveness of unremediated QC deficiencies.

Specifically, the Board proposed to amend paragraph .78 to require firms to evaluate the severity and pervasiveness of unremediated QC deficiencies in reaching the evaluation conclusion under paragraph .77. Proposed paragraph .78 clarifies that the firm's evaluation would consider all unremediated QC deficiencies individually and in combination, considering both quantitative and qualitative implications. The proposed paragraph .78 also describes severity and pervasiveness for purposes of this evaluation. Severity reflects the seriousness of a QC deficiency or combination of QC deficiencies, including the potential impact on the firm's ability to achieve the reasonable assurance objective. Pervasiveness reflects the breadth of impact of the QC deficiency or combination of QC deficiencies on the QC system or across the firm's portfolio of engagements.

Commenters generally supported removing the concept of a "major QC deficiency" from QC 1000.[226] Some commenters noted that the concept constituted a fundamental departure from other quality management standards and reduced consistency across quality management frameworks.[227] One commenter stated that the removal of the major QC deficiency concept and related presumptions could reduce the information value of the evaluation conclusions and lessen the prominence with which serious QC issues are escalated and communicated.[228] The commenter urged the Board to preserve

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226 *See* comment letters from BDO, CAQ, GT, KPMG, PICPA, RSM, and Spitters.

227 *See* comment letters from GT, KPMG, PICPA, and RSM.

228 *See* comment letter from CFA.

escalation presumptions in some form and clarify how serious QC issues that fall short of overall ineffectiveness will be escalated and communicated if the "major QC deficiency" concept is removed.[229]

Some commenters supported the factors used to evaluate the severity and pervasiveness of unremediated QC deficiencies, stating that the factors promote consistency and rigor in the evaluation process.[230] One commenter stated that the factors in proposed paragraph .78 appropriately address QC deficiencies individually and collectively and account for both qualitative and quantitative considerations.[231]

One commenter stated that considering deficiencies "in combination" when assessing severity may blur the distinction between the concepts of severity and pervasiveness.[232] The same commenter also indicated that this distinction may be further blurred because the same factors are used to evaluate both severity and pervasiveness.[233] Another commenter supported the objective of providing a structured framework for evaluating the severity and pervasiveness of unremediated QC deficiencies but viewed proposed paragraph .78 as overly complex and prescriptive.[234] The same commenter suggested an alternative model for paragraph .78, incorporating concepts from the AICPA Peer Review Program guidance for evaluating deficiencies, that would focus on

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229 See id.

230 *See* comment letters from BDO, CAQ, GT, and KPMG.

231 *See* comment letter from Spitters.

232 *See* comment letter from Grosvenor.

233 See id.

234 *See* comment letter from PICPA.

the nature, cause, and effect of the deficiency, including: (1) whether the deficiency is an isolated event or a systemic weakness; (2) the significance of the deficiency to the firm's practice, including the likelihood to affect other engagements or components of the QC system; (3) the effect of the deficiency on the firm's ability to achieve the reasonable assurance objective; and (4) the extent to which remedial actions have been implemented and demonstrated to be effective.[235]

The Board does not believe that removing the major QC deficiency concept removes the framework's ability to identify and appropriately distinguish particularly severe QC deficiencies. Under the amended evaluation framework, firms would still be required to evaluate the severity and pervasiveness of all unremediated QC deficiencies, individually and in combination, and report information regarding unremediated QC deficiencies in Form QC regardless of the evaluation conclusion reached. The evaluation conclusions in paragraph .77 and the factors in paragraph .78 would provide a structured framework for identifying and assessing unremediated QC deficiencies and for communicating unremediated QC deficiencies to the PCAOB. Further, the conclusion under paragraph .77b can only be selected when unremediated QC deficiencies have a severe but not pervasive effect on the QC system and also do not render the QC system not effective. As reflected in the parenthetical statement in paragraph .77b, if unremediated QC deficiencies are so severe as to prevent the firm from achieving the reasonable assurance objective, the firm would be required to conclude under paragraph .77c that its QC system is not effective in achieving the reasonable assurance objective.

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[235] See id.

The Board believes it is important to consider unremediated QC deficiencies both individually and in combination because doing so may reveal patterns of similar findings or indicate a broader issue that may not be evident from evaluating each deficiency in isolation. The Board also believes that allowing the same factors to inform assessments of both severity and pervasiveness provides firms with relevant information for their evaluations. In many cases, it may not be practicable to categorize a factor as relating exclusively to either severity or pervasiveness. Additionally, the Board believes the alternative factors for evaluating deficiencies, suggested by one commenter, are already reflected in paragraph .78 as proposed. The factors in paragraph .78 are intended to assist firms in performing the internal evaluation required to reach a conclusion under paragraph .77. The Board believes the approach in paragraph .78 provides clear direction to firms in evaluating the severity and pervasiveness of unremediated QC deficiencies.

One commenter noted that the term "component" in proposed paragraph .78a is undefined and could be unclear and recommended that the standard more explicitly link the term to the eight integrated components of a firm's QC system described in QC 1000.03, either through a cross-reference or by using consistent terminology.[236] To clarify the intended meaning of the term "component" in proposed paragraph .78a, the Board is revising the paragraph to refer to the "components of the firm's QC system."

Another commenter questioned if the factor of persistence in paragraph .78d affects the evaluation of severity and pervasiveness and provided an example of an issue that persists unchanged for three years.[237] The Board continues to believe that the

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236 *See* comment letter from Kramer.

237 *See* comment letter from Grosvenor.

persistence of a deficiency may provide useful information in assessing its severity and pervasiveness. However, persistence alone may not determine the severity or pervasiveness of a QC deficiency, and those assessments depend on the particular facts and circumstances as well as other factors in paragraph .78.

Another commenter stated that the proposed amendments to paragraphs .78e-f introduce the phrase "or could result in" and expressed concern that the use of "could" may imply an evaluation threshold approaching absolute assurance because it encompasses even remote possibilities.[238] This commenter suggested revising the language to refer instead to circumstances "where there is a reasonable possibility."[239] The factors to consider in evaluating the severity and pervasiveness of unremediated deficiencies do not relate to providing any level of assurance. They are intended to help the firm evaluate how severe or pervasive unremediated QC deficiencies are in performing the evaluation and reaching a conclusion regarding the effectiveness of the firm's QC system. The use of "could" in these factors is intended for the firm to evaluate whether the unremediated QC deficiencies remaining as of the evaluation date have the potential to cause significant engagement deficiencies or revisions of engagement reports, or to be associated with financial statement restatements or reissuances of management reports on internal control over financial reporting or broker-dealer compliance or exemption reports that are the subject of the firm's audit or attestation engagements.

One commenter expressed concern that the wording regarding the significance to the firm's portfolio of engagements in paragraph .78g could unintentionally imply that

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238 *See* comment letter from KPMG.

239 *See id*.

some engagements are less important than others.[240] While all unremediated QC deficiencies are required to be evaluated for severity and pervasiveness, the Board recognizes that there may be certain engagements where unremediated QC deficiencies are more likely to affect the firm's overall practice under PCAOB standards due to the engagement's significance to the firm's portfolio. For example, if an unremediated QC deficiency is likely to result in engagement deficiencies that occur across the primary industry that represents a substantial portion of the firm's PCAOB engagements, the unremediated QC deficiency could be severe or pervasive because of its significance to the firm's engagement portfolio.

Another commenter supported the factors if they continue to include consideration of whether remedial actions have been implemented, tested, and determined to be effective, consistent with paragraph .78h.[241]

The Board is adopting the factors in paragraph .78 as proposed with the revision made to paragraph .78a discussed above. The Board believes these factors promote consistency by identifying circumstances that are particularly relevant in assessing the severity and pervasiveness of unremediated QC deficiencies. The final factors with general descriptions are:

a. *The number and nature of components of the firm's QC system or quality objectives directly or indirectly affected*

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240 *See* comment letter from PICPA.

241 *See* comment letter from ICGN.

This factor focuses on how many components of the firm's QC system or quality objectives are affected, what they are, and whether the impact is direct or spread through other components or quality objectives.

b. *The extent to which the unremediated QC deficiency or combination of unremediated QC deficiencies relates to a component, quality objective, or quality response that affects the design or operation of other aspects of the QC system*

This factor focuses on how widespread the impact of the unremediated QC deficiency or combination of unremediated QC deficiencies is throughout the QC system.

c. *The number and pervasiveness of root causes*

The factor focuses on what the firm's root cause analysis reveals about why the QC deficiency occurred and how significantly or broadly it affects the QC system.

d. *The persistence of the unremediated QC deficiency or combination of unremediated QC deficiencies over time*

This factor focuses on the existence of a QC deficiency or combination of QC deficiencies that recurs or continues unremediated year over year.

e. *Whether the unremediated QC deficiency or combination of unremediated QC deficiencies has resulted or could result in significant engagement deficiencies*

This factor focuses on whether the unremediated QC deficiency or combination of unremediated QC deficiencies is leading to or likely to lead to significant engagement deficiencies.

f. *Whether the unremediated QC deficiency or combination of unremediated QC deficiencies has resulted or could result in the need for revisions to engagement reports, or is or could be associated with restatements of financial statements or*

reissuances of company-prepared reports that are the subject of audit or attestation engagements[242]

This factor focuses on whether the unremediated QC deficiency or combination of unremediated QC deficiencies has already led or could lead to revisions of engagement reports, or is or could be associated with financial statement restatements or reissuances of management reports on internal control over financial reporting or broker-dealer compliance or exemption reports.

g. *With respect to the factors in subparagraphs d-f, the number and significance (to the firm's portfolio of engagements) of engagements that are affected by the unremediated QC deficiency or combination of unremediated QC deficiencies or are likely to be affected in the future in the absence of remediation, and the nature of the effect*

This factor focuses on how important the affected engagements are compared to the firm's overall practice under PCAOB standards. The number and significance of affected engagements to the firm's portfolio of engagements depends on, for example, firm personnel affected or likely to be affected, the associated revenue or profit, the associated risks, and the relevant industry.

h. *The effects of any remedial actions that have been implemented, tested, and found to be effective*

Before the annual evaluation date, a firm may implement remedial actions that may reduce the severity or pervasiveness of an unremediated QC deficiency while not

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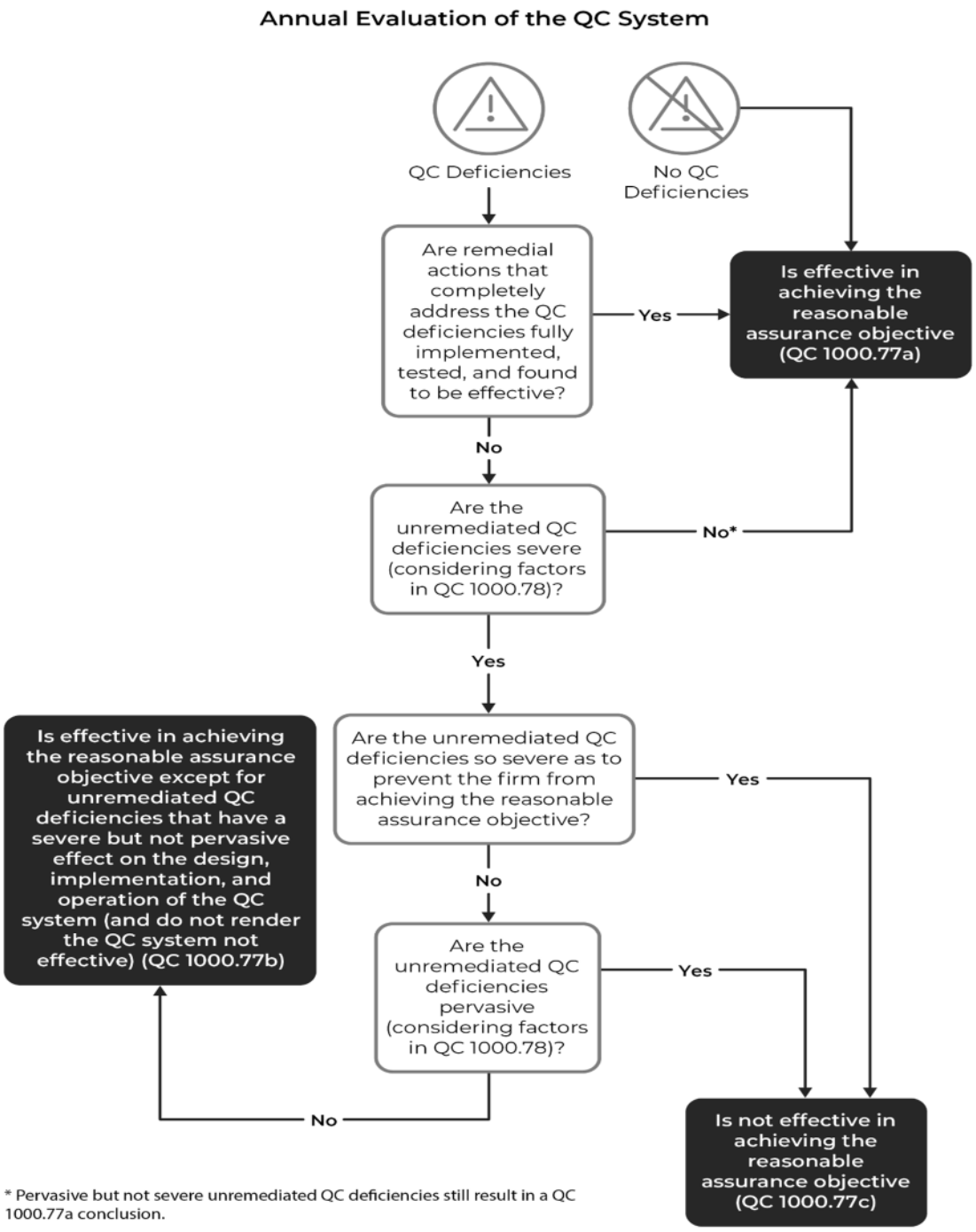
242 Company-prepared reports subject to audit or attestation engagements include the report on internal control over financial reporting and broker-dealer compliance and exemption reports.

completely addressing it. For a firm to take credit for the effects of these remedial actions, they would need to be implemented as of the evaluation date, and they would need to be tested and found to be effective before Form QC is due and filed. For example, in response to a QC deficiency related to a problem identified with a firm's audit software, the firm designs and implements five remedial actions as of the evaluation date. Of those five remedial actions, two remedial actions have been tested and found to be effective before Form QC is due and filed. When determining the severity and pervasiveness of the unremediated QC deficiency, the firm can consider the effects of the two remedial actions that have been tested and found to be effective.

The process flow that follows illustrates how to apply the above considerations in reaching one of the three evaluation conclusions in paragraph .77.



2. *REPORTING TO THE PCAOB*

i. Reporting on the annual evaluation of the effectiveness of the QC system

As originally adopted, QC 1000 provides that firms have until November 30 each year to report to the PCAOB on Form QC the outcomes of their QC system evaluations, based on a fixed evaluation date of September 30. This provides firms with 61 days after the evaluation date of September 30 to file Form QC. Based on the proposed amendment to permit firms to select their own evaluation dates, the Board proposed to amend the due date of Form QC in paragraph .79 to 60 days after the firm's chosen evaluation date. The Board also proposed to amend the Form QC reporting rule, PCAOB Rule 2203A, *Report on the Evaluation of the Firm's System of Quality Control*, and General Instruction 3 to Form QC to reflect this proposed amendment (see below).

Commenters generally supported the proposed amendments to paragraph .79, Rule 2203A, and Form QC.[243]

One commenter expressed concern related to the 60-day reporting deadline for Form QC, stating that, 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.[244] This commenter recommended that the Board adopt a more scalable approach, for example, by permitting firms below an appropriate threshold to file Form QC within 180 days of their evaluation date.[245] In allowing firms to select their own evaluation date, the Board believes it is appropriately providing firms with the ability to select a date that works best for their business cycles; however, the Board also

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243 *See* comment letters from BDO, CFA, Crowe, EY, GT, KPMG, Spitters, and VSCPA.

244 *See* comment letter from PICPA.

245 See id.

believes that timely receipt by the PCAOB of information contained in Form QC to support the Board's oversight activities requires a shorter timeline than this commenter suggested. The Board continues to believe that the 60-day filing requirement provides firms with sufficient time from the evaluation date to the reporting date to complete their evaluation and report to the PCAOB.

The Board also proposed an amendment to General Instruction 4 to Form QC to clarify the reporting period covered by the firm's evaluation. As proposed, the reporting period would be the period beginning the day after the most recent previous evaluation date and ending on the evaluation date, with the following exceptions as to the beginning of the reporting period:

- If a firm has not previously been required to evaluate its QC system under QC 1000, the reporting period is the period beginning on the date the firm first incurred an obligation to design, implement, and operate a QC system under QC 1000.06.
- If a firm was previously required to evaluate its QC system under QC 1000, but such obligation lapsed because the firm ceased having any obligations under applicable professional and legal requirements with respect to one or more engagements, the reporting period is the period beginning when the firm subsequently incurred an obligation to design, implement, and operate a QC system under QC 1000.06.

Under this proposed amendment, the reporting period would generally be twelve months long, but it would be longer or shorter if the obligation to design, implement, and operate the QC system arises mid-period (whether by virtue of the effective date of

QC 1000 or the firm's otherwise becoming subject to the requirement to design, implement, and operate a QC system). For example, for a firm that selects March 31 as its evaluation date, upon the effective date of QC 1000 the firm's first evaluation would cover the reporting period from December 15, 2026, to March 31, 2028, resulting in a greater-than-15-month reporting period, with the first Form QC due to be filed no later than 60 days following March 31, 2028. This is because as of March 31, 2027, the firm would not have been subject to the requirement to design, implement, and operate a QC system for at least five consecutive months (under the five-month threshold in paragraph .77 discussed above). By contrast, for a firm that selects May 31 as its evaluation date and is subject to QC 1000 on the standard's effective date, this firm's first evaluation would cover approximately five and a half months beginning on December 15, 2026, and ending on May 31, 2027, with the first Form QC due to be filed no later than 60 days following May 31, 2027.

The proposed amendment to General Instruction 4 did not draw comment.

The Board is adopting as proposed the amendments to paragraph .79, PCAOB Rule 2203A, and Form QC described above.

One commenter stated that two important elements of Form QC reporting would be lost with the removal of the "major QC deficiency" concept: (1) the requirement to flag whether each unremediated deficiency is major, and (2) the narrative required where a major deficiency is presumed but determined not to exist.[246] This commenter requested that the Board preserve equivalent signals under the proposed evaluation framework and require that firms (1) indicate, for each unremediated QC deficiency, whether the firm

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[246] *See* comment letter from CFA.

assessed it as severe, and (2) explain the basis for any determination that severe deficiencies do not, individually or in combination, render the QC system not effective.[247] QC 1000 continues to require that firms report all unremediated QC deficiencies as of the evaluation date on Form QC, regardless of the conclusion reported under paragraph .80a. Accordingly, a firm's Form QC reporting must include any unremediated QC deficiencies identified as of the evaluation date, including QC deficiencies that were determined not to be severe or pervasive. The Board continues to believe that reporting of all unremediated QC deficiencies will inform various aspects of the Board's oversight activities. Upon receipt of a Form QC, the PCAOB will have the ability to perform further inquiries of a firm regarding any of the information provided. Additionally, the firm is required to document under paragraph .82d the basis for the conclusion reached under paragraph .77, which would include the firm's evaluation of the severity and pervasiveness of unremediated QC deficiencies, and this information would be available to the PCAOB in connection with its oversight activities, including inspections.[248]

Based on the amendments described above, the Board is adopting additional conforming amendments to paragraph .80 and Form QC, substantially as proposed.[249] The Board is also adopting amendments to paragraph .80 and Form QC to replace the language "the issuance of unsupported opinions" with "significant engagement

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247 See id.

248 *See* PCAOB Rule 4000(b), *General*.

249 Note 1 to Item 3.2 within Form QC is amended to include a reference to the evaluation date. Also, language related to Exhibit 3.2.b in Part VII of Form QC is amended to refer to individuals "assigned" operational responsibility and accountability for the firm's QC system as a whole.

deficiencies," consistent with the amendments to QC 1000.68a described above, as proposed.

ii. Reporting changes to the firm's evaluation date

Under the amendments to QC 1000.77, as discussed above, each firm selects its own evaluation date. The Board proposed that any change in the evaluation date, together with a brief statement of the firm's rationale for making the change, be reported on Form QC within 30 days after the firm's decision. The Board believes this information would inform the timing of the Board's oversight efforts.

To codify this requirement, the Board proposed to recaption Rule 2203A as "*Reporting on the Evaluation of the Firm's System of Quality Control*," amend paragraph (a) of Rule 2203A to require notification of a change in the evaluation date on Form QC, and amend paragraph (b) of Rule 2203A to require such notification to be filed no later than 30 days after the firm's decision to change the evaluation date.

Relatedly, the Board proposed to amend Form QC to add a new Item 1.2, *Change to the Evaluation Date*, for providing notice of a change to the evaluation date, including the new evaluation date and a brief statement of the rationale for making the change. Additional language was also proposed to be added to General Instruction 3 to explain that Form QC is required to be filed no later than 30 days after the firm's decision to change the evaluation date and that a notification of change in the evaluation date need only include a completed Part I and the signed certification in Part V of Form QC.

Several commenters expressed support for the proposed reporting changes regarding the firm's evaluation date.[250] Some commenters requested additional

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[250] *See* comment letters from CFA, GT, and KPMG.

clarifications regarding (1) whether the firm should use business days or calendar days when calculating the deadline for submitting Form QC to notify the Board of a new evaluation date, (2) changes in the firm's evaluation date (for example, due to mergers or acquisitions), and (3) changing an evaluation date after the first year of implementation.[251] Because the deadline for submitting Form QC is greater than seven days, the 30-day submission deadline when providing notice of a new evaluation date is based on calendar days, taking into account the exception that applies if the last day of the 30-day period is a Saturday, Sunday, or Federal legal holiday.[252] Additionally, the standard does not limit when a firm can change its evaluation date, but a change to a firm's evaluation date would likely involve significant changes to many aspects of the firm's QC processes, so a firm will need to consider the implications to its QC system of making such a change. As noted above, if the firm decides to change its evaluation date, the change must be reported on Form QC within 30 days after the firm's decision, together with a brief statement of the firm's rationale for the change.

The Board is adopting these amendments as proposed.

DOCUMENTATION

As originally adopted, QC 1000 provides firms until December 14 following the firm's annual evaluation to assemble for retention a complete and final set of QC documentation.

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251 *See* comment letters from Baker Tilly, BDO, CAQ, and Plante & Moran.

252 *See* PCAOB Rule 1002, *Time Computation*; *see also* PCAOB Rule 2203A, which states that pursuant to Rule 1002, in any year in which the filing deadline falls on a Saturday, Sunday, or Federal legal holiday, the deadline for filing Form QC shall be the next day that is not a Saturday, Sunday, or Federal legal holiday.

The Board proposed amendments to QC 1000.84 to clarify that the QC documentation should be completed and retained "in a manner that permits timely retrieval," rather than "assembled for retention," by the QC documentation completion date. Documentation is considered timely retrievable when it is made available in a manner that does not hinder an experienced auditor's ability to understand the design, implementation, and operation of the QC system during a particular evaluation period in accordance with QC 1000.83b and the accompanying note. In addition, in conjunction with the amendments to paragraphs .77 and .79 of QC 1000, which permit firms to select their own evaluation date and require them to report on that evaluation no later than 60 days after that date, the Board proposed to amend the QC documentation completion date to be 14 days after Form QC is filed (or due to be filed, if earlier).

Many commenters supported the proposed amendments to paragraph .84[253] but some stated they continue to have concerns regarding the scope of the documentation requirements, particularly the extent of documentation required to be retained.[254] One of these commenters raised concerns regarding the clarity and practical application of "timely retrieval of documentation" that is not maintained in the quality monitoring tool and stated that firms would otherwise need to identify, monitor, and retain documentation across a broad range of decentralized locations.[255] One commenter stated that, while they did not object to the proposed amendments, the proposed amendments did not address a key issue related to real-time systems, namely, that such systems may not allow for the

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253 *See* comment letters from AAA, Baker Tilly, BDO, Forvis, GT, KPMG, MIAG, PICPA, PwC, and Spitters.

254 *See* comment letters from Baker Tilly, GT, PICPA, and PwC.

255 *See* comment letter from GT.

reconstruction of information back to a specific point in time unless versions are archived or captured otherwise.[256] Another commenter did not object to the proposed amendments allowing firms to retain QC documentation within their original systems of record, provided it remains promptly retrievable.[257]

Two commenters expressed uncertainty as to the nature of the documentation required to be retained, for example, emails or other documentation that relate to QC processes.[258] One of these commenters requested clarification that other evidence of the underlying documentation, such as system-generated reports or other reproducible outputs, would meet the documentation requirements.[259] This commenter stated that the release text in the supplemental request for comment indicated that firms were expected to retrieve documentation from live systems "as it existed at the time that it was considered complete," which might not be feasible with continuously updating systems and would appear to reintroduce the same operational challenges the proposed amendment was intended to alleviate.[260] The other commenter stated that it was unclear as to how to address documentation residing in systems or applications that have been replaced during the evaluation period.[261]

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256 *See* comment letter from RSM.

257 *See* comment letter from CFA.

258 *See* comment letters from GT and KPMG.

259 *See* comment letter from KPMG.

260 *See id*.

261 *See* comment letter from GT.

Two commenters requested changes to documentation retention requirements, including limiting the retention requirement to evidence generated through the firm's own monitoring activities and reducing the volume of documentation required to be retained for five years.[262] Another commenter stated that the proposed amendments to paragraph .84 do not clarify whether firms are required to retain evidence of every instance of every response, or just those instances that were tested to support the firm's QC system evaluation.[263]

After consideration of the comments received, the Board is adopting the amendments to paragraph .84 as proposed.

The proposed amendments clarify that firms are afforded flexibility in determining the manner(s) in which they retain documentation. Specifically, the proposed amendment to this documentation requirement clarifies that firms are permitted to maintain their QC documentation in the original system(s) of record, or in any manner or combination of manners they deem appropriate, and do not have to undergo the potentially costly and time-consuming process of transferring and assembling documentation from various source systems into a single system for archiving and retention. In addition, the Board believes that the proposed amendments clarify that it is not necessary for the firm to implement new technology solutions for the purpose of meeting QC 1000's documentation requirements because the amendment makes clear that documentation can continue to exist within the systems in which it originated or is

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262 *See* comment letters from EY and PICPA.

263 *See* comment letter from RSM.

used as long as it remains available for retrieval, e.g., for purposes of subsequent monitoring or inspection.

The Board believes the proposed amendments should provide operational relief for firms when maintaining documentation of their QC systems. If circumstances arise, such as when a firm decides to replace an existing system or determines that the decentralization of a firm's QC documentation is too broad, then a firm can maintain the required documentation of its QC system in the manner that is most appropriate for the firm—provided that the documentation is retained in a manner that permits timely retrieval. QC 1000 does not impose requirements on firms with respect to the specific systems in which QC documentation must be retained or the number of systems that retain a firm's QC documentation.

The Board acknowledges that a firm's QC system is continuously operating and the firm might not have the capability to take snapshots of system-based evidence at a point in time or for the systems to be locked down to allow for documentation to be archived. Therefore, the proposed amendment requires that the documentation be retained in a manner that permits timely retrieval, but does not specify a particular approach. Firms are not expected to continuously or periodically take snapshots of their system's data to meet this amended requirement. However, given that QC documentation may reside within live systems, the firm will need to be able to access and timely retrieve documentation sufficient to demonstrate compliance with paragraphs .81-.83 for the applicable evaluation as of the time the documentation was considered complete. If certain information related to the operation of the firm's QC systems is relevant or

needed for the firm to monitor and evaluate whether a quality response operated as intended, then the firm would need to retain that information.

In determining the nature of the QC documentation to be retained, a firm may identify aspects within the QC system for which the evidence required to demonstrate that the QC system was designed, implemented, or operating effectively may not entail retention of all information that the system produces in its daily operation. For example, rather than retaining printed copies or screenshots of the restricted entity list after each change, the firm may produce the current listing along with a system-generated report listing the changes after a specified date.

As noted in the QC 1000 2024 adopting release, in light of the scope of the Board's statutory mandate, the Board's inspection procedures cannot be limited to quality responses (and, to the extent applicable, samples of the operation of quality responses) that the firm chose to monitor in the period.[264] On the contrary, firms will be expected to provide evidence of the operating effectiveness of any quality responses selected for inspection.

As originally adopted, QC 1000 includes a requirement that the firm retain QC documentation for seven years from the QC documentation completion date, unless a longer period is required by law.

The Board proposed to amend paragraph .86 to reduce the QC documentation retention period to five years from the QC documentation completion date.

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[264] *See* PCAOB Rel. No. 2024-005, at 283.

Many commenters supported the proposed amendment to paragraph .86,[265] but some of these commenters encouraged the Board to consider whether the retention period could be further reduced,[266] with two of them suggesting that a three-year retention period may be sufficient.[267] Another commenter stated that a single retention period applied to all QC documentation may not be necessary and encouraged consideration of an approach whereby documentation supporting the firm's evaluation of its system of quality control be retained for a period of five years, while broader system documentation could be subject to a shorter retention period, such as three years.[268] Another commenter suggested that the Board should clarify whether the same documentation expectations apply to both the firm's overall evaluation and conclusion on its QC system and the day-to-day execution of individual quality responses.[269] The commenter added that documentation supporting the firm's evaluation and conclusion is generally more centralized and better suited to a five-year retention period, whereas execution-level documentation is often more detailed and may reside in several systems that change over time.[270] One commenter cited specific concerns relating to the need to update systems and maintain system licenses for five years for the purpose of retaining records,[271] and

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265 *See* comment letters from Baker Tilly, BDO, CAQ, Deloitte, EY, Forvis, GT, KPMG, MIAG, PICPA, Plante & Moran, PwC, RSM, and Spitters.

266 *See* comment letters from Baker Tilly, CAQ, Deloitte, GT, and PICPA.

267 *See* comment letters from Baker Tilly and CAQ.

268 *See* comment letter from BDO.

269 *See* comment letter from Forvis.

270 *See id*.

271 *See* comment letter from CAQ.

another commenter stated that there are still significant costs associated with retaining the required data for five years.[272]

One commenter stated that an argument for requiring a seven-year retention period is that the retention period for QC documentation should be no shorter than that of the audit documentation requirements included in AS 1215, *Audit Documentation*.[273] However, the commenter also stated that if that argument is not persuasive, then the minimum retention period should be as low as possible based on users' needs, including regulators', and in that context five years sounded excessive.[274] Another commenter stated that a consideration for retaining the seven-year requirement could be that some U.S. Federal and state tax retention periods are a minimum of seven years.[275] Another commenter questioned whether it would be preferable to use the term "applicable professional and legal requirements" instead of "law" in the phrase "unless a longer period of time is required by law."[276]

Another commenter asked the Board to reconsider the proposed reduction from seven years to five years, stating that, under a five-year QC documentation retention period, engagement workpapers would remain available to inspection and enforcement for up to two years after the QC records that contextualize them—such as monitoring results, root cause analyses, and remediation evidence—could have been lawfully

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272 *See* comment letter from RSM.

273 *See* comment letter from Grosvenor.

274 See id.

275 *See* comment letter from ICGN.

276 *See* comment letter from Grosvenor.

destroyed.[277] The commenter said that, at a minimum, the retention period must remain long enough for the PCAOB to identify deficiency patterns that only become visible across more than one inspection cycle.[278] The commenter further stated that QC documentation relevant to an identified deficiency, or to an open inspection or enforcement matter, should be retained until the matter is resolved.[279]

The Board has considered the costs and benefits of various retention periods, including both retaining a seven-year retention period to be consistent with audit documentation requirements under AS 1215 and adopting a retention period shorter than five years. The Board believes that a five-year retention period appropriately balances the objective of reducing unnecessary retention costs with the need to preserve documentation relevant to the PCAOB's oversight activities. In particular, the Board believes that a retention period shorter than five years could adversely affect the PCAOB's ability to carry out its oversight responsibilities and evaluate information relating to a firm's QC system over time—and carrying out our responsibilities may require access to information beyond that supporting the firm's evaluation and conclusion.

The Board also does not believe that adopting multiple retention periods for different categories of QC documentation would be appropriate. QC 1000 contemplates an integrated and interrelated system of quality control, and the documentation required by paragraphs .81-.83 is intended to support an understanding of the design,

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277 *See* comment letter from CFA.

278 See id.

279 See id.

implementation, and operation of that system as a whole. Applying different retention periods to different categories of QC documentation could introduce unnecessary complexity and inconsistency and diminish the usefulness of documentation in understanding the operation of the firm's QC system over time.

Regarding commenter concerns relating to the need to update systems or maintain system licenses over time, as discussed above in connection with the proposed amendment to paragraph .84, QC 1000 does not prescribe the systems in which QC documentation should be retained or the number of systems that may be used to retain such documentation. Firms may determine the most appropriate retention approaches based on their own facts and circumstances, provided that the documentation of the firm's QC system can be timely retrieved and is retained for five years from the QC documentation completion date unless a longer period of time is required by law.

QC 1000 acknowledges that firms may be subject to laws requiring retention of QC documentation for a longer period than what the standard requires. In such situations, firms would be required to retain documentation for that longer period. This approach is consistent with that used in AS 1215, which similarly recognizes that longer retention periods required "by law" may override the period specified in the standard. The Board acknowledges the comment suggesting use of a longer period whenever required by applicable professional and legal requirements, but the Board has determined to follow the approach of AS 1215 for consistency.

After consideration of the comments received, the Board is adopting this amendment as proposed.

REQUESTS FOR IMPLEMENTATION GUIDANCE AND ADDITIONAL COMMENTER FEEDBACK

1. REQUESTS FOR IMPLEMENTATION GUIDANCE

Commenters requested additional guidance on QC 1000, including specific examples and general guidance related to the proposed amendments, noting that such guidance would help promote consistent and effective implementation of the standard.[280] While some of these commenters acknowledged and appreciated the staff's ongoing engagement with firms,[281] a few commenters also requested that the Board memorialize the substance of those discussions into interpretive guidance available to all firms, suggesting that doing so would further enhance consistency and effectiveness in implementing QC 1000.[282]

Several commenters requested guidance on specific areas of QC 1000 and related changes to other PCAOB standards that are not subject to this rulemaking, including:

a. The definition of quality response, suggesting that it is not intended to require every quality response to consist of both a policy and a procedure;[283]

b. The requirement in QC 1000.33e to monitor compliance by affiliates of the firm with applicable professional and legal requirements and related firm policies and procedures;[284]

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280 *See* comment letters from Baker Tilly, BDO, CAQ, CBIZ, Crowe, Deloitte, EY, Forvis, GT, KPMG, Kramer, PICPA, Plante & Moran, PwC, RSM, SCCG, and VSCPA.

281 *See* comment letters from CAQ, Crowe, Deloitte, and GT.

282 *See* comment letters from Baker Tilly, CAQ, and Deloitte.

283 *See* comment letter from EY.

284 *See* comment letter from Deloitte.

c. The requirement in QC 1000.34b to update and communicate at least monthly additions to the restricted entities list;[285]

d. The scope of the requirement in QC 1000.53d regarding communications of information to external parties in accordance with applicable professional and legal requirements;[286]

e. Evaluating and responding to information that becomes known after the annual evaluation date but before the filing date on Form QC;[287]

f. The nature and extent of documentation required to be retained, including questions regarding reperformance and the level of documentation necessary to support monitoring conclusions;[288]

g. QC considerations related to technological resources, particularly due diligence on artificial intelligence tools, used on engagements or in the firm's system of quality control;[289]

h. Clarification of the meaning of specified terms used in AS 1310, *Notification of Termination of the Auditor-Issuer Relationship*;[290]

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285 *See* comment letters from CAQ and EY.

286 *See id*.

287 *See* comment letters from Baker Tilly, BDO, CAQ, CBIZ, GT, Kramer, and Plante & Moran.

288 *See* comment letters from Baker Tilly, BDO, CAQ, Deloitte, EY, Forvis, GT, KPMG, Plante & Moran, PwC, and RSM.

289 *See* comment letters on *Request for Comment on PCAOB Standard Setting*, PCAOB Rel. No. 2026-005 (Jun. 23, 2026), from CBIZ CPAs P.C. (Aug. 7, 2026), DNL Deep Neuron Lab GmbH (Aug. 7, 2026), Pennsylvania Institute of Certified Public Accountants (Aug. 5, 2026), and PricewaterhouseCoopers LLP (Aug. 5, 2026), available here: https://pcaobus.org/oversight/standards/standard-setting-research-projects/agenda-consultation--request-for-public-comment-on-pcaob-standard-setting.

290 *See* comment letter from KPMG.

i. How to respond to engagement deficiencies on audits of internal control over financial reporting under AS 2901, *Responding to Engagement Deficiencies After Issuance of the Auditor's Report*;[291] and

j. How to report on Form AP the use of other quality reviewers given the rescission of SECPS section 1000.45, *Appendix K—SECPS Member Firms With Foreign Associated Firms That Audit SEC Registrants*.[292]

As discussed, in the Background section above, the staff recently issued QC 1000 Q&As.[293] Those Q&As address the guidance requests discussed in bullets a. – f. above. The staff will continue to evaluate implementation questions and requests for clarification, including those received through the Firm Consultation Process,[294] and may address additional matters through future updates to the QC 1000 Q&As or other implementation guidance.

2. ADDITIONAL COMMENTER FEEDBACK

Some commenters also provided feedback on aspects of QC 1000 that were outside the scope of the proposed amendments in the supplemental request for comment and that were not requests for additional implementation guidance.[295] These comments

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291 *See id*.

292 See id.

293 *See QC 1000 Questions and Answers, available at* https://pcaobus.org/oversight/standards/standard-setting-research-projects/quality-control/qc-1000-questions-and-answers.

294 See the Firm Consultation Process available on the PCAOB website.

295 *See* comment letters from Baker Tilly, CBIZ, Grosvenor, KPMG, Malone Bailey, PICPA, and SCCG.

recommended changes to various other provisions of the standard and expressed concerns regarding scalability and cost:

- Two commenters requested the Board revisit the 100-issuer threshold.[296] One of these commenters expressed concern that the requirement for firms auditing more than 100 issuers to maintain an automated independence-monitoring process could impose significant implementation costs on firms that currently use spreadsheet-based processes.[297]
- One commenter requested clarification or modification of various provisions of QC 1000, including defined terms, risk assessment, governance and leadership, communication, monitoring and remediation, and documentation requirements.[298]
- Another commenter stated that they continued to have concerns regarding the confidentiality of information submitted through Form QC, particularly information relating to identified deficiencies, root causes, remediation strategies, governance matters, and other aspects of a firm's system of quality control, and suggested that additional clarity on certain matters would provide firms with greater certainty regarding the treatment of highly sensitive quality management information.[299]

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296 *See* comment letters from Malone Bailey and PICPA.

297 *See* comment letter from Malone Bailey.

298 *See* comment letter from Grosvenor.

299 *See* comment letter from BDO.

- One commenter recommended that Form QC should, at a minimum, be made public with the PCAOB-identified deficiencies redacted, because the information included in it would be beneficial to investors for investment or proxy voting decisions.[300]
- Another commenter recommended that the Board clarify that quality responses addressing personnel competence and capability—including structured programs to develop and assess professional judgment—are valid quality responses within this framework. [301]
- Three commenters requested the PCAOB publish a consolidated adopting release that provides the entirety of the revised standard and relevant content from the original adopting release, and updated interpretive guidance.[302]

The Board has considered these comments but is not making additional changes to QC 1000 beyond the amendments in this release. As discussed above, these comments relate to aspects of QC 1000 that were outside the scope of the supplemental request for comment. The Board will continue to monitor implementation of QC 1000 and may consider whether further changes to the standard or related guidance are warranted based on experience gained from implementation.

AMENDMENTS TO PCAOB FORM 1 AND FORM 2

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300 *See* comment letter on *Request for Public Comment on Draft 2026-2030 Strategic Plan Goals and Objectives*, PCAOB Rel. No. 2026-006 (July 20, 2026), from the Council of Institutional Investors (Aug. 26, 2026), available here: https://assets.pcaobus.org/pcaob-dev/docs/default-source/about/administration/strategic-plan-goals-and-objectives-comments-2026-2030/5_cii.pdf?sfvrsn=aba1e9e7_2.

301 *See* comment letter from SCCG.

302 *See* comment letters from Baker Tilly, CBIZ, and KPMG.

In conjunction with the Board's adoption of QC 1000, Form 1 and Form 2 were each amended to include an item directing firms to confirm whether they have designed a QC system in accordance with QC 1000. In light of the proposed amendments discussed above, the Board also proposed to rescind these amendments to Form 1 and Form 2.

All commenters who commented on this topic supported these proposed amendments to Form 1 and Form 2.[303] As part of the supplemental request for comment, the Board sought comment on whether a firm applying for registration should be required to identify on Form 1 the quality management standard(s)—for example, QC 1000, ISQM 1, or SQMS 1—upon which its QC policies were based. Some commenters supported this concept,[304] but two commenters questioned the Board's intended use of the information.[305] The Board will consider this feedback and determine in the future whether any changes to its registration processes, including the content of Form 1, are necessary.

The Board is adopting as proposed the amendments to Form 1 and Form 2.

D. Economic Considerations and Application to Audits of Emerging Growth Companies

ECONOMIC ANALYSIS

The Board is mindful of the economic impacts of its standard setting. When the Board adopted QC 1000, it included an economic analysis of the new standard in the QC

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303 *See* comment letters from Baker Tilly, BDO, CAQ, GT, ICGN, KPMG, PICPA, and Spitters.

304 *See* comment letters from BDO, CAQ, KPMG, RSM, and Spitters.

305 *See* comment letters from GT and PICPA.

1000 2024 adopting release, including discussion of the benefits and costs of key provisions, some of which would be affected by the amendments.[306] The Board also submitted a comment letter to the SEC ("Board Letter") that provided additional information regarding its economic analysis, including the benefits and costs of the EQCF requirement that the Board is rescinding.[307] When the SEC approved QC 1000, it included additional discussion of the benefits and costs of certain of the provisions of QC 1000 and related amendments in its order granting approval.[308] Finally, as discussed above, the Board issued a supplemental request for comment on the amendments to QC 1000 and a related PCAOB rule and forms. The Board considered the comments received in response to that request as part of this economic analysis.

This economic analysis describes the baseline for evaluating the economic impacts of the amendments, the need for the amendments, their expected economic impacts (including benefits, costs, and potential unintended consequences), and reasonable alternatives considered. There are limited data and research findings available to estimate quantitatively the economic impacts of the amendments. Therefore, the economic analysis is largely qualitative in nature. However, certain parts of the economic analysis, where reasonable and feasible, incorporate newly available quantitative information (e.g., in the "Need" section when discussing challenges firms have encountered designing and implementing QC 1000).[309] The economic analysis also

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306 *See* PCAOB Rel. No. 2024-005, at 345-351, 355-360.

307 *See* PCAOB Board Letter to SEC Regarding Rule Filing 2024-02 (Aug. 16, 2024).

308 *See generally* SEC Rel. No. 34-100968.

309 Staff gathered data and performed this analysis in the third quarter of 2026. The data include PCAOB filings by firms through August 10, 2026. Because the present staff analysis relies on

considers information about firms' implementation activities obtained through the PCAOB's implementation support efforts and PCAOB oversight as well as information provided by commenters.

The supplemental request for comment sought public comment on the amendments, including the economic considerations.[310] Most commenters generally agreed that the amendments would reduce complexity and the overall cost burden, especially for smaller firms.[311] Some commenters generally said that the amendments would not negatively impact audit quality.[312] Some commenters raised concerns with the proposed rescission of the EQCF requirement.[313] The Board has considered all the comments received, including the quantitative perspectives and academic research the comments referenced.

BASELINE

The economic analysis considers potential impacts relative to a regulatory baseline in which QC 1000, as originally adopted by the PCAOB and approved by the SEC, would become effective. Accordingly, the baseline reflects the regulatory framework that would exist absent the amendments. The Board has limited direct experience with the QC 1000 baseline, as it is not yet effective and will not go into effect until December 15, 2026. However, the data presented below indicate the number of

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more recent PCAOB filings, the results may differ from the results presented in the supplemental request for comment.

310 *See* PCAOB Rel. No. 2026-002, at 82.

311 *See, e.g.*, comment letters from Baker Tilly, CAQ, CBIZ, KPMG, and Kramer.

312 *See, e.g.*, comment letters from BDO, CAQ, Deloitte, and PICPA.

313 *See* comment letters from CFA, CII, ICGN, and MIAG.

firms that would have been impacted by QC 1000, including requirements that the Board is amending or rescinding.

As originally adopted, all firms are required to design a QC system that complies with QC 1000. However, certain of its provisions apply to only a subset of these firms.[314] Specifically:

- Firms are required to implement and operate a QC system that complies with QC 1000 when they lead an engagement under PCAOB standards, play a substantial role in the preparation or furnishing of an audit report (as defined in the Board's rules), or have current responsibilities under applicable professional and legal requirements regarding any such engagement.[315] The Board refers to such firms as "full-implementation" firms. All other firms registered with the PCAOB are required to design (but not implement or operate) a QC system that complies with QC 1000; the Board refers to these herein as "design-only" firms. The Board is rescinding this design-only requirement.

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314 One commenter questioned whether statements made in section V.A. of the supplemental request for comment were inconsistent with the amendment to rescind the design-only requirement. *See* comment letter from Kramer. The Board does not believe so. To provide a baseline for considering the impact of the amendments, section V.A. of the supplemental request for comment provided information about how QC 1000, as originally adopted, would impact the audit market. Quantifying the subset of firms that would have been required to implement the design-only requirements under QC 1000 as originally adopted enabled an assessment of the impact of the proposed amendment to rescind the design-only requirement.

315 An "engagement" is any audit, attestation, 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). *See* QC 1000.A3. Playing a substantial role in the preparation or furnishing of an audit report means (1) performing material services that a public accounting firm uses or relies on in issuing all or part of its audit report, or (2) performing the majority of the audit procedures with respect to a subsidiary or component of any issuer, broker, or dealer, the assets or revenues of which constitute 20% or more of the consolidated assets or revenues of such issuer, broker, or dealer necessary for the lead auditor to issue an audit report. *See* PCAOB Rule 1001(p)(ii).

- Firms that issued audit reports with respect to more than 100 issuers in the prior calendar year are required to implement several additional requirements, such as the requirement to have an EQCF.[316]

Table 1 summarizes the number of registered firms, and whether they would likely be considered either design-only or full-implementation firms. It further breaks down the number of full-implementation firms by the number of audit reports the firm recently issued. Firms that reported any engagements on their Form 2 filings from the prior seven reporting years are classified as full-implementation firms because they are likely subject, at a minimum, to audit documentation requirements and therefore would likely have implementation obligations under QC 1000.[317] Table 1 is relevant to several of the analyses that appear below because it identifies the principal populations affected by the amendments and provides context for later discussion of the economic significance of those populations.[318]

- Table 1 shows that 49% (734 ÷ 1,489) of the firms in the sample are design-only firms. Figure 1 below utilizes the same methodology to identify design-only firms. The Board discusses below the impacts of the amendment to

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316 *See* PCAOB Rel. No. 2024-005, at 9. Staff note that broker-dealer audit reports are not counted for purposes of determining whether firms are required to implement these additional requirements.

317 *See* AS 1215.14 (establishing a seven-year retention period for audit documentation).

318 Referring to the data presented in Table 1, one commenter said the economic analysis provides counts of firms by the number of issuers they audit and does not pair those counts with the market capitalization audited by each category or show where emerging growth company ("EGC") audits actually sit across the categories. *See* comment letter from CFA. The economic analysis provides issuer market capitalization information for firms that issued more than 100 issuer audit reports during the 2025 calendar year. The economic analysis also provides issuer market capitalization information for firms that issued audit reports with respect to more than 500 issuers during the 2025 calendar year. The last section of the economic analysis provides the issuer market capitalization information of those EGCs audited by firms that issued audit reports with respect to more than 100 issuers.

rescind the design-only requirement, which primarily impacts these design-only firms.

- Table 1 also shows that 1% (12 ÷ 1,489) of the firms in the sample are subject to QC 1000's requirements that apply to firms that audit more than 100 issuers. The Board discusses below the impacts of the amendment to rescind the EQCF requirement, which is one such requirement with a 100-issuer threshold. The Board also provides additional discussion on how the impacts of the amendments would vary by firm size.[319]

Finally, Table 1 shows that 23% (336 ÷ 1,489) of the firms in the sample issued no audit reports for issuers during the 2025 reporting period yet still qualify as full-implementation firms based on (1) broker-dealer audit reports issued during the 2025 reporting period; (2) substantial roles played with respect to an issuer or broker-dealer audit report during the 2025 reporting period; or (3) issuer or broker-dealer audit reports issued or substantial roles played with respect to such audit reports during the six prior reporting periods.

Table 1. Full-Implementation and Design-Only Firms, U.S. and Non-U.S., as of March 31, 2025

	Firms	U.S. Firms	Non-U.S. Firms
All firms	1,489	662	827
Full-implementation firms	755	393	362
By recent issuer audit report count:			
More than 100	12	12	0
1 – 100	407	192	215
0	336	189	147

[319] The number of firms subject to the QC 1000 requirements that apply to firms that issued audit reports for more than 100 issuers in the prior calendar year may differ from the figures in Table 1 because Table 1 presents counts of issuer audit reports issued during the 2025 reporting period, as reported by firms in their Form 2 filings, which is not a calendar year. Staff note that firms that have issued audit reports for more than 100 issuers during the prior calendar year are subject to annual inspection and, as of the time of this analysis, 13 firms are subject to annual inspection.

Design-only firms	734	269	465

Source: PCAOB Form 2 filings.

Notes: (1) Table 1 shows the counts of firms registered with the PCAOB as of March 31, 2025, excluding firms with withdrawal pending or suspended status. U.S. and non-U.S. firms are defined based on firm headquarters locations as indicated in their required PCAOB filings. Staff considered firms registered as of March 31, 2025, because 2025 Form 2 filings cover the period from April 1, 2024, through March 31, 2025. Staff did not use 2026 Form 2 filings because, as of the date of this analysis, 19% of firms had not submitted their 2026 Form 2 filings. The number of firms has changed since March 31, 2025, due to registration approvals and withdrawals from registration.

(2) Staff identified full-implementation and design-only firms based on their annual Form 2 filings for the 2019 through 2025 reporting periods, which cover firm activity from April 1, 2018, to March 31, 2025. Staff classified a firm as full-implementation if the firm reported on any of its 2019 through 2025 Form 2 filings that it issued an audit report with respect to any issuer, broker, or dealer or that it played a substantial role with respect to any such audit report during the 2019 through 2025 reporting periods. On such engagements, the firms in the sample would likely have been subject at least to audit documentation requirements as of March 31, 2025. Staff classified all other firms as design-only firms. Staff assumed that a firm that did not file a Form 2 for a given reporting period did not lead or play a substantial role in any issuer or broker-dealer audit during the reporting period. The staff's methodology may misclassify firms to the extent firms incorrectly completed or failed to file their Form 2. A firm's classification as full-implementation or design-only as of March 31, 2025, is hypothetical since QC 1000 was not in effect at that time. A firm's actual classification on the effective date may be different than reflected above.

(3) For purposes of categorizing full-implementation firms by their recent issuer audit report counts, staff referred to the number of audit reports issued by the firm for issuers based on the firm's 2025 Form 2 filing.

NEED

In 2024, the PCAOB adopted QC 1000 to strengthen firms' QC systems. Since adoption, however, the Board received new information—through comment letters, implementation support efforts, and data obtained during inspection outreach activities—suggesting that certain provisions of QC 1000 were unclear in their application, might

impose higher costs than initially anticipated in relation to the potential benefits, or might be unnecessarily prescriptive.[320]

This new information is primarily qualitative and provides limited quantitative estimates of QC 1000 implementation costs, with the following exceptions. One commenter described an anonymous firm's experience implementing QC 1000, including an estimate that implementation had increased annual operating costs by approximately 1% to 1.5% of firm revenue.[321] Through PCAOB inspection outreach activities, several firms provided quantitative information related to their implementation efforts.[322] Among a sample of 57 firms subject to inspection in 2026, three provided estimates of the total costs of implementing QC 1000, ranging from $6,250 to $10,000 per issuer audit.[323] The

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320 See below for discussion of challenges faced by firms implementing QC 1000.

321 *See* comment letter from PICPA. Staff acknowledge the quantitative estimate of an anonymous firm's implementation costs as a share of its revenue. However, staff note several important limitations of the comment. First, the comment does not explain how the referenced firm was selected. As a result, it is unclear whether its experience is representative of the broader population of registered firms. Second, the comment does not describe the methodology used by the firm to quantify its implementation costs, making it difficult to assess the reliability of the estimate. Finally, the comment does not provide the firm's annual revenue, which prevents staff from monetizing the costs incurred by the firm. Staff also note that only a portion of this cost is attributable to the QC 1000 requirements the Board is rescinding or revising. The amendments can only reduce this portion of QC 1000 implementation costs

322 As part of the PCAOB's inspection outreach activities, the Board obtained feedback on the progress made by firms towards implementing QC 1000 in their QC systems. This included feedback gathered during the first three quarters of 2026 from 57 firms, including 43 U.S. non-affiliated firms ("NAFs"), seven non-U.S. global network firms ("GNFs"), and seven non-U.S. NAFs. Accordingly, the sample may not be representative of all registered firms. While inspections staff solicited information on QC 1000 implementation costs, most of the firms in the sample stated that they could not quantify incurred or expected costs as they were still in the process or at an early stage of implementing QC 1000. The firms that provided cost estimates did not describe their methodology. The Board believes most firms are subject to ISQM 1 or SQMS 1. See footnote 383. Accordingly, the Board believes these firms may have already implemented requirements under ISQM 1 or SQMS 1 into their QC systems.

323 Each of these three firms provided a total cost estimate in response to the question. Staff calculated per-issuer expected costs by dividing each firm's total cost estimate by the number of issuers the firm reported on its most recent Form 2 filing. One of these three firms is annually inspected.

March 20, 2026 CAQ comment letter ("CAQ 2026 Letter") reports that average estimated one-time and ongoing QC 1000 costs are $18.9 million and $12.1 million, respectively.[324] One commenter said that the estimates provided in the CAQ 2026 Letter should be closely scrutinized and independently validated, particularly given the methodological limitations.[325] The Board has assessed that methodology and acknowledged its limitations.[326]

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[324] *See* CAQ 2026 Letter. The CAQ 2026 Letter provides some evidence related to (1) the overall costs to operate firms' systems of quality control and (2) the one-time and ongoing costs of the QC 1000 requirements that are incremental to ISQM 1 and SQMS 1. The CAQ 2026 Letter indicates that the CAQ obtained estimated cost data from nine of its member firms. Based on the letter, the surveyed firms (1) generally have the largest issuer portfolios; (2) collectively audit 99.6% of U.S. market capitalization; and (3) utilized different methodologies and assumptions when preparing their responses. Regarding overall costs, the letter reports that for respondents that were unable to gather the necessary data to quantify the incremental costs of ISQM 1, the cost to operate their respective systems of quality control is over half a billion dollars annually. Based on the letter, it is unclear whether this cost estimate refers to costs incurred by individual respondents or to total costs incurred by all respondents. The Board recognizes that firms' systems of quality control require significant resources. Accordingly, as part of the QC 1000 2024 adopting release, PCAOB staff conducted a voluntary survey of the U.S. members of the six largest global networks ("U.S. GNFs") on the resources they employ to design, implement, and operate QC policies and procedures. *See* PCAOB Rel. No. 2024-005, at 318. However, the CAQ 2026 Letter does not describe the methodology for defining the scope of the system of quality control (e.g., whether it includes engagement-level work related to the system of quality control, and whether it includes spending on information technology). Regarding costs associated with QC 1000 requirements that are incremental to ISQM 1, the letter reports that, for respondents that were able to gather the necessary data, these costs are 224% of ongoing ISQM 1 costs. The Board notes that this calculation includes one-time costs in the numerator (incremental QC 1000 requirements) but not in the denominator (ISQM 1 requirements). This may increase the percentage because the Board believes much of the costs may be incurred in the one-time setup phase. Research on Sarbanes-Oxley implementation has found this to be the case in the context of public company ICFR systems. *See, e.g.*, John C. Coates and Suraj Srinivasan, *SOX After Ten Years: A Multidisciplinary Review*, 28 Accounting Horizons 627 (2014). Further, the CAQ 2026 Letter reports that average estimated one-time and ongoing QC 1000 costs are $18.9 million and $12.1 million, respectively. Since firms have not completed their QC 1000 implementation, it is unclear whether the reported implementation cost estimate includes future spending. Staff note that, while the survey respondents were asked to report costs of the QC 1000 requirements that are incremental to ISQM 1 and SQMS 1, respondents' use of different and undisclosed methodologies and assumptions in their estimates makes it difficult to evaluate the reliability of these estimates. One commenter noted similar limitations of the methodology used in the CAQ 2026 Letter. *See generally* comment letter from CFA.

[325] *See* comment letter from CFA.

[326] *See* footnote 324.

Data received through inspection outreach activities also indicates the prevalence of certain implementation challenges. Of the 57 firms in the sample, 48 indicated that they were preparing for, assessing, or designing a system for the implementation of QC 1000, or had begun some form of implementation to comply with the standard. Among these 48 firms, five firms, including one annually inspected firm, reported experiencing significant implementation challenges that the amendments address. The annually inspected firm reported challenges related to the EQCF requirement, the determination of a QC deficiency, the QC system evaluation date, and the seven-year QC documentation retention period. Among the four triennially inspected firms, two reported challenges related to allocating and filling certain roles, one reported difficulty aligning two different QC system evaluation dates, and one reported uncertainty about the required level of documentation.

This new information has led the Board to re-evaluate the benefits and costs of alternative approaches to several QC 1000 requirements.[327] While QC 1000 as a whole remains necessary to enhance firms' QC systems and improve audit quality, this new information points to specific QC 1000 requirements whose costs may be disproportionate to their benefits. The need addressed here is the rescission or amendment of those specific requirements; it does not relate to other provisions of

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[327] Evaluating whether alternative approaches would be more cost-effective is consistent with the Office of Management and Budget's Circular A-4. By way of background, the PCAOB's Staff Guidance on Economic Analysis in PCAOB Standard Setting was prepared after considering, among other inputs, the Office of Management and Budget's Circular A-4. *See* Staff Guidance on Economic Analysis in PCAOB Standard-Setting (Feb. 14, 2014), *available at* https://pcaobus.org/oversight/standards/economic-analysis/05152014_guidance. Circular A-4 explains that one of the central motivations of regulatory analysis is to "discover which of various possible alternatives would be the most cost-effective." *See* Office of Management and Budget, Circular A-4 (Sept. 17, 2003), at 2, *available at* https://www.whitehouse.gov/wp-content/uploads/2025/08/CircularA-4.pdf.

QC 1000 adopted in 2024. Accordingly, the amendments are intended to preserve QC 1000's core investor-protection objectives while reducing unnecessary complexity, duplication, and implementation costs. The amendments the Board is making to QC 1000 involve:

- *Rescinding Requirements*: The amendments rescind the requirement for "design-only" firms to design a QC system that complies with QC 1000. The amendments also rescind the EQCF requirement.
- *Reducing Scope*: The amendments narrow and simplify communication requirements relating to metrics that the firm communicates to external parties about its audit practice, firm personnel, or its engagements. With respect to identified engagement deficiencies, the amendments reduce the set of circumstances in which firms would be required to evaluate whether similar engagement deficiencies exist on other engagements. Furthermore, the amendments simplify the requirements for retention of QC system documentation and abbreviate the retention period from seven to five years.
- *Increasing Alignment and Flexibility*: The amendments increase alignment with other quality management standards, including ISQM 1, by providing flexibility in assigning roles and responsibilities, selecting the evaluation date, and generally aligning the QC system evaluation conclusions.
- *Improving Clarity*: The amendments revise the definition of a QC deficiency to make clear that, when firms have implemented more than one quality response to address the same quality risk, they can take those other quality

responses (e.g., compensating responses) into account when determining whether a QC deficiency exists.

ECONOMIC IMPACTS

The economic analysis evaluates potential impacts of the amendments relative to a regulatory baseline in which QC 1000, as originally adopted by the PCAOB and approved by the SEC, will be effective. Since QC 1000 is not yet effective, the amendments could allow many firms to avoid some QC system design and implementation costs that would be incurred if QC 1000 were to take effect as originally adopted. Some firms, however, may already have incurred certain design and implementation costs to comply with the requirements the amendments rescind or revise, and some of those costs may not be recoverable. For example, one commenter said that many firms had already designed and implemented processes, monitoring activities, and documentation protocols around a September 30 evaluation date requirement under QC 1000 and that, as a result, modifying those processes before the initial effective date may present practical challenges, particularly for smaller firms.[328] Another commenter said that their firm had incurred some paperwork preparation costs as well as internal costs related to reviewing literature related to QC 1000.[329] One commenter said that many of the costs in establishing the EQCF or similar advisory functions have likely already been incurred.[330] The Board recognizes that, to the extent incurred costs cannot be recovered, some of the cost savings discussed below would be attenuated.

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328 *See* comment letter from Plante & Moran.

329 *See* comment letter from Spitters.

330 *See* comment letter from CFA.

In the QC 1000 2024 adopting release, the Board noted that QC 1000 would benefit investors by improving compliance with applicable professional and legal requirements, thereby improving audit quality and in turn improving investors' capital allocation decisions, increasing capital formation, and reducing cost of capital to audited companies.[331] Regarding costs, the Board noted that there would be direct costs to firms to design and, as applicable, implement and operate a QC system that complies with QC 1000, and that such costs would be largely fixed in nature and would decline over time.[332] The Board also noted there could be indirect costs to audited companies to the extent firms request more audit evidence from them.[333] Finally, the Board also noted that firms may require greater fees.[334]

As in the supplemental request for comment, the Board analyzes the potential impacts of the amendments, each of which revises or rescinds certain requirements of QC 1000. Because QC 1000 establishes outcome-based quality objectives, any risk to audit quality that may arise from an amended requirement in QC 1000 may be mitigated by other QC 1000 requirements or other policies and procedures firms have established to achieve those quality objectives. As previously noted, the economic impacts of the amendments are measured against the baseline of QC 1000 as adopted. The supplemental request for comment was the first to analyze impacts against that baseline; although it did not formally define the baseline, the Board has done so above.

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331 *See* PCAOB Rel. No. 2024-005, at 341-345.

332 *See id.* at 352-353.

333 *See id*. at 354-355.

334 *See id.* at 355.

Commenters generally supported the Board's analysis of the economic impacts of the proposed amendments to QC 1000 in the supplemental request for comment;[335] however, some commenters raised concerns about the Board's analysis of the economic impacts of rescinding the EQCF requirement.[336] One commenter also said the economic analysis could be improved by addressing how the amendments would impact cost reductions, audit quality, firm capacity, inspection outcomes, investor confidence, and smaller issuers.[337] The Board discusses the impacts on audit quality throughout the economic analysis. As discussed below, taking the entirety of QC 1000 into consideration, the Board believes any negative impact of the amendments on audit quality would likely be limited, so any downstream effect on the incidence of engagement deficiencies identified in PCAOB inspection reports, investor confidence, or the broader public would be correspondingly minor. As to firm capacity, the amendments would likely free some staff resources for redeployment to other activities, including those that may more directly support audit quality.

Regarding smaller issuers, the amendments would impact issuers primarily through lower audit fees relative to the baseline to the extent audit firms pass on the direct cost savings provided by the amendments. Reduced audit fees may have a relatively greater effect on smaller issuers' profitability compared to larger issuers since

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335 *See* comment letters from CAQ, GT, PwC, RSM, and Spitters.

336 *See* comment letters from CFA, CII, and MIAG.

337 *See* comment letter from MIAG. This commenter also said the economic analysis could be improved by addressing (1) the potential economic impacts of private equity investments in audit firms in determining the benefits of the EQCF; (2) the Board's use of benchmarks in determining the costs of the EQCF; and (3) the potential economic impacts of the amendments on EGCs. The Board addresses these comments below.

audit fees typically represent a larger share of their revenue.[338] One commenter noted that smaller issuers may rely especially heavily on the external audit given greater information asymmetry and less market coverage.[339] Thus, to the extent the amendments negatively impact audit quality, this would imply smaller issuers could be disproportionately impacted. However, as discussed below, the Board believes any negative impacts on audit quality will be minimal. One commenter said cost savings retained by firms should not be assumed to constitute investor benefits.[340] The Board agrees and does not make this assumption. The extent to which firms would choose to pass on any cost savings arising from the amendment to their clients is unclear. The commenter also said there is no quantification of whether the hypothetical cost savings the Board expects firms to realize will flow through to lower audit fees.[341] The Board is unaware of data or a methodology that would allow the Board to reliably quantify the pass through of cost savings to audited companies, including any impact on audit fees.

The same commenter expressed concern that the economic considerations discussion in the supplemental request for comment conflated smaller audit firms with smaller issuers and that the economic analysis must be segmented because the amendments affect each segment differently.[342] The economic considerations did not

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338 *See, e.g.*, Ideagen Audit Analytics, *Audit Fee Trends: A 20-Year Review* (Sept. 2025), at 19, *available at* https://go.ideagen.com/audit-fee-trends-sep25.

339 *See* comment letter from MIAG. Below, the Board discusses the importance of external audit in the context of EGC audits.

340 *See* comment letter from CFA.

341 See id.

342 See id.

conflate smaller audit firms with smaller issuers. Where necessary and appropriate, the economic analysis segments the discussion of impacts (e.g., by reference to impacts on firms, issuers, smaller firms, smaller issuers, and EGCs).

This commenter also suggested that the Board disclose the methodology behind any cost estimates it relies on in the economic analysis.[343] The economic analysis describes the methodology the Board used for the independent analyses. In cases where the economic analysis relies on external research, it provides sourcing. In cases where the economic analysis discusses cost estimates provided by commenters, it presents and assesses any information provided by the commenter about the methodology used.

The same commenter expressed concern that the economic considerations discussion in the supplemental request for comment does not provide a quantitative assessment of the impact on audit quality and the costs for investors.[344] The commenter suggested that the PCAOB perform and publish its own cost estimates that are comparable and methodologically transparent rather than relying solely on cost estimates provided by the auditing profession.[345] The commenter also suggested that the PCAOB measure the tradeoff between reduced firm costs against the risk of weakened QC effectiveness and audit quality (or do so qualitatively) provision by provision.[346] The Board is not aware of data or a methodology that would allow the Board to quantitatively assess all the impacts of the amendments or the tradeoff between benefits and costs on a

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343 See id.

344 See id.

345 See id.

346 See id.

provision-by-provision basis. While the commenter questioned reliance on data provided by audit firms, the commenter did not provide alternative data sources.[347] The economic analysis discusses the potential economic impacts of the amendments grouped into key areas and, as stated above, is largely qualitative in nature. However, where reasonable and feasible, the economic analysis incorporates quantitative information.

One commenter made three further points about the economic impacts of the amendments. First, the commenter said some of the amendments weaken key requirements and risk undermining the overall importance of a firmwide approach to quality that investors value and are willing to pay for.[348] As discussed in greater detail below, however, the Board believes any negative impacts on audit quality will be minimal. To the extent the amendments reduce firms' compliance costs, moreover, firms may not pass all of those savings—or any associated costs—through to their clients. Taken together, the Board believes the amendments will reduce unnecessary regulatory burden for firms while essentially achieving the same quality objectives that investors value.

Second, the commenter said that investors ultimately pay for investment in quality assurance services.[349] The Board acknowledges that investors ultimately pay for audit services. However, specific investments by firms may not necessarily be passed on to investors in the form of higher audit fees. The commenter also asserted that investments in high-quality systems should pay off for firms over the longer term and drive down

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347 See id.

348 *See* comment letter from ICGN.

349 See id.

costs because the cost reductions to firms arising from the amendments will tend to occur mostly in the first year but would come down over time.[350] The Board agrees that, as a general matter, the costs of quality management systems decrease over time.[351] The Board also acknowledges that some of the cost savings resulting from the amendments would be concentrated in largely fixed or one-time activities, such as designing a QC system. Many of the other cost savings discussed below, however, are associated with ongoing activities—such as eliminated EQCF compensation and fewer resources devoted to identifying similar engagement deficiencies on other engagements—rather than initial implementation activities. Therefore, the Board is not persuaded that, without the amendments, the benefits of the requirements the Board is amending would necessarily exceed their costs in the longer term.

Third, the commenter also noted that QC 1000 costs could be spread over the costs of all public audits and, therefore, seemed to be a reasonable price to pay.[352] In the QC 1000 2024 adopting release, the economic analysis acknowledged that larger firms would be able to spread the fixed costs over a larger number of issuers.[353] As discussed in below, the same is true of the fixed costs that the amendments will allow firms to avoid (e.g., identifying an individual to serve in an EQCF role and adjusting firm governance). However, many registered firms have relatively few engagements over which to spread fixed costs and some QC 1000 costs scale with the number of engagements. As discussed

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350 *See id.*

351 *See* PCAOB Rel. No. 2024-005, at 353; *see also id.* at 351 n.496.

352 *See* comment letter from ICGN.

353 *See* PCAOB Rel. No. 2024-005, at 354.

below, the Board has also heard from larger firms that certain of the requirements are proving to be costly as compared to the expected benefits, notwithstanding their ability to spread fixed costs over a relatively large number of engagements.

1. REQUIREMENT TO DESIGN, IMPLEMENT, AND OPERATE A QC SYSTEM

The amendments rescind the requirement for design-only firms to design a QC system that complies with QC 1000.

In the QC 1000 2024 adopting release, the Board noted that requiring design-only firms to design a QC system that complies with QC 1000 would better position these firms to accept and perform engagements in compliance with applicable professional and legal requirements because design-only firms would have a PCAOB-compliant QC system ready for implementation and operation.[354] The Board also noted that design-only firms would face design costs incremental to the requirements of complying with ISQM 1 or SQMS 1, including around ethics, independence, monitoring, and remediation, and that these costs could lead some firms to withdraw from PCAOB registration.[355]

Table 1 indicates that, based on the set of firms registered as of March 31, 2025, approximately 734 firms would be design-only under QC 1000 as originally adopted. Although design-only firms comprise 49% (734 ÷ 1,489) of registered firms, their role in the issuer and broker-dealer audit market is small: based on their Form 2 filings, they played no lead or substantial role on any engagements in the 2019 through 2025 reporting periods. Only 5% (35 ÷ 734) provided at least 5% of total audit hours on the audits of 51

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354 *See id.* at 346.

355 *See id.* at 355.

issuers during the 2025 reporting period, with audit fees to the lead auditor and all participants on these engagements totaling approximately $379 million.[356] The remaining 95% (699 ÷ 734) of design-only firms were not identified on any Form AP filings for audit reports issued during the 2025 reporting period.

The Board understands that most PCAOB-registered firms have implemented either ISQM 1 or SQMS 1, including design-only firms.[357] In addition, 11% (82 ÷ 734) of

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356 For three of these 51 issuer audits, multiple design-only firms (three on average) provided at least 5% of the total audit hours. The staff's analysis is based on Form AP filings for audit reports issued during the 2025 reporting period (i.e., from April 1, 2024, through March 31, 2025). In cases where multiple audit reports were issued with respect to the same issuer during the reporting period, staff selected the Form AP associated with the most recent audit report. Firms are identified on Form AP as other accounting firms if they provided at least 5% of the total audit hours for the engagement. *See* Form AP instructions, *available at* https://pcaobus.org/about/rules-rulemaking/rules/form-ap---auditor-reporting-of-certain-audit-participants. Form AP filings are available for download from the Board's website, https://pcaobus.org/resources/auditorsearch. The staff's methodology searches for other accounting firm roles in Form AP filings using the firm's Firm ID. Accordingly, the staff's methodology may undercount other accounting firm roles to the extent lead auditor firms either never filed a Form AP or failed to report Firm IDs of other accounting firms providing at least 5% of the total audit hours for the engagement. Staff obtained audit fees data from Audit Analytics. Staff note that academic literature finds that audit fees are highly correlated with audit hours. *See*, *e.g.*, Daniel Aobdia, *Do Practitioner Assessments Agree with Academic Proxies for Audit Quality? Evidence from PCAOB and Internal Inspections*, 67 Journal of Accounting and Economics 144 (2019), Table 4 (finding Spearman and Pearson correlations of 0.91 and 0.90, respectively, between audit hours and audit fees for PCAOB-inspected audit engagements). Therefore, the level of participation by these design-only firms in these audits provides a proxy for their share of the total audit fees. The most common level of participation (63% of roles played) was 5% to less than 10% of total audit hours. Design-only firms should have played a less-than-substantial role and, therefore, their hours generally should not constitute more than 20% of the total engagement hours provided by the lead auditor. From April 1, 2025, through August 10, 2026, 39 design-only firms provided at least 5% of the total audit hours on the audits of 52 issuers. The total audit fees paid to the lead auditor and all participants on these engagements were approximately $194 million. For three of these 52 issuer audits, multiple design-only firms (two on average) provided at least 5% of the total audit hours.

357 Staff performed several quantitative analyses to test its view that most design-only firms are subject to either ISQM 1 or SQMS 1. First, using the AICPA Peer Review public website, staff manually checked whether U.S.-headquartered design-only firms had been peer reviewed as part of the AICPA peer review program and are currently enrolled in the program. Staff found that 74% of these U.S. firms were peer reviewed and are currently enrolled in the program and thus would likely be subject to SQMS 1. Second, staff's review of firms' responses to Item 5.2 of their most recent Form 2 filings indicates that 62% of non-U.S.-headquartered design-only firms have an audit-related membership, affiliation, or similar arrangement (i.e., firms that answered "Yes" for either Item 5.2a.1 or Item 5.2a.2). These firms likely obtain QC policies and procedures derived from ISQM 1 as part of these relationships. Third, 16% of non-U.S.-headquartered design-only firms are members of the six largest global networks (BDO International Ltd., Deloitte Touche Tohmatsu Ltd., Ernst & Young Global Ltd., Grant Thornton International Ltd., KPMG

the 2025 design-only firms have failed to file a Form 2 and pay their annual fees to the PCAOB for at least two consecutive years; these firms might no longer be operational, and if their delinquencies persist, they would be eligible for withdrawal from PCAOB registration at the Board's discretion.[358]

Potential Benefits

The amendments will generate direct cost savings for many design-only firms, including firms that are already subject to ISQM 1 or SQMS 1. For such firms that remain registered following the effective date of QC 1000, the amendments would essentially eliminate the need to make any initial changes to their QC system design and to annually identify and assess quality risks to comply with QC 1000. One commenter estimated that, for its own firm, the costs to design a QC system that complies with QC

International Cooperative, and PricewaterhouseCoopers International Ltd.). The Board believes these firms have likely adopted policies and procedures derived from ISQM 1 because these six global networks generally encourage member firms to adopt their global quality management frameworks which largely encompass ISQM 1. *See, e.g.*, PricewaterhouseCoopers U.S.'s 2025 Transparency Report (Oct. 31, 2025) at 4, *available at* https://www.pwc.com/us/en/about-us/assets/pwc-us-2025-transparency-report.pdf. Indeed, in its comment letter, PwC said that all registered firms in its network are already subject to ISQM 1. *See* comment letter from PwC. Fourth, based on information published by the International Federation of Accountants (IFAC), staff identified countries that indicate that they have adopted ISQM 1 or similar quality management standards (*see, e.g.*, the "Quality Assurance" section of Switzerland's profile page on the IFAC webpage, *available at* https://www.ifac.org/about-ifac/membership/profile/switzerland, indicating that Switzerland "has issued national quality management standards . . . which are based on the International Standards on Quality Management (ISQM) issued by the International Auditing and Assurance Standards Board (IAASB)"). Eighty-eight percent of non-U.S.-headquartered design-only firms are headquartered in these countries and may therefore have adopted or be adopting ISQM 1 or similar standards. The Board notes that the CAQ 2026 Letter indicated that, in most cases, design-only firms had already adopted ISQM 1, and the CAQ recently reiterated that nearly all design-only firms are subject to the recently adopted IAASB or AICPA QC standards. *See* comment letter from CAQ.

358 See PCAOB Rule 2107(h). For more information on this withdrawal process, see Constructive Requests to Withdraw from Registration, PCAOB Rel. No. 2024-011 (Nov. 14, 2024), and Public Company Accounting Oversight Board; Order Granting Approval on Constructive Requests to Withdraw from Registration, SEC Rel. No. 34-102074 (Jan. 2, 2025).

1000 might be close to $1,000.[359] Another commenter said the design-only requirement would have entailed training costs, consulting costs, and professional time.[360] For design-only firms that register (or re-register) in the future, the amendment would also eliminate the need to annually identify and assess risks after they register.[361] These cost savings would be largest for the subset of design-only firms that are not already subject to ISQM 1 or SQMS 1, since for them the savings reflect the avoided cost of designing a wholly new QC system rather than designing incremental changes to an existing one.

By reducing burdens to design-only firms, the amendments may also increase or help to maintain the number of registered firms. Several commenters agreed that the design-only requirement could lead registered firms to withdraw from registration.[362]

To inform the Board's consideration of the potential impacts of the amendments on registration activity, Figure 1 shows trends in requests to withdraw from registration (Panels A and B, for full-implementation and design-only firms respectively) and in

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359 *See* comment letter from Spitters. The commenter, a design-only firm, did not indicate whether it had implemented ISQM 1 or SQMS 1. The commenter's 2026 Form 2 filing indicates that it has a single accountant. By contrast, based on their most recent Form 2 filings, the average (median) number of accountants at design-only firms is 125 (30). Therefore, the Board believes that this commenter's cost estimate is likely lower than the cost most design-only firms might incur to design a QC system that complies with QC 1000.

360 *See* comment letter from PICPA.

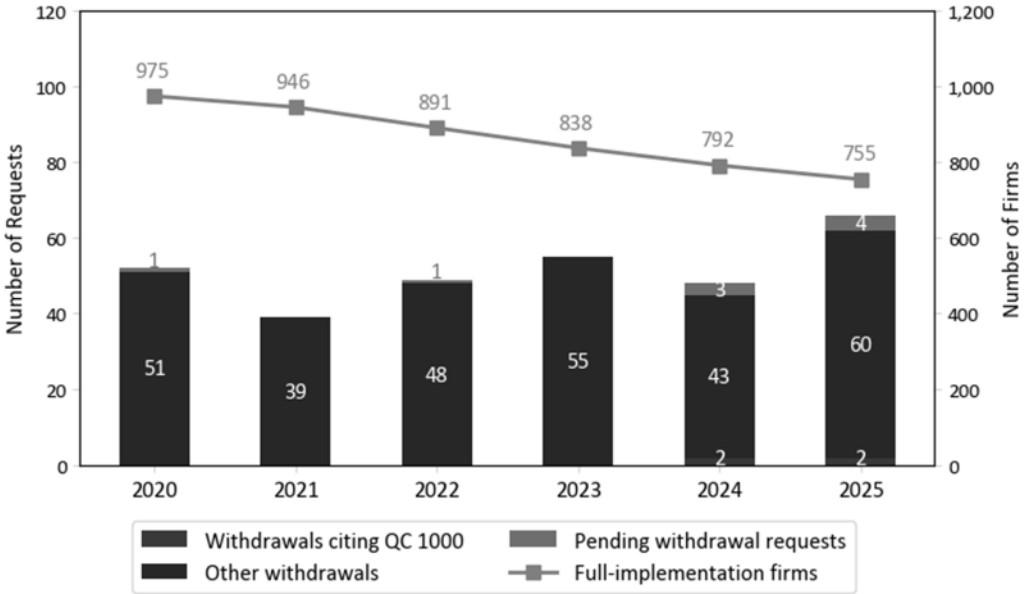
361 For design-only firms that register (or re-register) in the future, the amendments may also reduce costs associated with the registration process; however, the extent of any cost reduction will depend on how the Board evaluates registration applications after QC 1000 goes into effect. Under section 102(b)(2)(D) of Sarbanes-Oxley, applicant firms are required to provide a statement of the quality control policies of the firm for its accounting and auditing practices when applying to register with the PCAOB. *See Frequently Asked Questions Regarding Registration with the Board*, PCAOB Rel. No. 2003-011F, at Q.32 (Dec. 4, 2017), (providing guidance regarding PCAOB Form 1, *Application for Registration*, Item 4.1). In light of QC 1000, the Board may opt to revise its interpretation or implementation of this requirement or its criteria for evaluating these statements.

362 *See* comment letters from AAA, Baker Tilly, PICPA, and RSM.

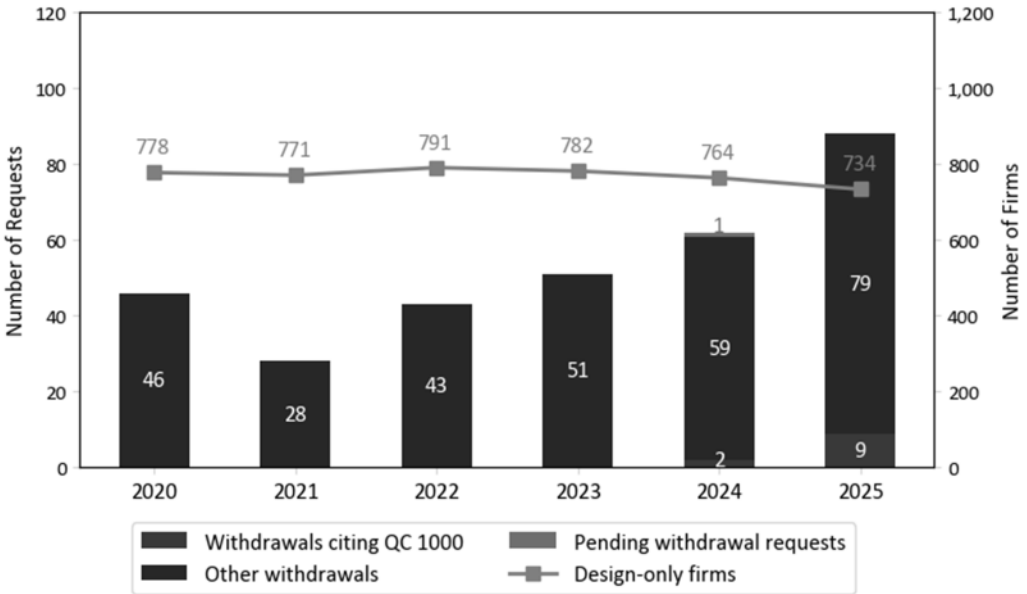
applications for registration (Panel C), for calendar years 2020 through 2025. The figure also shows the number of firms in each category as of March 31 of each year, using the Table 1 methodology. Overall, the Board observes an uptick in requests to withdraw from registration that appears to be related in some part to QC 1000. For example, 154 (2 + 60 + 4 + 9 + 79) withdrawal requests were filed in 2025, greater than any year since 2020, and 7% ((2 + 9) ÷ 154) of these cited QC 1000 as a reason. This trend appears to be more pronounced for design-only firms. Notably, 10% (9 ÷ (9 + 79)) of their withdrawal requests cited QC 1000, versus 3% (2 ÷ (2 + 60 + 4)) for full-implementation firms. It is important to note that Panels A and B of Figure 1 report on firms that requested to withdraw from registration and do not include firms that are considering requesting to withdraw from registration but have not yet filed the request. Similarly, Panel C of Figure 1 reports on firms that applied to register and does not include firms that are considering applying for registration but have not yet filed the application.

Figure 1. PCAOB Registration Activity

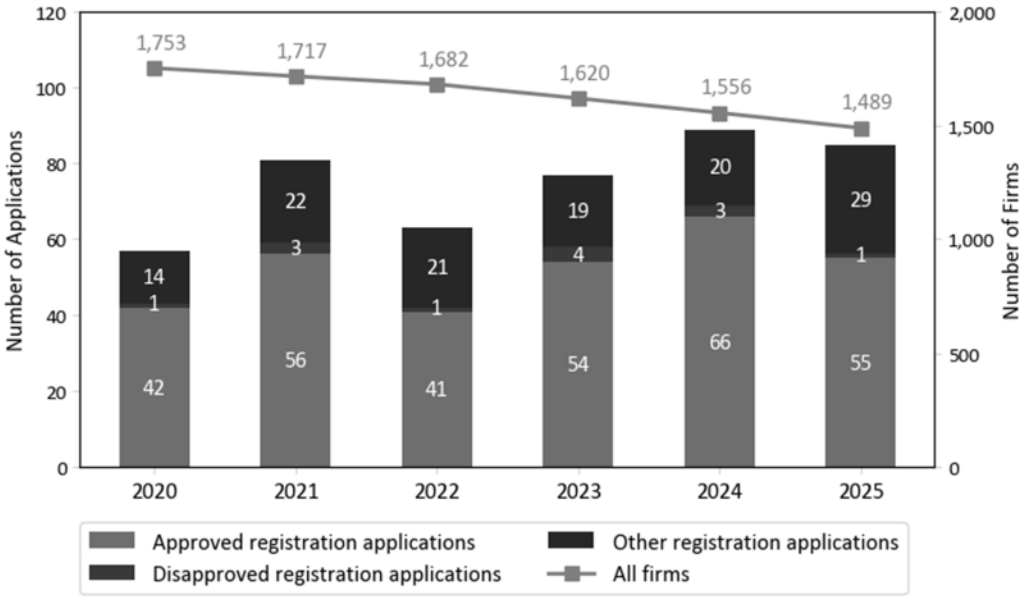
Panel A. Full-Implementation Firm Requests to Withdraw from Registration, Calendar Years 2020-2025



Panel B. Design-Only Firm Requests to Withdraw from Registration, Calendar Years 2020-2025



Panel C. Applications for Registration, Calendar Years 2020-2025



Sources: PCAOB Form 2 filings; Form 1-WD filings; Form 1 filings.

Notes: (1) The number of firms in each panel of Figure 1 represents the count of firms registered with the PCAOB as of March 31 of each calendar year, excluding firms with withdrawal pending or suspended status. These firms are identified as full-implementation or design-only firms based on the information contained in their Form 2 filings for the seven reporting periods leading up to and including the calendar year. For example, firms as of March 31, 2020, are classified based on their 2014 through 2020 Form 2 filings. Staff assumed that a firm that did not file a Form 2 for a given reporting period did not lead or play a substantial role in any issuer or broker-dealer audit during the reporting period.

(2) Panels A and B show the number of Form 1-WD requests to withdraw from registration, grouped by the calendar year in which each request was initially filed, from 2020 to 2025. Request status (i.e., withdrawal or pending withdrawal request) is as of August 10, 2026. Staff identified the firms that filed a Form 1-WD as full-implementation or design-only based on their Form 2 filings for the most recent seven reporting periods prior to their Form 1-WD filing.

(3) Form 1-WD asks firms to provide a reason for their withdrawal. When firms do not provide a reason for withdrawing, PCAOB staff solicit a reason. The analysis reported in Figure 1 reflects the reason stated on Form 1-WD when available and otherwise the solicited reason. Of the 627 firms that filed withdrawal requests between 2020 and 2025, 16% (103 ÷ 627) did not provide a withdrawal reason through either channel. Among those that provided a reason, staff determined whether a firm cited QC 1000 based on a programmatic search for keywords related to QC 1000 followed by a manual review. Staff note that firms citing QC 1000 may have requested withdrawal for other reasons as

well. Staff also note that the staff's methodology may undercount the number of withdrawal requests related to QC 1000 to the extent firms did not explicitly mention QC 1000 as the reason for their withdrawal. For example, of the 123 firms that filed withdrawal requests in 2025 for which a withdrawal reason is available, four discussed overall compliance costs associated with PCAOB standards while not specifically citing QC 1000. Further, it is possible that any of the 103 firms that filed a withdrawal request without providing a withdrawal reason through either channel could have withdrawn because of QC 1000.

(4) Figure 1 does not include the 2026 calendar year because it is a partial calendar year as of the time this analysis was performed and therefore is not directly comparable to earlier years. However, staff note that, as of August 10, 2026, there have been 67 withdrawal requests filed in 2026, and none cited QC 1000 as a reason for withdrawal.

(5) Panel C shows applications for PCAOB registration, grouped by the calendar year in which each application was initially filed, from 2020 to 2025. Application status (i.e., approved, disapproved, or other) is as of August 10, 2026. The "other registration applications" group includes applications under review and applications withdrawn by firms. Staff note that there are potentially fewer approved applications in 2025 because some applications filed in 2025 may still be under review.

For design-only firms that have withdrawn, or plan to withdraw, as a result of QC 1000, the amendments could incentivize some to re-apply or remain registered. The comments received are consistent with this potential benefit. One commenter said the amendment would alleviate concerns about smaller firms withdrawing their PCAOB registration and allow more flexibility for these firms to remain registered and apply the QC 1000 requirements only when they choose to accept engagements requiring registration with the PCAOB.[363] Another commenter stated concern that some firms had withdrawn from registration in response to QC 1000 and that this unintended consequence of the design-only requirement could be detrimental to the quality of multinational company audits because firms may seek creative ways to complete the

[363] *See* comment letter from Baker Tilly.

audits when a registered firm cannot be found in a particular jurisdiction.[364] Another commenter said that the proposed rescission of the design-only requirement would make it more likely that firms would remain registered, where they would be able to pursue opportunities for PCAOB engagements if they appropriately planned for compliance with QC 1000.[365] Another commenter stated that the design-only requirement incentivized firms to deregister and that, while they could later re-register, that process adds time and effort and restricts a firm's ability to bid on work or quickly respond to the marketplace.[366] The rescission of the design-only requirement could benefit these firms by facilitating greater participation in the PCAOB audit market—for example, where lead auditors may prefer to use registered firms for less-than-substantial-role work—offset in part by the cost of re-registering (in the case of firms that have already withdrawn from registration).

An increase in the number of registered firms could also benefit audited companies by expanding the supply of firms able, after designing, implementing, and operating a QC 1000-compliant system, to serve as a lead auditor or play a substantial role.[367] Staff analysis suggests that this is not uncommon: roughly 8% (62 ÷ 778) of firms

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364 *See* comment letter from AAA.

365 *See* comment letter from RSM.

366 *See* comment letter from PICPA.

367 Panel B of Figure 1 provides an indication of this population of design-only firms. It indicates that between 2020 and 2025, 11 design-only firms requested to withdraw from registration, citing QC 1000 as a reason. As discussed in greater detail above, staff analysis indicates that these firms played a relatively small role in the overall audit market. The Board recognizes that, absent the amendments, the number of registration withdrawals could increase in the future after QC 1000 goes into effect. The Board also notes that the impacts discussed in this paragraph apply similarly to future design-only firms that might choose to remain unregistered due to QC 1000. Consistent with the discussion in the QC 1000 2024 adopting release, an increase in the supply of design-only firms may lower audit fees but may also lead to audit quality risks. For example, there may be increased potential for opinion shopping since issuers and broker-dealers would have a larger set

classified as design-only as of March 31, 2020, later reported a lead or substantial role at least once over the following five reporting periods.[368] Although lead auditors may continue using design-only firms below a substantial role even after those firms withdraw from registration, some may prefer registered firms; if such firms remain registered, lead auditors with this preference can continue using their work and avoid the cost and risk of transitioning it elsewhere. Similarly, some audit committees may consider only already-registered firms as lead auditors. Accordingly, the increased supply of registered firms could support competition in the audit market.[369]

Additionally, by rescinding the design-only requirement, design-only firms that were planning to withdraw from registration may choose to remain registered, avoiding the time and costs associated with re-applying for registration if they decide to take on an

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of potential lead auditors from which to select. *See* PCAOB Rel. No. 2024-005, at 361-365. However, recent literature suggests that audit quality may improve in the specific context of potential competition among smaller firms. *See* Devin Williams, *The Effect of Potential Entrants on Audit Market Competition*, 100 The Accounting Review 375 (2025) (finding that the potential competitive threat posed by firms that have no publicly traded clients lowers audit fees and increases audit quality for engagements performed by triennially inspected firms).

368 As shown in Figure 1, 778 firms registered with the PCAOB as of March 31, 2020, are classified as design-only based on their 2014 through 2020 Form 2 filings. Staff used these firms' 2021 through 2025 Form 2 filings to determine the proportion that subsequently served in a lead or substantial role on an engagement.

369 Academic research provides mixed findings regarding the impact PCAOB deregistration may have on audit quality. Staff note that recent unpublished research suggests that PCAOB deregistration is associated with an increase in audit fees for clients of deregistering firms. *See* Michael Ettredge, Juan Mao, and Mary S. Stone, *Small Audit Firms' Public Market Exits, Business Model Changes, and Market Consequences*, SSRN Electronic Journal (2024) (finding that audit firm deregistration does not appear to affect the audit quality of these firms' former issuer clients on average but it is associated with higher audit fees). Depending on the audit quality proxy, earlier research finds mixed results on the effect on audit quality from firms exiting the market after the passage of Sarbanes-Oxley. *See* Mark L. DeFond and Clive S. Lennox, *The Effect of SOX on Small Auditor Exits and Audit Quality*, 52 Journal of Accounting and Economics 21 (2011); Neil L. Fargher, Alicia Jiang, and Yangxin Yu, *Further Evidence on the Effect of Regulation on the Exit of Small Auditors from the Audit Market and Resulting Audit Quality*, 37 Auditing: A Journal of Practice & Theory 95 (2018). Staff note that, in these studies, PCAOB deregistration typically refers to withdrawal from PCAOB registration.

engagement in the future. Staff analysis indicates that the registration process takes on average 133 days from filing a Form 1 to Board approval, plus a $500 fee.[370]

Nevertheless, the effect of rescission of the design-only requirement on re-registration and withdrawals may be limited. Panel B of Figure 1 shows that just 7% ((9 + 2) ÷ (9 + 2 + 59 + 79 + 1)) of design-only firms that requested withdrawal in 2024 and 2025 cited QC 1000, suggesting many recent withdrawals are for reasons unrelated to the amendments the Board is adopting.[371] These firms also had small market share, so their re-registration would be unlikely to significantly affect audit fees or audit quality. The 11 design-only firms that withdrew citing QC 1000 reported no lead or substantial roles since 2019; four were named on Form AP as other accounting firms on seven audits of four issuers, with total audit fees to the lead auditor and all participants of $17 million.[372] The Board recognizes that withdrawal requests arising in part from QC 1000 could increase in the future if QC 1000 were to take effect as originally adopted.[373]

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370 The length of the registration process has changed over time. This estimate is based on the 304 firms that had their registration applications approved by the Board between 2020 and 2025. Section 102(c)(1) of Sarbanes-Oxley requires the Board to approve a completed application for registration not later than 45 days after the date of receipt of the application, in accordance with the rules of the Board, unless the Board, prior to such date, issues a written notice of disapproval to, or requests more information from, the prospective registrant. *See* PCAOB Rel. No. 2003-011F, at Q.11, for additional information on the time it takes firms to register.

371 Staff found no instances of a firm citing the new paragraph (h) ("Constructive Withdrawal Requests") of PCAOB Rule 2107, which went into effect in 2025, as a reason for withdrawal.

372 The audit reports for these seven audits were issued during the 2019 through 2023 reporting periods. For each of the seven audits, only one of the four firms was named. The remaining seven firms were not named on a Form AP since the 2019 reporting period. The staff's analysis is based on Form AP filings for audit reports issued since the 2019 reporting period (i.e., from April 1, 2018, through August 10, 2026). Staff obtained audit fees information from Audit Analytics. As noted above, audits fees are highly correlated with audit hours. The level of participation of these four firms on these seven audits was 5% to less than 10% of total audit hours.

373 Staff recognize that design-only firms that have not affirmatively withdrawn from registration may also have lost interest in remaining registered with the PCAOB, which is a requirement to serve as a lead auditor or play a substantial role in the issuer and broker-dealer audit market. To evaluate whether any design-only firms may have lost interest in remaining registered in response to QC

The amendments could also affect registration applications, but the Board sees no strong evidence of a significant impact. Almost all firms that applied to register in 2020–2025 had not performed an engagement in the prior seven years and would be classified, upon entry, as design-only.[374] Panel C of Figure 1 shows that registration applications did not decline in anticipation of QC 1000; to the contrary, they peaked in 2024, the year QC 1000 was adopted.[375] The Board recognizes applications may decrease in the future once QC 1000 takes effect.

Potential Costs

The amendments may also have some negative impacts. Design-only firms that choose not to voluntarily design a QC system compliant with QC 1000 may be less prepared to implement and operate such a system if they later take on an engagement. If such a firm implements its QC system within a compressed timeline and fails to account for a quality risk or otherwise fails to implement an effective QC system, the firm increases its risk that it may fail to comply with applicable professional and legal requirements when performing an engagement. As discussed above, roughly 8%

1000, staff performed an analysis of trends in new design-only delinquent Form 2 filers and annual-fee payers. Staff identified by calendar year design-only firms that failed to file a Form 2 and pay their annual fees to the PCAOB for the two-year period ending in each calendar year, excluding firms that were already delinquent in prior years. The staff's analysis suggests that this form of disengagement (1) has been infrequent by comparison to the number of requests for withdrawal from registration and (2) was mostly flat between 2022 and 2025 (ranging from four to six per year). Overall, while this form of disengagement may be driven by many factors, the evidence suggests that this form of disengagement has not increased due to QC 1000.

374 Of the 452 firms that applied for registration between 2020 and 2025, 18 had been previously registered with the PCAOB at some point during the seven years before their current registration approval dates. Of these 18 firms, five had a lead or substantial role on engagements during the seven reporting periods prior to their return to PCAOB registration.

375 The Board acknowledges that trends in the number of applications for registration may be driven by multiple factors. For example, part of the increase the Board observes may be driven in part by pandemic-related disruptions that occurred during the earlier part of the period.

(62 ÷ 778) of design-only firms as of March 31, 2020, reported a lead or substantial role at least once over the subsequent five reporting periods. One commenter said that a QC system cannot be designed and made operational overnight, and the first investors served by a newly active firm should not bear the risk of a system still under construction.[376]

These impacts would be mitigated, however, to the extent firms most interested in leading or performing a substantial role on an engagement have incentives to voluntarily design a QC 1000-compliant system to compete for engagements. One commenter observed that firms actively proposing on PCAOB engagements would be wise to do so.[377] The impacts would also be mitigated to the extent these firms already have a QC system that complies with ISQM 1 or SQMS 1 or have already designed a QC system that complies with QC 1000.

Some commenters were generally skeptical that the design-only requirement was beneficial in relation to its costs.[378] For example, one commenter said the benefits of the design-only requirement were unclear as these firms are not performing engagements subject to PCAOB requirements, and that the design would be hypothetical, likely to become obsolete, and could create a false impression of readiness.[379] The Board notes that the annual reassessment of quality risks the requirement would have entailed mitigates this last concern. Others said that the amendment introduces no risk to investors because these firms neither perform nor serve in a substantial role on PCAOB

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376 *See* comment letter from CFA.

377 *See* comment letter from AAA.

378 *See* comment letters from Baker Tilly, CAQ, GT, KPMG, and PICPA.

379 *See* comment letter from PICPA.

engagements.[380] The Board believes that the costs of rescinding the design-only requirement will likely be minimal, taking mitigating factors into account.

2. ROLES AND RESPONSIBILITIES

The amendments provide increased flexibility in filling certain specified roles in the QC system by permitting roles to be assigned to non-firm personnel and divided among multiple individuals.

Potential Benefits

The amendments will help address the implementation challenges of the original requirement that commenters raised. Some commenters said that QC 1000 would have required some firms to change their existing structures and incur unnecessary operational challenges and disruptions without a commensurate benefit.[381] One of these commenters said it is challenging to identify a singular firm personnel member to assume operational responsibility for the entire scope of requirements of paragraph .16, which relates to ethics and independence.[382]

The amendments will reduce restructuring costs for firms that currently assign roles to non-firm personnel or divide roles among multiple individuals when operating their QC systems. The reduced restructuring costs may be particularly significant for firms that are already implementing ISQM 1 or SQMS 1.[383] One commenter said that the

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380 *See* comment letters from Baker Tilly, CFA, GT, and KPMG.

381 *See* comment letters from Baker Tilly and CAQ.

382 *See* comment letter from Baker Tilly.

383 The Board believes most firms are subject to ISQM 1 or SQMS 1. Staff performed several quantitative analyses to test the Board's view that most firms are subject to either ISQM 1 or SQMS 1. Whereas the analyses presented in footnote 357 consider only the design-only firms, the analyses presented in this footnote consider full-implementation firms as well as design-only firms. First, using the AICPA Peer Review public website, staff manually checked whether U.S.-

proposed amendment would provide welcome and needed flexibility, which is important for firms of varying sizes and structures, including for some non-U.S. firms with smaller PCAOB audit practices that have found that using others from outside the firm to perform certain functions specified in paragraph .12 of QC 1000, such as monitoring and remediation and ethics and independence roles, has had a positive impact on audit quality as it brings sufficiently competent and experienced individuals with relevant subject matter expertise to the firm.[384]

The amendments could also improve audit quality to the extent the responsibilities performed over firms' QC systems are carried out more effectively under the amendments. Firms with larger and more complex audit practices (e.g., the U.S.

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headquartered firms had been peer reviewed as part of the AICPA peer review program and are currently enrolled in the program. Staff found that 79% of these U.S. firms were peer reviewed and are currently enrolled in the program and thus would likely be subject to SQMS 1. Second, staff's review of firms' responses to Item 5.2 of their most recent Form 2 submissions indicates that 73% of non-U.S.-headquartered firms have an audit-related membership, affiliation, or similar arrangement (i.e., firms that answered "Yes" for either Item 5.2a.1 or Item 5.2a.2). These firms likely obtain QC policies and procedures derived from ISQM 1 as part of these relationships. Third, 39% of non-U.S.-headquartered firms are members of the six largest global networks. The Board believes these firms have likely adopted policies and procedures derived from ISQM 1 because these six global networks generally encourage member firms to adopt their global quality management frameworks which largely encompass ISQM 1. *See, e.g.*, PricewaterhouseCoopers U.S.'s 2025 Transparency Report (Oct. 31, 2025) at 4, *available at* https://www.pwc.com/us/en/about-us/assets/pwc-us-2025-transparency-report.pdf. Indeed, in its commenter letter, PwC said that all registered firms in its network are already subject to ISQM 1. *See* comment letter from PwC. Fourth, based on information published by IFAC and a web search for official pronouncements from local jurisdictions, staff identified countries that indicate that they have adopted ISQM 1 or similar quality management standards (*see, e.g.*, the "Quality Assurance" section of Switzerland's profile page on the IFAC webpage, *available at* https://www.ifac.org/about-ifac/membership/profile/switzerland, indicating that Switzerland "has issued national quality management standards . . . which are based on the International Standards on Quality Management (ISQM) issued by the International Auditing and Assurance Standards Board (IAASB)"). Eighty-nine percent of non-U.S.-headquartered firms are headquartered in these countries and may therefore have adopted or be adopting ISQM 1 or similar standards. Fifth, just 8% of full-implementation firms reported on their 2025 Form 2 filings in Item 3.2a that 100% of their total fees billed to all clients for services rendered during the reporting period were attributable to fees billed to issuer audit clients. This suggests that few full-implementation firms specialize only in audits of issuers under PCAOB standards.

384 *See* comment letter from CAQ.

GNFs) may find that some specific responsibilities required under QC 1000, such as the responsibility over ethics and independence compliance, require the expertise of multiple individuals. Firms may also find it excessively burdensome to identify a single individual willing to bear the entire responsibility for these areas. Firms with fewer staff that are part of a network may prefer to use individuals from other firms within their network (whether registered or unregistered) that have more expertise and capacity. For context, 4% (31 ÷ 755) of the full-implementation firms identified in Table 1 have just one accountant on staff and 12% (89 ÷ 755) have between two and 10 accountants. Among these firms, 19% (23 ÷ (31 + 89)) are a member of one of the six largest global networks or indicated on Item 5.2 of their most recent Form 2 filing that they are a member of or affiliated with some other audit-related network, arrangement, alliance, partnership, or association.[385]

Commenters provided examples to support the view that the amendments would improve audit quality.[386] One commenter asserted that the amendments would allow a firm to assign subject matter experts inside their firm networks to specific compliance tasks, which is likely to yield higher quality results.[387] Another commenter said that assigning roles and responsibilities to other individuals who are not firm personnel often enhances the experience, competence, and authority specific to functional areas, such as ethics and independence, or provides the individuals with the time needed to carry out

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385 Staff determined that firms were members of or affiliated with some other audit-related network, arrangement, alliance, partnership, or association if they answered "Yes" for Item 5.2a.1, Item 5.2a.2, or Item 5.2a.3 in their most recent Form 2 filing.

386 *See*, *e.g.*, comment letters from EY, GT, and PICPA.

387 *See* comment letter from PICPA.

their responsibilities effectively.[388] One commenter also said that the amendments would enhance audit quality outcomes by promoting the effective execution of quality control responsibilities, while maintaining accountability for results.[389] Another commenter noted that certain functions in a quality management system draw on disciplines that firms do not uniformly maintain in-house and the amendment would allow firms to engage qualified external specialists for such roles, which should improve the quality of those functions.[390] One commenter asserted that ethics and independence are disciplines that benefit from the dedicated focus of individuals with different skills and areas of expertise and confirmed these roles have been assigned to different individuals to drive the highest quality outcome.[391] This commenter believed the amendment would allow firms to designate individuals serving across registered firms within a network and enable firms to place the most experienced and qualified individuals in those positions, which is accretive to audit quality.[392] The Board agrees that the amendments could improve audit quality.

Potential Costs

The amendments could also have some negative consequences. If a firm's QC system responsibilities are split into subcomponents across multiple individuals, there could be a risk that subcomponents of the responsibilities are never assigned, leading to a

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388 *See* comment letter from EY.

389 *See* comment letter from GT.

390 *See* comment letter from SCCG.

391 *See* comment letter from Deloitte.

392 *See id.*

less effective QC system. For example, if a firm's QC system responsibility over monitoring and remediation is split into responsibility over monitoring and responsibility over remediation, responsibilities that could reasonably be associated with either monitoring or remediation may inadvertently never be assigned. Absent an explicit assignment, individuals may not be motivated to pick up these responsibilities voluntarily. On the other hand, there could be a risk that certain subcomponents are assigned multiple times, leading to unnecessary costs for firms. However, these risks would be mitigated by paragraph .27 of QC 1000, which requires the firm to establish and maintain clear lines of responsibility and supervision—including defining authorities, responsibilities, accountabilities, and supervisory and reporting lines for roles within the firm, up to and including the principal executive officer(s) or equivalent—within the QC system. These risks would also be mitigated through the governance and leadership component of the QC system.[393]

The amended requirements could also require greater coordination and communication between individuals with responsibility over related subcomponents (e.g., monitoring and remediation) and between these individuals and the individual(s) with ultimate responsibility. If information is not shared effectively, individuals may be forced to make decisions with incomplete information. However, this risk would be mitigated by the firm's implementation of quality responses that reduce to an appropriately low level the risk that the quality objectives related to information and communication will not be achieved.[394]

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[393] *See*, *e.g.*, QC 1000.25e and .25f.

[394] *See*, *e.g.*, QC 1000.53a.

If responsibility is assigned to an individual external to the firm, this external individual's incentives may not be aligned with the firm's incentives. For example, while firms may be able to align external individuals' incentives with the success of the firm's QC system to some extent through incentive contracting, such external individuals may remain more attentive to the reputation and commercial success of their home firms than to their QC responsibilities to another firm. One commenter said that individuals outside the firm may have conflicting interests, and because these responsibilities are not their full-time job, they cannot provide the day-to-day ownership the roles require.[395] An external individual may also be less familiar with the firm and, as an "other participant" for purposes of QC 1000, would not be subject to the firm's QC system in the same way as "firm personnel." These factors could reduce the effectiveness of the QC system. However, this risk would be mitigated by the requirement that the individual(s) assigned roles and responsibilities with respect to the QC system understand and be accountable for their roles and responsibilities.[396]

A commenter said that investors would not be opposed to an amendment to enable a limited degree of scaling the roles and responsibilities requirements to address cost considerations for small and large firms, but would be concerned about any dilution of requirements due to costs alone that impact audit quality.[397] Another commenter acknowledged that some may question whether the flexibility provided by the amendments could dilute accountability or weaken the clarity of responsibilities within a

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395 *See* comment letter from CFA.

396 *See* amendment to paragraph .12 of QC 1000.

397 *See* comment letter from ICGN.

firm's QC system.[398] This commenter asserted that QC 1000 will continue to require that roles and responsibilities be clearly defined and understood and require firms to be accountable for allocating responsibilities in a way that supports effective oversight and execution, even where responsibilities are divided.[399] The Board believes these potential negative consequences would be mitigated by other QC 1000 provisions.[400]

3. EXTERNAL QC FUNCTION

The amendments rescind paragraph .28 of QC 1000, which requires firms that issued audit reports for more than 100 issuers in the prior calendar year to incorporate into their governance structure an EQCF. In evaluating the economic impacts of rescinding the EQCF requirement, the Board considered the potential benefits of eliminating implementation and ongoing compliance costs and complexity, as well as the potential costs of foregoing an additional perspective on significant judgments made and the related conclusions reached by the firm when evaluating and reporting on the effectiveness of its QC system. As discussed below, limited data and information are available to quantify these benefits and costs. However, where reasonable and feasible, this discussion considers relevant indirect evidence, including commenter input, implementation experience, and academic research, to inform the Board's assessment of the potential impacts of rescission.

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398 *See* comment letter from KPMG.

399 *See id*.

400 *See*, *e.g.*, QC 1000.25e, .25f, .27, and .53a. *See also* the amendment to paragraph .12 of QC 1000, which will require that the individual(s) assigned roles and responsibilities with respect to the QC system understand and be accountable for those responsibilities and have the experience, competence, authority, and time needed to carry them out.

The Board estimates that the EQCF requirement would apply to 13 firms based on the threshold of more than 100 issuer audit reports during the 2025 calendar year.[401] Those firms collectively audited 8,085 issuers, representing approximately 70% of all issuer audits and approximately 82.3% of aggregate issuer market capitalization.[402]

Potential Benefits

Rescinding paragraph .28 of QC 1000 will eliminate the costs to firms of identifying, hiring, retaining, and compensating suitable individuals for the EQCF role, including the specific costs highlighted by commenters. Firms could redirect the funds and resources that otherwise would have been devoted to implementing the EQCF requirement to other activities, including activities that may support audit quality.

One commenter said that some of the costs in establishing the EQCF have likely already been incurred.[403] The Board agrees that any cost savings could be attenuated to the extent that firms have already incurred costs to identify and contract with individuals to perform the EQCF role.[404]

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401 These 13 firms are Baker Tilly US, LLP; BDO USA, P.C.; CBIZ CPAs P.C.; Cohen & Company, Ltd.; Crowe LLP; Deloitte & Touche LLP; Ernst & Young LLP; Forvis Mazars, LLP; Grant Thornton LLP; KPMG LLP; PricewaterhouseCoopers LLP; RSM US LLP; and WithumSmith+Brown, PC. The number of firms that issued audit reports for more than 100 issuers during the 2025 calendar year differs from the figures in Table 1 because of different data sources and measurement periods. *See* footnote 319 for details.

402 The issuer count includes issuers for which the firm signed an audit report within the 12 months ending December 31, 2025, excluding broker-dealers and benefit plans. It includes companies that filed an annual report or registration statement with the SEC but excludes the following filing types: “S-B,” “DRS,” “18-K,” “DOS,” “ANNLPRT,” “SUPPL,” “1-A,” “1-K,” “1-U,” “253G2,” “C,” “ARS,” “C-AR,” “CB/A,” and “U-1.” Issuer market capitalization is determined by Standard and Poor’s. Issuer market capitalization is assigned to the firm that issued the most recent opinion as of December 31, 2025, based on data from Audit Analytics.

403 *See* comment letter from CFA.

404 During implementation support efforts, the Board learned that some firms had initiated recruitment for the EQCF role and that at least one firm had entered into a contractual arrangement with an individual to perform the EQCF role.

As discussed above, commenters have stated that implementing the EQCF has proven more difficult and more costly than originally anticipated. Some commenters identified significant implementation challenges and costs associated with identifying, recruiting, and onboarding individuals with the necessary expertise, independence, and availability to serve in the role.[405] One commenter confirmed some of its member firms found it challenging to identify candidates willing and able to perform the EQCF function.[406] Another commenter noted that firms have experienced challenges identifying appropriate individuals that meet what this commenter characterized as "overly prescriptive guidelines" for the EQCF requirement.[407] The commenter also identified practical constraints that could make suitable candidates difficult to identify, including the need for sufficient experience and competence and compliance with applicable independence requirements.[408] Another commenter said that their firm experienced practical challenges with the "ambiguity" of the EQCF requirement, particularly in defining the appropriate scope of activities and distinguishing advisory oversight from operational involvement.[409]

The Board is not aware of evidence that bears directly on the magnitude of the cost to firms that are required to incorporate an EQCF in their QC systems. In the QC 1000 2024 adopting release, the Board used the average compensation per non-employee

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405 *See* comment letters from CAQ, Deloitte, GT, KPMG, PICPA, Plante & Moran, and RSM.

406 *See* comment letter from CAQ.

407 *See* comment letter from PICPA.

408 See id.

409 *See* comment letter from CBIZ.

director at S&P 500 public companies in 2023 as a potential benchmark to inform some of the costs to retain appropriate individuals from outside the firm to serve in an EQCF role.[410] The Board also used the range and average of total remuneration for individual independent non-executives ("INEs") under the United Kingdom's ("U.K.") audit firm governance rules[411] in 2023 as another potential benchmark for the potential costs of the EQCF.[412]

In the supplemental request for comment, the Board used the same potential benchmarks with more recent data to inform the potential cost savings that could result from rescinding the EQCF requirement. First, the Board reported recent compensation for INEs disclosed by PCAOB-registered firms based in the U.K.: the total annual remuneration per INE ranges from $25,935 to $387,288 with an average of $141,691; the total annual remuneration is on average $180,850 for Big 4 firms[413] and $110,364 for other firms that must comply with the EQCF requirement.[414] Second, the Board used the

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410 *See* PCAOB Rel. No. 2024-005, at 356 n.499.

411 *See* U.K. Financial Reporting Council (FRC) Audit Firm Governance Code (Apr. 2022), *available at* https://www.frc.org.uk/library/standards-codes-policy/audit-assurance-and-ethics/audit-firm-governance-code/.

412 *See* Board Letter, at 20.

413 Big 4 firms are member firms of the following global networks: Deloitte Touche Tohmatsu Ltd., Ernst & Young Global Ltd., KPMG International Cooperative, and PricewaterhouseCoopers International Ltd.

414 The INE analysis reported in the supplemental request for comment expanded the sample and used more recent data than the analysis reported in the Board Letter. The analysis was based on the nine firms that the FRC lists as being subject to the Audit Firm Governance Code and that are registered with the PCAOB. Staff obtained the INE remuneration information from each firm's most recent transparency report (covering fiscal year 2024 or 2025) as of the date of the analysis. All dollar amounts are nominal. *See* PCAOB Rel. No. 2026-002, at 70-71.

average compensation per non-employee board director at S&P 500 public companies, which was $336,352 in 2025.[415]

Two commenters asserted potential flaws in the PCAOB's analysis of the potential benefits associated with rescinding the EQCF requirement in QC 1000.[416] Specifically, these commenters stated that using either the compensation of a non-employee director at S&P 500 public companies or the remuneration for INEs under the U.K.'s audit firm governance rules as benchmarks overstates the potential costs of the EQCF requirement.[417] Another commenter said that a non-executive director of a S&P 500 public company has a very different role than an external quality review professional; however, this commenter agreed that a U.K. INE who would serve on a firm's board is a good model for considering the potential costs of the EQCF requirement.[418] Another commenter said that the supplemental request for comment provided no evidence with direct relevance to the cost savings from rescission and relied only on "a proxy-based cost case."[419]

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415 *See* 2025 U.S. Spencer Stuart Board Index (2025), at 21, *available at* https://www.spencerstuart.com/-/media/2025/10/ssbi2025/2025-us-board-index.pdf (analyzing 488 DEF-14A proxy statements filed by S&P 500 companies with the SEC from May 1, 2024, through April 30, 2025). Total average compensation per non-employee director includes "all board and committee retainers and meeting fees, supplemental lead/presiding director fees, the value of equity compensation and all other compensation paid in fiscal year 2024 to non-employee directors who served for the full year."

416 *See* comment letters from CII and MIAG. The commenters also raised concerns about the Board's analysis of the potential costs of rescinding the EQCF requirement, which is addressed later in this section.

417 See id.

418 *See* comment letter from ICGN.

419 *See* comment letter from CFA.

While the total cost of the EQCF role could differ substantially from these benchmarks, the Board continues to believe that they provide illustrative reference points for considering the potential costs associated with retaining qualified individuals to perform the role. In the supplemental request for comment, the Board acknowledged the limitations of using the compensation of non-employee directors at S&P 500 public companies or the remuneration for INEs under the U.K.'s audit firm governance rules as benchmarks for estimating the potential cost savings from rescinding the EQCF requirement, including differences in the responsibilities of an oversight function and those of a non-employee director function, as well as differences in their litigation risk profiles.[420] These differences limit the extent to which either benchmark can be used to estimate the actual costs of the EQCF role. The Board has not identified new data or research, or received new information through comments, that would allow the Board to quantify those costs more reliably.

In addition, the compensation cost for the EQCF role may be affected by factors such as qualification requirements, liability concerns, and the availability of candidates willing to serve. Through implementation support efforts, the Board learned that some firms experienced challenges in identifying individuals willing to take on the role, and one commenter cited liability concerns as a contributing factor.[421] It appears that these concerns may be limiting the effective supply of willing individuals and would require firms to offer compensation sufficient to attract them.

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420 *See* PCAOB Rel. No. 2026-002, at 70-71.

421 *See* PCAOB Rel. No. 2026-002, at 69, and comment letter from CAQ.

Furthermore, the EQCF requirement sets no ceiling on the level of involvement that the EQCF may undertake in performing its mandated role, which could increase the total cost of the role. Paragraph .28 of QC 1000 requires the EQCF to serve as "an external oversight function for the QC system" and, at a minimum, to evaluate the significant judgments made and the related conclusions reached by the firm when evaluating and reporting on the effectiveness of its QC system. This minimum responsibility is a focused, analytical task that could, depending on how a firm chooses to implement the requirement, involve substantial engagement with a complex QC system. Given the complexity of the QC systems at annually inspected firms, a firm may choose to have the EQCF devote substantial time and effort to understanding its QC system or have multiple individuals perform the role.[422] Indeed, through implementation support efforts, the Board learned that some firms were considering assigning multiple individuals to serve in an EQCF role. Therefore, depending on how firms choose to implement the EQCF requirement, the total cost of the role could vary substantially.

One commenter asked the Board to compute and publish, for each of the largest firms, the cost of the EQCF per audit performed, as such information would allow investors to weigh the claimed burden against the value of "independent oversight."[423]

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422 Paragraph .28 of QC 1000 provides that the EQCF is composed of "one or more persons." In addition, some firms may voluntarily choose to assign the EQCF additional responsibilities beyond the specified minimum as part of its broader external oversight function for the QC system. As described in the QC 1000 2024 adopting release, firms would have flexibility in establishing other responsibilities of the EQCF beyond the minimum responsibilities specified in paragraph .28. *See* PCAOB Rel. No. 2024-005, at 122. The Board Letter further clarified that the firm would have wide latitude to decide how best to design its EQCF, including how many people should comprise the EQCF, and whether to assign additional responsibilities to the EQCF, among other things. *See* Board Letter, at 8.

423 *See* comment letter from CFA.

The commenter also stated that the cost savings from rescission, when spread across thousands of audits, would not meaningfully reduce audit fees.[424] While such estimates could inform consideration of the potential impacts of rescinding the EQCF requirement, the Board has limited information to reliably estimate each large firm's actual EQCF costs. As discussed above, these costs could vary substantially depending on how each firm chooses to implement the requirement. Although the Board cannot estimate the EQCF cost per audit for each firm, the Board acknowledges that the incremental costs may not impose a large per-audit burden on the largest firms, given the number of issuers and broker-dealers they audit and the associated audit revenue. The Board also agrees that the extent to which the corresponding cost savings from rescission would affect audit fees is unclear. Even so, the incremental costs should be evaluated together with the incremental benefits that the EQCF might provide. As discussed below, the magnitude of those benefits is uncertain and may be limited, particularly with respect to the EQCF's ability to provide effective "independent oversight."

One commenter said that a minority of its members opposed rescinding the EQCF requirement, noting that the largest firms have voluntarily established functions that could be upgraded to satisfy the EQCF requirement.[425] Similarly, another commenter stated that many of the firms subject to the EQCF requirement already use external advisors and that the incremental burden of establishing the mandated function may be

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424 See id.

425 *See* comment letter from AAA (pointing to the "Assurance Quality Advisory Committee" at PwC, the "Independent Audit Quality Committee" at EY, the "Independent Audit Quality Advisory Committee" at KPMG, and the "Audit Quality Advisory Council" at Deloitte).

less substantial than the proposal implied.[426] The functions the commenters identified are external advisory bodies whose current responsibilities differ from those of the EQCF, and their members would not necessarily satisfy the roles and responsibilities described in the EQCF requirement unless the external advisory bodies are modified and these members are willing to assume these new roles and responsibilities. The Board also observed that one commenter acknowledged that its existing external advisory council structure does not satisfy the EQCF requirement.[427] Another commenter said that identification and onboarding of the EQCF role would be a significant undertaking because, among other things, it has many existing governance and advisory structures in place.[428] Another commenter opined that the EQCF responsibilities described in QC 1000 extend well beyond the responsibilities of the structures currently in place at the largest six firms.[429] These comments are consistent with the observations in the QC 1000 2024 adopting release and the supplemental request for comment that firms with an existing external advisory function would still incur incremental costs to incorporate the EQCF requirement, including the costs of hiring new individuals, providing liability insurance, or committing additional time and resources.[430] On the other hand, as discussed below, the EQCF could provide incremental benefits by bringing a fresh perspective to the

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426 *See* comment letter from CFA.

427 *See* comment letter from Deloitte.

428 *See* comment letter from EY.

429 *See* comment letter from PwC.

430 *See* PCAOB Rel. No. 2024-005, at 356; PCAOB Rel. No. 2026-002, at 21.

firm's evaluation of its QC system. That benefit may be smaller at firms that already obtain external perspectives through existing advisory structures.

Potential Costs

The potential costs of rescinding the EQCF requirement are the foregone benefits that the EQCF might provide if the requirement were to take effect and operate as intended. The Board believes the main value of the EQCF requirement would be the introduction of an external second look at the firm's significant judgments made and related conclusions reached when evaluating and reporting on the effectiveness of its QC system. An individual from outside the firm could bring an additional perspective that may help identify issues or risks the firm may have missed when evaluating and reporting on the effectiveness of its QC system. By providing an external evaluation of significant QC judgments, the EQCF could help improve the firm's QC system and thereby benefit investors.

The magnitude of such benefits, however, is uncertain and difficult to quantify. Paragraph .28 of QC 1000 provides firms with flexibility regarding implementation and does not prescribe detailed procedures beyond the EQCF's core responsibility to evaluate significant judgments and related conclusions concerning the effectiveness of the firm's QC system. The implementation support efforts indicated that firms were considering a range of approaches to complying with the requirement; as a result, any resulting benefits would likely have varied across firms. The Board does not expect rescission to result in significant negative impacts on audit quality, particularly taking into account existing governance structures, monitoring, PCAOB oversight, and other QC 1000 requirements that will remain in place.

Most commenters supported the rescission of the EQCF requirement.[431] Some commenters said that removing the EQCF requirement would not diminish the focus on audit quality because QC 1000 advances the objectives of strengthening trust in governance, reinforcing accountability, and supporting a commitment to quality through other provisions in the standard.[432] Other commenters observed that existing governance structures, leadership accountability, monitoring activities, and PCAOB inspections already provide meaningful oversight.[433] Some commenters also said that rescission would allow firms to leverage existing external governance structures or develop other mechanisms tailored to their circumstances to support audit quality.[434] For example, based on information obtained through recent PCAOB oversight activities, 9 of the 13 firms that would likely have been subject to the EQCF requirement already have an independent individual serving in an advisory role for the firm.[435]

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431 *See* comment letters from AAA (majority of AAA committee members), Baker Tilly, BDO, CAQ, CBIZ, Crowe, Deloitte, EY, Forvis, GT, KPMG, PICPA, Plante & Moran, PwC, RSM, and VSCPA.

432 *See* comment letters from BDO, CBIZ, Crowe, KPMG, and PwC.

433 *See* comment letters from CAQ, EY, PICPA, and VSCPA.

434 *See* comment letters from BDO, CBIZ, Deloitte, EY, GT, KPMG, Plante & Moran, PwC, RSM, and VSCPA.

435 One commenter, while supporting the rescission of the EQCF requirement, questioned the relevance of academic research cited in the QC 1000 2024 adopting release and the supplemental request for comment concerning the impacts of board member independence in public company governance. *See* comment letter from PICPA; PCAOB Rel. No. 2024-005, at 347; PCAOB Rel. No. 2026-002, at 71. The Board agrees that this research addresses a governance setting that differs in important respects from the operating environment of audit firms. This distinction, however, does not by itself resolve questions regarding the potential benefits of the EQCF.

Some commenters opposed rescission of the EQCF requirement.[436] One commenter said that some form of independent challenge is vital.[437] This commenter said that the PCAOB may have understated the potential benefits of the EQCF requirement by failing to consider the impact of the ongoing trend of private equity investment in accounting firms.[438] Another commenter echoed this point and identified three annually inspected firms that have received some form of private equity investment since 2024.[439] These two commenters asserted that the consideration of the risks that private equity investments present to auditor independence, including the potential trade-offs between audit quality and commercial decisions, increases the benefits of the EQCF requirement.[440] Another commenter said that the EQCF is essential to audit quality and that independent oversight is essential for investor protection, which is even more important given the changes in ownership structures and more complex transactions.[441] Another commenter said that the EQCF is the clearest structural safeguard against the commercial and network pressures and interests that can affect a firm's own judgments

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436 *See* comment letters from AAA (noting that a majority of AAA committee members supported rescission while a minority supported retaining the EQCF requirement for annually inspected firms), CFA, CII, ICGN, and MIAG.

437 *See* comment letter from MIAG.

438 See id.

439 *See* comment letter from CII (identifying BDO USA, P.C., Crowe LLP, and Grant Thornton LLP). Staff are aware of two other annually inspected firms, Baker Tilly US and Cohen & Company, that reportedly have also received some form of private equity investment. *See* Tuan Doan, Steven Utke, Ying Zhou, and Youli Zou, *The Consequences of Private Equity Investment in Accounting Firms*, SSRN Electronic Journal, 59 (2026) (providing a list of private equity investments in accounting firms).

440 *See* comment letters from CII and MIAG.

441 *See* comment letter from ICGN.

about its QC system.[442] This commenter expressed concern that the rescission would remove that safeguard, while evolving ownership structures and continuing commercial pressures heighten the importance of independent oversight.[443] By reference to academic research, one commenter said that alternative practice structures embed pressures that reshape firm priorities, compensation systems, and strategic decision making.[444] One commenter, while expressing the view that the EQCF may be costly and unnecessary, cautioned that rescission of the EQCF requirement would remove a level of assurance regarding firms' internal processes and audit quality.[445]

The QC 1000 2024 adopting release recognized that the EQCF could reduce negative impacts of commercial considerations on decision making by firms, which may occur in some circumstances when the EQCF's perspective causes the firm to reconsider significant QC judgments and related conclusions when evaluating and reporting on the effectiveness of its QC system.[446] The commenters who opposed rescission, however, appear to view this potential benefit as much more certain than was reflected in the 2024 adopting release. In particular, the commenters appear to expect the EQCF's "independent oversight" to serve as a "safeguard" against firms' "commercial decisions"

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442 *See* comment letter from CFA.

443 See id.

444 *See* comment letter from AAA.

445 *See* comment letter from Spitters.

446 *See* PCAOB Rel. No. 2024-005, at 347.

or "commercial and network pressures and interests" that may adversely affect audit quality.[447]

The commenters' expectations should be considered in light of the structure of the EQCF role. Audit firms have an obligation to serve the public interest. This obligation is bolstered by PCAOB oversight and professional obligations, as well as reputational and litigation risks, all of which create strong incentives for firms to fulfill their professional duty to produce high-quality audits. As a result, firms' interests in maintaining high audit quality are often aligned with investor interests. The concerns raised by the commenters, however, relate to circumstances in which those interests may diverge and to the expectation that the EQCF would prioritize investors' interests when such divergence occurs. Although the EQCF requirement is established in QC 1000, the EQCF would remain a private service obtained by the firm. The audit firm would be responsible for selecting, engaging, compensating, retaining, and removing the individual performing an EQCF role.[448] As a private contractor operating in a commercial market in which future business opportunities depend on client relationships, the individual performing an EQCF role would also have his or her own commercial interests, which could create incentives to avoid challenging the judgments of the firm in circumstances where protecting investor interests would require such a challenge. Further, because QC 1000 does not prescribe how individuals serving in the EQCF role should perform the evaluation and because the evaluation necessarily involves subjective and discretionary assessments, the judgments

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447 *See* comment letters from CFA, CII, ICGN, and MIAG.

448 Although QC 1000 does not require such measures, firms may choose to adopt arrangements relating to length of service, such as term limits and protections against removal. *See* PCAOB Rel. No. 2024-005, at 121.

they make in conducting the evaluation may be influenced by their own incentives. The structural features of the EQCF may limit the EQCF's ability to reliably meet commenters' expectations regarding the role.

Taking these considerations together, the Board believes the primary benefit the EQCF could reasonably provide is an additional, external perspective on the firm's significant judgments and conclusions made in connection with its QC system evaluation and reporting. Although this external-perspective benefit is real, its magnitude is uncertain and would depend on firm-specific implementation choices that QC 1000 does not standardize or require. The Board recognizes that rescission will forgo such potential benefits, while retaining the requirement would impose implementation and ongoing compliance costs.

4. INFORMATION AND COMMUNICATION

The amendments narrow and simplify communication requirements relating to metrics that the firm communicates to external parties about audit practice, firm personnel, or engagements.

Potential Benefits

The amendments should reduce costs for firms when disclosing written metrics to external parties on a nonpublic basis. The amendments may also incentivize firms to provide more disclosure of written metrics to external parties on a nonpublic basis because the costs of doing so would be less. One commenter said that paragraph .53e as originally adopted and approved would be impractical and may not meaningfully enhance audit quality.[449] Some commenters noted that the amendments would focus on more

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[449] *See* comment letter from CAQ.

relevant information, reduce the risk of over-collection and duplication, and enhance clarity and accessibility for investors and other users.[450] The Board agrees with these observations about potential benefits.

Potential Costs

The Board expects these amendments would have limited negative impacts. External parties receiving nonpublic written metrics should already understand these metrics and some may be able to request additional information directly from the firm on an as-needed basis. One commenter said that dialogue and follow-ups are readily available to these external parties.[451] The Board agrees with this observation.

5. MONITORING AND REMEDIATION PROCESS

i. Evaluating whether similar engagement deficiencies exist on other engagements

With respect to identified engagement deficiencies, the amendment requires evaluation of whether similar engagement deficiencies exist on other engagements only if the identified engagement deficiency resulted or could result in (1) a failure to obtain sufficient appropriate evidence to support the conclusion reached on an engagement or (2) an inappropriate overall conclusion on the subject matter of an engagement.

Potential Benefits

This amendment will reduce costs for firms to operate their QC systems because they will be required to evaluate whether similar engagement deficiencies exist in fewer cases. Some commenters said the amendment could reduce the complexity, subjectivity,

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450 *See* comment letters from BDO, GT, and KPMG.

451 *See* comment letter from BDO.

and costs associated with evaluating engagement deficiencies across other engagements.[452]

Potential Costs

The Board believes it is unlikely the amendment would have a significant impact on audit quality because the amendment scopes out only engagement deficiencies that are less likely to impact audit quality. Furthermore, firms would still be required to address all types of engagement deficiencies on the engagements on which they have been identified in accordance with subparagraphs a-c of paragraph .68 and evaluate them to determine whether QC deficiencies exist in accordance with paragraph .72. To the extent firms are constrained by limited staff resources, focusing firms' attention on engagement deficiencies that are most likely to impact audit quality may improve audit quality overall.

One commenter suggested that the amendment could improve audit quality as it would allow firms to focus attention on those engagement deficiencies that are most relevant.[453] Another commenter noted the amendment could allow firms to focus their efforts on matters that are likely to have an effect on audit quality.[454] However, one commenter questioned why only items (1) and (2) from footnote 40A to proposed paragraph .68a were included in proposed paragraph .68d while items (3) and (4) (the engagement report is not appropriate in the circumstances and the firm is not independent

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452 *See* comment letters from CAQ, RSM, and Spitters.

453 *See* comment letter from GT.

454 *See* comment letter from Baker Tilly.

of its client, respectively) were not.[455] Another commenter stated that a deficiency that appears immaterial on the engagement where it was first identified can still be a symptom of a firm-wide QC weakness and a narrower trigger reduces the number of opportunities a firm has to find that pattern before it results in an audit failure.[456] The commenter also said the economic analysis offers no data or analysis on which deficiencies would no longer require evaluation of whether similar engagement deficiencies exist on a firm's other engagements.[457] See above for a discussion of the types of deficiencies that would require evaluation under the revised paragraph .68d. The amendment to this paragraph focuses on those engagement deficiencies that most directly affect the sufficiency and appropriateness of evidence obtained on the engagement as well as the ultimate opinion expressed by the firm.

ii. Definition of QC deficiency

The amendments revise the definition of "QC deficiency" to make clear that, when firms have implemented more than one quality response to address the same quality risk, they can take those other quality responses (e.g., compensating responses) into account when determining whether a QC deficiency exists; if the other quality responses were effective in achieving the relevant objective(s), no QC deficiency would exist.

Potential Benefits

By clarifying the scope of the definition, this amendment would reduce regulatory uncertainty about the existence of, and thus the need to remediate, QC deficiencies in

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455 *See* comment letter from Grosvenor.

456 *See* comment letter from CFA.

457 *See id*.

firms' QC systems. One commenter explained that QC systems often include multiple, interrelated quality responses to address the same quality risk and that evaluating one quality response in isolation could overstate the significance of an issue.[458] Another commenter said that this amendment would improve the evaluation of QC observations and help focus monitoring and remediation efforts on issues that have the greatest potential impact on audit quality.[459] The Board agrees with the commenters' assessments of these potential benefits.

Potential Costs

At the same time there would be limited risk to the overall functioning of the QC system because the amendment is only a clarification. One commenter expressed concern that the amendment would give firms or networks additional temptation to identify compensating responses when the linkage is tenuous.[460] Another commenter said that without a documented, inspectable basis for concluding that a "compensating response" actually operated effectively, the amendment risks becoming a way to explain away deficiencies rather than a genuine test of whether investors remain protected.[461] The Board acknowledges these concerns. However, as described above, while firms are permitted to take other quality responses into account when determining whether a QC deficiency exists, they may do so only if the other quality responses are effective in

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458 *See* comment letter from CAQ.

459 *See* comment letter from GT.

460 *See* comment letter from Grosvenor.

461 *See* comment letter from CFA.

achieving the relevant objective(s), that is, they would need to be properly designed, implemented, tested, and found to operate effectively.

6. EVALUATION OF AND REPORTING ON THE QC SYSTEM

i. Evaluation date

The amendments allow firms to select the date as of which they annually evaluate the effectiveness of their QC system, rather than requiring firms to evaluate as of September 30. In the QC 1000 2024 adopting release, the Board noted that a benefit of a fixed September 30 evaluation date is that the PCAOB would have relatively current information available when it selects firms and engagements for inspection.[462] However, the Board also noted that the evaluation requirement would be less costly to firms if they were able to choose the date because, for example, they could choose to use the same evaluation date under QC 1000 and ISQM 1.[463]

Commenters generally supported the proposed amendment to allow firms to select their own annual evaluation date for their QC systems because the prescribed September 30 evaluation date had led to significant challenges.[464] For example, one commenter said that their network firms generally have a fiscal year end of May 31 and anchor their evaluation dates relative to that fiscal year-end for European Union ("EU") transparency reporting purposes.[465] This commenter also said the practical costs of duplicative

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462 *See* PCAOB Rel. No. 2024-005, at 371.

463 *See id.*

464 *See, e.g.*, comment letters from Baker Tilly, BDO, and Deloitte.

465 *See* comment letter from Deloitte.

evaluation dates are significant.[466] One commenter asserted that many firms struggled with operationalizing a mandated September 30 evaluation date given their respective operations and other quality management processes.[467] Another commenter said that it is appropriate to permit firms to select the evaluation date based on their individual facts and circumstances and noted that the fixed September 30 date could be detrimental to audit quality for some firms if it requires the diversion of resources away from other activities.[468]

Potential Benefits

The Board believes that the amendment would effectively address the concerns discussed above, generate cost savings, and enhance QC system evaluations. These cost savings would be particularly significant for the firms that have already implemented ISQM 1 or SQMS 1 and are using an evaluation date under these standards that is different from September 30.[469] Firms that would have performed two separate evaluations (e.g., to address separate evaluation and reporting requirements) can avoid the recurring costs of doing so, while firms that would have chosen to align their existing QC system evaluation to September 30 can avoid the costs of doing so, to the extent they have not already implemented the September 30 evaluation date.

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466 *See id.*

467 *See* comment letter from Baker Tilly.

468 *See* comment letter from AAA.

469 The Board believes most firms are subject to ISQM 1 or SQMS 1. See footnote 383.

Commenters generally agreed the amendment would be beneficial.[470] One commenter said the amendment would reduce costs and support a more integrated evaluation process.[471] Another commenter said the amendment would promote both efficiency and effectiveness.[472] However, one commenter noted that, even with the amendments, firms' initial evaluation periods may not be 12 months and therefore may not align with their ISQM 1 evaluation periods.[473] Another commenter said many firms have already designed and implemented processes and protocols around a September 30 evaluation date and, as a result, for a firm that chooses an earlier date (e.g., May 31), modification of those processes before the initial effective date may present practical challenges, particularly for smaller firms.[474] The Board recognizes that the potential benefits may be offset in part by these challenges. Firms that have already implemented a September 30 evaluation date would be free to avoid costs related to modification of their processes and protocols by retaining the September 30 evaluation date.

To help inform the Board's consideration of the potential magnitude of concerns about a fixed September 30 evaluation date, staff performed an analysis of firms' QC system annual evaluation dates disclosed pursuant to EU transparency rules.[475] Figure 2

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470 *See, e.g.*, comment letters from CAQ, Deloitte, EY, and PICPA.

471 *See* comment letter from Deloitte.

472 *See* comment letter from KPMG.

473 *See* comment letter from BDO.

474 *See* comment letter from Plante & Moran.

475 Regulation (EU) 537/2014, Article 13, requires audit firms that carry out statutory audits of public-interest entities to make public an annual transparency report after the end of each financial year. The transparency report must include, among other information about the audit firm, an indication of when the last quality assurance review was carried out and a statement by the

shows the distribution of firms' existing annual evaluation dates based on their recent transparency reports.[476] Panel A shows the distribution by month while Panel B shows the distribution by month relative to the month of the firm's fiscal year-end. Panel A shows that 79% (19 ÷ 24) of the firms in the sample use evaluation months other than September (86% (6 ÷ 7) of the annually inspected firms in the sample). Panel B shows that 78% (18 ÷ 23) of the firms in the sample set the month of their evaluation date to be the same as the month of their fiscal year-end (43% (3 ÷ 7) of the annually inspected firms in the sample). Allowing these firms to select the evaluation date that aligns with their individual circumstances (e.g., fiscal year-end, other reporting date(s)) would thus appear to confer substantial, widespread benefits.

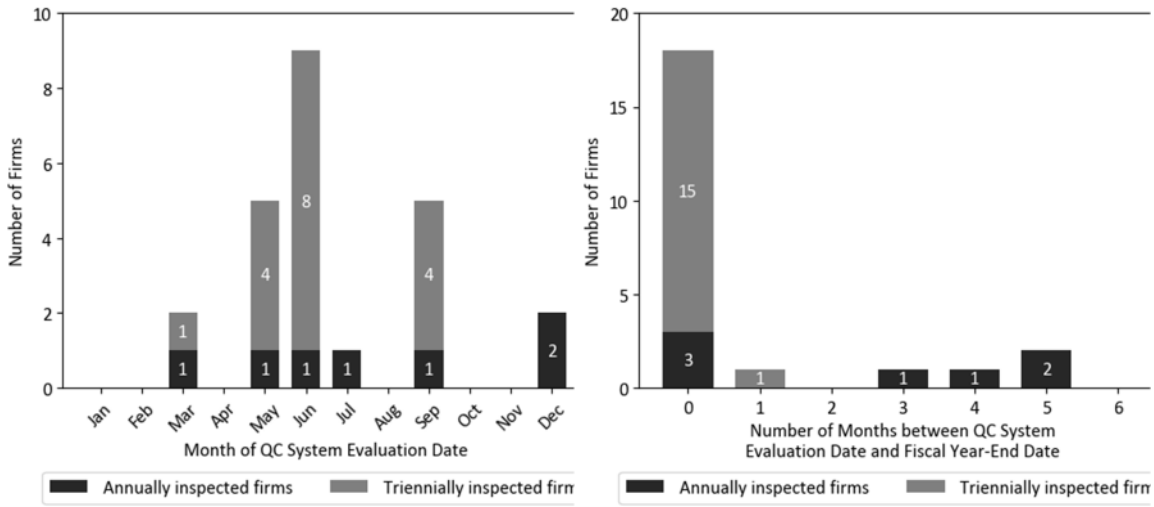
Figure 2. QC System Annual Evaluation Dates

Panel A: Distribution of QC System Evaluation Dates

Panel B: Months between QC System Evaluation Date and Fiscal Year-End Date

administrative or management body on the effectiveness of the functioning of the internal quality control system.

476 Staff searched for transparency reports or audit quality reports for the 100 largest PCAOB-registered firms by issuer count and identified information regarding QC system evaluations from the reports found. Among the 100 firms, 30 firms published an EU transparency report or audit quality report in recent years, including 24 firms that disclosed QC system evaluation dates. Among the 24 firms, staff identified fiscal year-ends for 23 firms from their transparency reports or other official documents published by the firms.



Source: Firm EU transparency reports.

Note: The staff's analysis is based on 24 audit firms that disclosed their QC evaluation dates in their most recent EU transparency reports. Staff could not identify the fiscal year-end for one of these firms and therefore excluded it from Panel B. Registered firms that have issued audit reports for more than 100 issuers during the prior calendar year are subject to annual inspection. Registered firms that have issued audit reports for 100 or fewer issuers during the prior calendar year are required to be inspected at least once every three years. Staff assigned firms as annually or triennially inspected based on their designation as of the time of this analysis.

Potential Costs

The PCAOB could have relatively less current information available when making inspection planning decisions depending on the evaluation dates firms choose. However, the PCAOB may seek to minimize this cost in the future by adjusting its inspection program.

While the Board believes the amendment would generally reduce costs to firms, one commenter said that many firms have already designed and implemented processes, monitoring activities, and documentation protocols around a September 30 evaluation date.[477] Accordingly, to the extent firms choose to switch their evaluation date, such firms may incur additional one-time costs to design and implement processes, monitoring activities, and documentation protocols around a new evaluation date. However, the

[477] *See* comment letter from Plante & Moran.

Board expects firms would only incur these costs if they conclude that the new evaluation date provided long-run efficiencies that justified the initial adjustment costs.

ii. Evaluation conclusions

The amendments revise the QC system evaluation conclusions to align more closely with the conclusions in other quality management standards, while retaining a structured process, including specified factors for consideration, to guide the evaluation.

Several commenters highlighted challenges with the evaluation conclusions as originally adopted.[478] For example, one commenter said that differences in conclusion types and definitions between QC 1000 and other quality management standards create challenges whereby different conclusions could be reached under the same set of circumstances.[479] Another commenter said the amendments would appropriately address concerns raised regarding the downstream ramifications of communicating these conclusions to other participants as well as transparency reporting inconsistencies.[480]

Potential Benefits

The amendments to evaluation conclusions would reduce potential confusion by reducing (but not eliminating) the likelihood that firms reach different conclusions about the effectiveness of their QC system under different QC standards.[481] Even if QC 1000 and ISQM 1 were identical in all respects, differences in firm QC systems would remain, including due to variations in applicable professional and legal requirements, the

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478 See above, for additional discussion of comments on the amendments to the evaluation conclusions.

479 *See* comment letter from Deloitte.

480 *See* comment letter from EY.

481 The Board believes most firms are subject to ISQM 1 or SQMS 1. *See* footnote 383.

populations of engagements subject to the QC systems, and the individuals performing such engagements or performing activities within the QC system. As to the QC system evaluation conclusions in particular, conclusions may also differ based on QC 1000's more precisely defined and potentially broader concept of an unremediated QC deficiency (i.e., one for which remedial actions that completely address the QC deficiency have not been fully implemented, tested, and found effective). One commenter agreed that the amendments would address the risk that the disclosure of a firm's evaluation conclusion under other quality management standards and voluntary disclosure of its assessment under QC 1000 could be confusing to stakeholders to the extent the conclusions differed under the same set of circumstances.[482] Another commenter said the amendments provide more meaningful information to stakeholders regarding the effectiveness of a firm's QC system.[483] Another commenter said that it would be uncommon for firms to come to different conclusions under QC 1000 and ISQM 1 under the amendments.[484]

The amendments may also reduce the cost of a QC system evaluation as firms may be able to draw on, to some extent, the evaluation process they perform under ISQM 1 or SQMS 1 (e.g., when assessing the severity and pervasiveness of unremediated QC deficiencies) or perform both evaluations concurrently. One commenter said that removing the concept of a "major QC deficiency" would reduce unnecessary complexity and better align the evaluation conclusions with the reasonable assurance objective of the

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482 *See* comment letter from Deloitte.

483 *See* comment letter from BDO.

484 *See* comment letter from EY.

QC system.[485] Similarly, other commenters expressed support for the removal of the "major QC deficiency" concept and believe doing so simplifies the evaluation framework and improves alignment with other quality management standards.[486]

Potential Costs

The amendments would likely broaden the conditions under which firms would be able to reach favorable conclusions about the effectiveness of their QC system. For example, firms could report that the system was effective, without an "except for" qualification, when there were unremediated QC deficiencies that, individually or in combination, are not severe. Under QC 1000 as originally adopted and approved, this reporting would have been permitted only if there were no unremediated QC deficiencies at all. The presumptions regarding the existence of a major QC deficiency would also be eliminated, affording firms greater latitude when determining whether the QC system failed to achieve the reasonable assurance objective. In either of these cases, firms may have less incentive to remediate QC deficiencies because doing so would not impact the overall conclusion they report to the PCAOB.

However, the Board acknowledges that firms would still have significant incentives to remediate QC deficiencies for reasons independent of these amendments. For example, firms would still need to consider a variety of factors when assessing the severity of unremediated QC deficiencies, including the persistence of those QC deficiencies. In addition, allowing QC deficiencies to remain unremediated may lead to pervasive or severe QC deficiencies in the future. Firms would also have an incentive to

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485 *See* comment letter from CAQ.

486 *See* comment letters from BDO, GT, KPMG, PICPA, RSM, and Spitters.

remediate QC deficiencies because unremediated QC deficiencies would be disclosed to the PCAOB on Form QC. Furthermore, to the extent QC deficiencies are determined to be Part II deficiencies, firms would have an incentive to remediate them.[487]

7. DOCUMENTATION

The amendments simplify the requirement for retention of QC system documentation and abbreviate the documentation retention period from seven to five years.

Potential Benefits

The amendment to simplify the documentation retention requirement will reduce costs to firms to design, implement, and operate their QC systems. For example, costs associated with developing IT systems and gathering, transferring, and retaining data should be reduced. One commenter said that the amendments would reduce operational complexity, administrative burden, and compliance costs.[488] Another commenter said that the amendments would reduce the need for firms to build and maintain centralized archives solely for retention purposes.[489]

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487 The Board includes deficiencies in Part II of an inspection report if an analysis of the inspection results, including the results of the reviews of individual audits, indicates that the firm's QC system does not provide reasonable assurance that firm personnel will comply with applicable professional standards and requirements. Generally, the report's description of quality control criticisms is based on observations from the Board's inspection procedures. As required under section 104(g)(2) of Sarbanes-Oxley, any criticisms of or potential defects in the QC system of the firm identified through a PCAOB inspection are not included in the public portion of the relevant inspection report when first issued. If a firm does not address to the Board's satisfaction criticisms of, and potential defects in, the firm's QC system within 12 months after the issuance of the PCAOB inspection report, Part II of the report will be issued publicly to include such deficiencies. Outcome-based management of the remediation and evaluation processes in a way that is not compliant with QC 1000 could itself form the basis for a Part II finding, which should provide another constraint on the extent to which judgment can be used to avoid reaching a negative conclusion.

488 *See* comment letter from BDO.

489 *See* comment letter from KPMG.

The amendment to the documentation retention period will also reduce the costs for firms to design, implement, and operate their QC systems. Many commenters who commented on the supplemental request for comment supported this amendment.[490] For example, one commenter said the reduction of the document retention period to five years helps alleviate a portion of the cost burden.[491] Another commenter agreed that this amendment would reduce compliance costs for all firms.[492] The commenter also said that the extent of cost savings would vary by firm size, structure, existing quality management framework, PCAOB engagement profile, and progress toward implementation.[493] The Board agrees that the extent of cost savings will likely vary based on these characteristics.

Potential Costs

As the amendment to simplify the documentation retention requirement is intended to address specific potential unintended negative consequences, the Board does not expect it would negatively impact the overall effectiveness of firms' QC systems or the Board's ability to carry out its oversight. For example, the Board believes permitting firms to maintain documentation of their QC system in the documentation's original system of record should not have any impact on the overall effectiveness of their QC systems.

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490 *See* Amendments to QC 1000, PCAOB Rule 2203A, and PCAOB Form QC, Documentation, above, for additional discussion of comments related to the proposed amendments to the documentation requirements.

491 *See* comment letter from Deloitte.

492 *See* comment letter from CAQ.

493 *See id*.

The amendment to shorten the retention period would reduce the length of time information is available to firms and to the PCAOB. This could negatively affect firms' ability to analyze the performance of their QC system over time. However, the salience of QC system documentation likely decreases with time and shortening the period by two years should not have a significant negative impact on firms' ability to monitor their QC systems or impair PCAOB oversight.

8. DIFFERENTIAL IMPACTS FOR FIRMS OF DIFFERENT SIZES

The impact of the amendments on an individual firm will depend on the firm's unique facts and circumstances, including the size of the firm's issuer and broker-dealer assurance practice (e.g., the number of engagements and the amount of auditing required for those engagements, which may vary based on the size or complexity of those engagements). In the QC 1000 2024 adopting release, the Board noted that the direct costs of QC 1000 would likely depend on the size of the firm and the nature of the firm's audit practice.[494] The Board noted that firms with larger PCAOB audit practices that already have extensive QC systems in place may benefit from economies of scale or scope when incorporating the new requirements into their existing systems, which would decrease the cost of QC 1000 per engagement.[495] The Board further noted that firms with larger PCAOB audit practices would be able to distribute fixed implementation costs over a larger number of engagements, while firms with smaller practices would distribute fixed implementation costs over a smaller number of engagements.[496] The Board also

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494 *See* PCAOB Rel. No. 2024-005, at 354.

495 *See id.* at 354.

496 *See id.* at 354.

noted that, to the extent that QC 1000 improves compliance with applicable professional and legal requirements, the improvement might be greater with respect to broker-dealer engagements and issuer audits performed by firms other than U.S. GNFs because auditing deficiencies appeared to be more prevalent for these firms.[497] The Board also noted that, under QC 1000, larger firms were subject to additional requirements meaningfully different from ISQM 1 or SQMS 1, which would increase the overall cost of QC 1000 to these firms.[498]

The amendment to rescind the EQCF requirement would result in cost savings only for firms with larger PCAOB audit practices because the EQCF requirement applies solely to those firms that issued audit reports for more than 100 issuers in the prior calendar year. By contrast, the rescission of the QC system design requirement would result in cost savings only for design-only firms. These firms, by definition, do not serve as lead auditors and do not play a substantial role in PCAOB engagements, although some may participate in a more limited capacity. Accordingly, the two amendments affect different segments of the registered-firm population: the rescission of the EQCF requirement will reduce costs for a relatively small number of firms that audit a substantial portion of the issuer and broker-dealer audit market, while the rescission of the design-only requirement will reduce costs to a much larger population of firms with limited participation in the issuer and broker-dealer audit market.[499]

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497 *See id.* at 341.

498 *See id.* at 355-360.

499 In addition to having smaller PCAOB audit practices, design-only firms tend to have fewer accountants. Based on analysis of firms' most recent Form 2 filings and using the design-only and full-implementation firms identified above in Table 1, staff analysis finds that design-only firms

Other amendments would apply to all firms required to design, implement, and operate a QC 1000-compliant system. For example, the amendments would allow multiple individuals and non-firm personnel to serve in certain QC system governance roles, allow firms to choose their own QC system evaluation date, and narrow the scope of deficiencies for which firms would be required to evaluate whether similar engagement deficiencies exist on other engagements. These amendments would reduce the costs of designing, implementing, and operating a QC system in compliance with QC 1000 for all firms. However, the magnitude of these effects may differ between larger and smaller firms. For example, smaller firms may be more likely to share resources with other firms. The ability to use non-firm personnel to serve in certain QC system governance roles may therefore be more beneficial to these firms.

Some of these cost savings would largely be fixed in nature and would not scale with the firm's size (i.e., the number of engagements or the amount of auditing required for those engagements). For example, the flexibility to choose any QC system evaluation date is largely independent of the number of engagements a firm has. Because smaller firms have fewer engagements to distribute QC system cost savings across, these cost savings could have a more significant impact on smaller firms' profitability and competitiveness. On the other hand, some of the cost savings associated with the amendments would scale with the firm's size and therefore should benefit both smaller firms and larger firms proportionately. For example, the amendment to narrow the scope of deficiencies for which firms would be required to evaluate whether similar

have a median (mean) of 30 (125) accountants compared to 123 (783) for full-implementation firms.

engagement deficiencies exist on other engagements would provide greater cost savings to larger firms in absolute dollars, but because the cost savings would be proportional to the size of the issuer and broker-dealer audit practice, the impact is not expected to be disproportionate.

Some commenters provided perspectives on potential differential impacts for smaller firms.[500] One commenter said that a firm with a limited pool of PCAOB audit engagements and limited resources would likely find it more challenging than larger firms to have to parse its monitoring and remediation activities for the nuanced distinctions made in paragraph .77(b).[501] The same commenter suggested that the amendments to paragraphs .12 and .15-.17 would be especially helpful to triennial firms.[502] Similarly, a commenter said the amendments to paragraphs .12 and .15-.17 provide flexibility to smaller firms that may rely on other participants to obtain specialized skills, expertise, and objectivity.[503] Another commenter said that smaller firms and firms with limited PCAOB engagements may experience proportionately greater benefits from rescission of the design-only requirement and added flexibility in assigning roles.[504] The commenter also said larger firms may benefit from the removal of

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500 *See, e.g.*, comment letters from BDO, CAQ, and Kramer.

501 *See* comment letter from Kramer. Paragraph .77(b) will require firms to conclude whether its QC system is effective in achieving the reasonable assurance objective except for unremediated QC deficiencies that have a severe but not pervasive effect on the design, implementation, and operation of the QC system (and do not render the QC system not effective). In evaluating the severity and pervasiveness of unremediated QC deficiencies, paragraph .78 provides eight factors that the firm should consider.

502 *See* comment letter from Kramer.

503 *See* comment letter from BDO.

504 *See* comment letter from CAQ. Firms with limited (or "any") PCAOB engagements would be subject to QC 1000 in accordance with paragraph .06.

prescriptive requirements that are difficult to operationalize at scale, such as the EQCF requirement, and from clarifications that reduce duplicative or low-value compliance activities.[505]

One commenter noted that the amendments collectively would improve the operability of QC 1000, which is particularly important for firms outside the six largest global networks.[506] Another commenter said that the amendments would have a beneficial impact on smaller firms.[507] The same commenter also explained that the vast majority of smaller firms operate with less complex organizational and governance structures, narrow service offerings and industry concentrations, and fewer personnel dedicated exclusively to quality control, monitoring, and remediation activities.[508] Another commenter said that smaller firms will proportionally have integrated QC 1000 for much less economic and monetary costs than larger firms with a good-size subset of their operations devoted to compliance with QC 1000.[509] The Board agrees that, as discussed above, some of the amendments could disproportionately benefit smaller firms.

ALTERNATIVES CONSIDERED

During the development of the amendments, the Board considered a number of alternative approaches to address the need described above, including those suggested by commenters. This section explains reasonable alternatives related to an earlier design

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505 *See* comment letter from CAQ.

506 *See* comment letter from Forvis.

507 *See* comment letter from PICPA.

508 *See id*.

509 *See* comment letter from Spitters.

requirement trigger, the EQCF requirement, the QC system evaluation framework, and the documentation requirements.

1. EARLIER DESIGN REQUIREMENT TRIGGER

In the supplemental request for comment, the Board considered whether the obligations to design a QC system should be triggered earlier than when a firm becomes subject to applicable professional and legal requirements with respect to an engagement. Commenters responding to possible earlier QC-system design requirement triggers generally did not support this alternative.[510] However, one commenter requested that the Board specify an earlier trigger—for example, when a firm bids for or is appointed to issuer or broker-dealer work—by which time a compliant QC system must be designed and operating, well in advance of the firm commencing that work.[511]

If an earlier trigger for the design requirement were adopted, registered firms that are not subject to any applicable professional and legal requirements would incur costs to monitor relevant facts and circumstances to determine whether the triggering event has occurred. If the triggering event were to occur, these firms would then incur costs to design their QC systems.[512] To avoid incurring these costs, some of these firms may choose to withdraw from registration, depriving these firms of the benefit of greater participation in the issuer and broker-dealer audit market (e.g., in cases where lead auditors prefer to use registered firms for less-than-substantial-role work) and reducing

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510 *See* comment letters from AAA, BDO, CAQ, GT, KPMG, and Kramer.

511 *See* comment letter from CFA.

512 These impacts may apply as well to firms that register in the future. However, this impact may depend in part on the PCAOB registration process when these firms register. *See* above for additional discussion of this issue.

the supply of registered firms. A reduction in the supply of registered firms could in turn lead to a reduction in competition. As discussed above, we have observed that some design-only firms have already withdrawn from registration, citing QC 1000 as a reason. At the same time, since these firms are not subject to applicable professional and legal requirements, their design of a QC system under QC 1000 would not immediately benefit any engagements. To better prepare themselves for performing engagements, some of these firms may voluntarily design a QC 1000-compliant system.

These impacts would be offset to the extent firms have already implemented ISQM 1 or SQMS 1 when the event that requires them to design a QC system under QC 1000 occurs.[513] Furthermore, as a commenter noted, the requirements of QC 1000 related to client acceptance and continuance and AS 2101, *Audit Planning*, currently require a firm to assess its readiness and ability to comply with QC 1000 before undertaking a PCAOB engagement.[514] When a firm becomes subject to applicable professional and legal requirements with respect to an engagement, the firm will become subject to these QC 1000 and AS 2101 requirements, which, if properly implemented, should help firms prepare to perform the engagement. Accordingly, these requirements may offset any potential benefit of an earlier design requirement trigger.

2. EQCF FOR LARGEST FIRMS

The Board considered and solicited feedback on whether 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 would be appropriate. As discussed

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513 *See* above for additional discussion on this point.

514 *See* comment letter from CAQ.

above , commenters responding to the question about the alternative approach generally did not support the 500-issuer threshold. However, one commenter expressed concern with rescinding the EQCF requirement and suggested instead retaining the requirement for firms auditing more than 500 issuers.[515] The commenter asserted that, under this alternative, the defined, independent evaluation of the firm's self-assessment would survive at the five firms where "nearly all U.S. public market capitalization sits."[516] Using 2025 data, the Board confirmed that the alternative 500-issuer EQCF requirement threshold would apply to five firms, which collectively audited 6,962 issuers, representing approximately 60% of all issuer audits and approximately 81.8% of aggregate issuer market capitalization.[517]

If the EQCF requirement were retained and amended using a 500-issuer threshold, the five firms would incur implementation and compliance costs, including costs to identify, hire, retain, and compensate suitable individuals for the EQCF role. As discussed above, while we have limited information to reliably quantify the potential costs of compliance with the requirement, these costs could vary substantially depending on how each firm chooses to implement the requirement. The costs could be particularly high for these largest firms because they tend to have more complex QC systems. The incremental costs may be offset to the extent that these firms could modify their existing

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515 *See* comment letter from CFA.

516 See id.

517 The supplemental request for comment stated that these five firms currently audit companies that make up approximately 98% of U.S. public market capitalization. *See* PCAOB Rel. No. 2026-002, at 22. That figure, however, encompassed the U.S. public market capitalization of companies audited by those firms' non-U.S. affiliates. This analysis reports the issuer count and market capitalization calculated using the same methodology described above. *See* footnote 402 for details.

external advisory structures to satisfy the EQCF requirement. However, as discussed above, the firms would still incur incremental costs, including the costs of providing liability insurance and committing additional time and resources.

Retaining this requirement only for firms above the 500-issuer threshold would be unlikely to provide the independent evaluation the above commenter expected from the EQCF requirement.[518] As discussed above, the structural features of the EQCF may limit its ability to independently evaluate firms' self-assessment, as an individual serving in an EQCF role would still be selected, compensated and retained by the firm, regardless of firm size. Retaining the EQCF requirement for these five firms could nevertheless provide potential benefits by introducing an external second look at the significant judgments made and related conclusions reached by these firms when evaluating and reporting on the effectiveness of their QC systems. However, the benefits of such an external second look may be limited because the five firms already obtain, through existing advisory structures, some of the external perspectives that the EQCF's second-look review might otherwise provide.

3. QC SYSTEM EVALUATION FRAMEWORK

In the supplemental request for comment, the Board considered an alternative evaluation framework under which a firm would be required to reach a binary conclusion (i.e., that its QC system is either effective or not effective in achieving the reasonable assurance objective). Under this approach, the evaluation would not include a separate category for the conclusion that the firm's QC system is effective in achieving the reasonable assurance objective except for unremediated QC deficiencies that have a

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518 *See* comment letter from CFA.

severe but not pervasive effect on the design, implementation, and operation of the QC system. Accordingly, the Board expects in these cases that firms would report that their QC system is effective because the reasonable assurance objective would still be met. One commenter suggested that a binary framework may be appropriate for many triennial firms as it would simplify their evaluations and provide the Board with more useful information.[519] However, many commenters opposed the binary approach for the evaluation framework.[520] These commenters generally argued that a binary conclusion would be less informative.[521] One commenter said that the three-tiered structure conveys meaningfully more information than a binary conclusion would.[522]

This alternative could reduce costs to firms as it would likely simplify to some extent the evaluation process. The Board acknowledges that some triennial firms may experience some challenges applying the evaluation criteria. However, many of these triennial firms should have experience with the three-tiered evaluation framework of ISQM 1 or SQMS 1. Furthermore, under this alternative, the Board believes firms would still need a structure for evaluating identified QC deficiencies and determining whether those deficiencies result in a conclusion that the QC system is not effective. For this reason, this alternative approach may not significantly reduce any potential challenges that may be faced by triennial firms. While unremediated QC deficiencies would still be

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519 *See* comment letter from Kramer.

520 *See* comment letters from AAA, Baker Tilly, BDO, CAQ, CBIZ, GT, ICGN, KPMG, MIAG, PICPA, PwC, and RSM.

521 *See* comment letters from BDO, CAQ, CBIZ, GT, KPMG, and PICPA. See, above for additional discussion of the comments related to this alternative.

522 *See* comment letter from CFA.

reported to the Board under this alternative approach, the Board believes that a binary conclusion would result in less informative reporting to the Board. More specifically, if a firm's QC system is effective in achieving the reasonable assurance objective except for unremediated QC deficiencies that have a severe but not pervasive effect on the design, implementation, and operation of the QC system and do not render the QC system not effective, the firm would not be required to report this conclusion to the Board on Form QC. Furthermore, the binary conclusion framework may incentivize firms with severe but not pervasive unremediated QC deficiencies not to remediate their QC deficiencies since doing so would not change the conclusion they report to the PCAOB.

4. DOCUMENTATION REQUIREMENTS

Several commenters requested that the Board consider a shorter documentation retention period.[523] Some commenters suggested that a shorter documentation retention period would reduce costs.[524] Two commenters noted that a three-year retention period may suffice to accomplish the Board's oversight objectives.[525] Another commenter said that the supplemental request for comment did not provide empirical evidence demonstrating that documentation older than several years is routinely relied upon in inspections or enforcement matters, nor did it explain why a five-year period, rather than a shorter period, is required to protect investors.[526] Two commenters called for an approach that would scale the documentation retention period according to facts and

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523 *See*, *e.g.*, comment letters from Baker Tilly, CAQ, Deloitte, and GT.

524 *See* comment letters from Baker Tilly and Deloitte.

525 *See* comment letters from Baker Tilly and CAQ.

526 *See* comment letter from PICPA.

circumstances.[527] One commenter called for a more flexible approach to the documentation retention period.[528] One commenter said that it could be argued that the documentation retention period should be either (1) no shorter than seven years so that any engagement deficiencies evidenced by the audit documentation could be understood in the context of the QC system policies and procedures at that time or (2) the shortest time possible to meet regulator needs which is likely less than five years.[529] Another commenter said that a five-year retention period could continue to pose significant challenges and unintended costs to firms.[530]

The Board recognizes that a shorter retention period or more flexible documentation requirements could reduce costs. However, the Board believes a five-year documentation period is necessary for PCAOB oversight. For example, enforcement staff may investigate misconduct occurring over several years, and the staff generally reviews relevant QC documentation as part of their investigation. Staff analysis of PCAOB enforcement orders published since 2020 indicates that 45% of the orders explicitly cite PCAOB QC standards.[531]

SPECIAL CONSIDERATIONS FOR AUDITS OF EMERGING GROWTH COMPANIES

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527 *See* comment letters from BDO and Forvis.

528 *See* comment letter from GT.

529 *See* comment letter from Grosvenor.

530 *See* comment letter from Plante & Moran.

531 Staff's analysis uses data from 210 PCAOB settled disciplinary orders published between January 1, 2020, and December 31, 2025. PCAOB enforcement actions are available for download from the Board's website, *available at* https://pcaobus.org/oversight/enforcement/enforcement-actions.

Pursuant to section 104 of the Jumpstart Our Business Startups ("JOBS") Act, any additional rules adopted by the Board subsequent to April 5, 2012, generally do not apply to the audits of EGCs, as defined in section 3(a)(80) of the Exchange Act, unless the SEC "determines that the application of such additional requirements is necessary or appropriate in the public interest, after considering the protection of investors and whether the action will promote efficiency, competition, and capital formation."[532]

To inform consideration of the application of the amendments to audits of EGCs, staff performed an analysis of EGC audits as of November 15, 2024.[533] The data remain generally consistent with the data outlined in the EGC white paper published May 23, 2025, which analyzed data as of November 15, 2023. PCAOB staff identified 2,379 EGCs.[534] Of those 2,379, the 1,252 EGCs with common equity securities listed on a U.S. national securities exchange had a total U.S. market capitalization of $466 billion. These

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532 *See* Pub. L. No. 112-106 (Apr. 5, 2012). Section 103(a)(3)(C) of Sarbanes-Oxley, 15 U.S.C. 7213(a)(3)(C), as added by section 104 of the JOBS Act, also provides that any rules of the Board requiring (1) mandatory audit firm rotation or (2) a supplement to the auditor's report in which the auditor would be required to provide additional information about the audit and the financial statements of the issuer (auditor discussion and analysis) shall not apply to an audit of an EGC. None of the rules and amendments would fall within either of these two categories.

533 The Board is providing this analysis of the impact on EGCs to assist the SEC in considering this issue to the extent necessary. The analysis reported in this section follows the same methodology used in the EGC white paper published May 23, 2025, which is available on the PCAOB's website at https://pcaobus.org/resources/other-research-projects.

534 The methodology for capturing the EGC population covers only companies that self-identified as an EGC by selecting the applicable check box on an Exchange Act annual report or registration statement (Forms 10-K, 20-F, 40-F, 10-12B, 10-12G), or on a Securities Act registration statement (Forms F-1, F-4, S-1, S-4, S-11) filed with the SEC during the 18-month period ending November 15, 2024 (the measurement period). In instances where a company had more than one such filing during the measurement period, the most recent annual report was selected. If no annual report was filed during the measurement period, the most recent registration statement was selected. Staff removed companies whose annual reports or registration statements did not include an audit report signed by a registered firm in the measurement period (e.g., companies whose filings included unaudited financial statements or audit reports signed more than 18 months before the measurement date). Of the 2,379 EGCs the Board identified, 1,820 (1,721) filed an annual report during the 18-month (12-month) period ending November 15, 2025.

EGCs represented approximately 23% of all exchange-listed companies yet just 0.6% of U.S. total market capitalization. Forty-one percent of EGCs reported no revenue or self-identified as shell companies.

Of the 245 PCAOB-registered firms that audited EGCs:

- 203 firms (or 83%) performed audits for both EGC and non-EGC issuers. Approximately 97% of EGCs were audited by these 203 firms.
- 119 firms (or 49%) were headquartered in the U.S. Approximately 77% of EGCs were audited by these 119 firms.
- None were design-only firms, but design-only firms provided at least 5% of total audit hours on nine EGC audit engagements.[535]
- 16 firms (or 7%) have withdrawn from PCAOB registration since November 15, 2024. None of these firms referenced QC 1000 as a reason for withdrawal.
- 14 firms (or 6%) issued audit reports with respect to more than 100 issuers. Forty-two percent of EGCs were audited by these 14 firms.

Any reduction in audit quality arising from the amendments could reduce financial reporting quality, which could result in less efficient capital allocation, higher cost of capital, and less capital formation. This effect could be particularly pronounced for EGCs. EGCs tend to be smaller and have a shorter SEC financial reporting history than the broader population of public companies. Academic research suggests that, for several reasons, smaller public companies tend to exhibit greater information asymmetry

[535] Source: Form AP filings.

between management and investors.[536] One commenter noted that EGCs "may rely especially heavily" on the external audit given greater information asymmetry and less market coverage.[537] Accordingly, the Board believes that EGCs are likely to exhibit greater information asymmetry between management and investors and hence the importance of the external audit to investors in enhancing the credibility of EGC financial reporting may be more pronounced. However, as the Board believes the amendments would have minimal impact on audit quality, any impact on EGCs' financial reporting quality should also be minimal.

The amendments would also likely decrease costs incurred by firms to design, implement, and operate their QC systems. Firms could pass part of these cost savings down to their clients, including EGCs, in the form of lower audit fees. EGCs are disproportionately audited by smaller firms. Approximately 42% (993 ÷ 2,379) of EGCs were audited by firms that had over 100 issuer clients while approximately 12% (276 ÷ 2,379) were audited by firms that had 10 or fewer issuer clients. By contrast, approximately 73% (6,824 ÷ 9,294) of non-EGCs were audited by firms that had over 100 issuer clients while approximately 9% (797 ÷ 9,294) were audited by firms that had 10 or fewer issuer clients. However, because it is unclear whether the amendments would disproportionately impact smaller firms, it is also unclear whether EGCs would be disproportionately impacted by cost savings passthrough.

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536 *See, e.g.*, Raymond Chiang and P. C. Venkatesh, *Insider Holdings and Perceptions of Information Asymmetry: A Note*, 43 Journal of Finance 1041 (1988); Ravi Bhushan, *Firm Characteristics and Analyst Following*, 11 Journal of Accounting and Economics 255 (1989).

537 *See* comment letter from MIAG.

Reduced audit fees could increase capital formation by decreasing the overall regulatory burdens of being a public company (e.g., accounting fees paid during IPO and for annual SEC reporting).[538] Reduced audit fees could also lessen a competitive disadvantage for EGCs in their respective product markets to the extent EGCs compete with companies that are not audited by PCAOB-registered firms. This could increase competition in product markets where EGCs have a less than dominant market share, which is likely the case as EGCs tend to be newer companies. However, the Board believes any impacts on competition in EGC product markets would likely be modest because audit fees reflect a small percentage—0.6%—of exchange-listed EGCs' revenues.[539]

In general, any new PCAOB standards and amendments to existing standards determined not to apply to the audits of EGCs would require auditors to design and implement differing requirements within their methodologies or policies and procedures with respect to audits of EGCs and non-EGCs, which would create the potential for confusion. This may not be practical in the context of the amendments; while some of the amendments may enable different approaches for audits of EGCs compared to audits of other companies (e.g., evaluating whether similar engagement deficiencies exist), others are necessarily firm-wide and cannot easily be differentiated for different types of audits (rescinding the EQCF requirement and permitting selection of the evaluation date). Even

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538 One commenter said connecting the amendments to capital formation requires evidence that cost savings retained by firms equates to investor benefits. *See* comment letter from CFA. The Board acknowledges that the degree to which firms pass on cost reductions arising from the amendments to clients is unclear; the Board is not aware of information that would allow the Board to reliably estimate this.

539 By contrast, audit fees reflect 0.1% of exchange-listed non-EGCs' revenues.

where differentiation is possible, maintaining separate QC system components for EGC and non-EGC audits and separate methodologies may add cost or lead to confusion, and could run counter to the objectives of the QC system. These methodology and QC system differentiation costs would affect at least the 203 firms that audit both EGCs and non-EGCs and that, collectively, audit approximately 97% of EGCs.

The supplemental request for comment sought comment on the applicability of the proposed amendments to audits of EGCs. Commenters generally did not provide views on the impacts of the amendments to the audits of EGCs or whether the amendments should apply to the audits of EGCs.

Accordingly, and for the reasons explained above, the Board will request that the Commission determine that, to the extent necessary, it is necessary or appropriate in the public interest, after considering the protection of investors and whether the action will promote efficiency, competition, and capital formation, to apply the amendments to audits of EGCs.

III. Date of Effectiveness of the Proposed Rules and Timing for Commission Action

Within 45 days of the date of publication of this notice in the *Federal Register* or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Board consents, the Commission will:

(A) By order approve or disapprove such proposed rules; or

(B) Institute proceedings to determine whether the proposed rules should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rules are consistent with the requirements of Title I of the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's internet comment form (https://www.sec.gov/rules/pcaob); or
- Send an email to rule-comments@sec.gov. Please include File Number PCAOB-2026-01 on the subject line.

Paper comments:

- Send paper comments in triplicate to Vanessa A. Countryman, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to PCAOB-2026-01. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method of submission. The Commission will post all comments on the Commission's website (https://www.sec.gov/rules/pcaob). Copies of such filing will also be available for inspection and copying at the principal office of the PCAOB. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. The Commission may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to PCAOB-2026-01 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Office of the Chief Accountant.

Vanessa A. Countryman,

Secretary.

PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

SUPPLEMENTAL REQUEST FOR COMMENT: PROPOSED AMENDMENTS TO QC 1000, A FIRM'S SYSTEM OF QUALITY CONTROL, AND RELATED RULE AND FORMS

PCAOB Release No. 2026-002
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PCAOB Rulemaking
Docket Matter No. 057

Summary: The Public Company Accounting Oversight Board ("PCAOB" or the "Board") is issuing a supplemental request for comment on potential amendments to certain provisions of QC 1000 and related amendments to the QC reporting rule and PCAOB forms. This supplemental request for comment seeks commenters' views on proposed amendments and other matters discussed in this release.

Public Comment: Interested persons may submit written comments to the Board. Comments should be sent by e-mail to comments@pcaobus.org or through the Board's website at pcaobus.org. Comments also may be sent to the Office of the Secretary, PCAOB, 1666 K Street, NW, Washington, DC 20006-2803. All comments should refer to PCAOB Rulemaking Docket Matter No. 057 in the subject or reference line and should be received by the Board no later than July 9, 2026.

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I. EXECUTIVE SUMMARY

We adopted QC 1000, *A Firm's System of Quality Control*, on May 13, 2024,[1] to lead registered public accounting firms ("firms") to significantly improve their quality control ("QC") systems. We believe that, as firms prepare for the effective date of QC 1000, many such improvements have been and will continue to be implemented as firms develop more rigorous QC systems. Our experience during the implementation period has led us, however, to consider whether the new standard imposes costs that may not be necessary for us to achieve our regulatory goals and, relatedly, whether there are certain aspects of QC 1000 that could be brought into closer alignment with other audit firm quality management standards.[2]

Since the U.S. Securities and Exchange Commission ("SEC") approved QC 1000 and related amendments on September 9, 2024,[3] PCAOB staff have issued guidance and engaged in implementation support efforts to educate firms and other stakeholders about the new standard and to assist firms with implementation. In the course of those activities, we have received information, including through comments submitted to the SEC after the delay in the effective date of QC 1000 and comments submitted to the Board regarding our strategic priorities, suggesting that certain provisions of QC 1000 were unclear in their application, might impose higher costs than initially anticipated in relation to the potential benefits, or might be unnecessarily prescriptive. Accordingly, we are proposing amendments to QC 1000 that we believe would address these concerns and better align certain provisions with other quality management standards, which would reduce compliance costs without compromising the Board's statutory mission to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports.

The principal proposed amendments on which we are seeking stakeholder input would:

- Rescind the "design-only" requirement so that QC 1000 imposes requirements only on firms that are required to comply with applicable professional and legal

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[1] *A Firm's System of Quality Control and Other Amendments to PCAOB Standards, Rules, and Forms*, PCAOB Rel. No. 2024-005 (May 13, 2024).

[2] *See* International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* ("ISQM 1"), issued by the International Auditing and Assurance Standards Board; Statement on Quality Management Standards (SQMS) No. 1*, A Firm's System of Quality Management* ("SQMS 1"), issued by the Auditing Standards Board of the American Institute of CPAs.

[3] *Public Company Accounting Oversight Board; Order Granting Approval of QC 1000, A Firm's System of Quality Control, and Related Amendments to PCAOB Standards, Rules, and Forms*, SEC Rel. No. 34-100968 (Sept. 9, 2024).

requirements with respect to any "engagement," as defined in QC 1000 (QC 1000.06 and .07d);

- Provide increased flexibility in filling certain specified roles in the QC system, including permitting roles to be assigned to non-firm personnel and divided among multiple individuals (QC 1000.12);

- Rescind the requirement for the firms with the largest PCAOB audit practices to have an External QC Function ("EQCF") (QC 1000.28);

- Narrow and simplify communication requirements relating to metrics that the firm communicates about its audit practice, firm personnel, or its engagements (QC 1000.53e);

- With respect to identified engagement deficiencies, require evaluation of whether similar engagement deficiencies exist only if the identified deficiency resulted or could result in (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 (QC 1000.68d);

- Revise the definition of QC deficiency to make clear that, when firms have implemented more than one quality response to address the same quality risk, they can take those other quality responses (e.g., compensating responses) into account when determining whether a QC deficiency exists (QC 1000.A8);

- Allow firms to select the date as of which they annually evaluate the effectiveness of their QC system, rather than requiring firms to evaluate as of September 30 (QC 1000.77);

- Revise the QC system evaluation conclusions to align more closely with the conclusions in other quality management standards, while retaining a structured process, including specified factors for consideration, to guide the evaluation (QC 1000.77 and .78); and

- Simplify the requirements for retention of QC system documentation and abbreviate the retention period from seven to five years (QC 1000.84 and .86).

Additional proposed amendments, including proposed conforming amendments, are discussed below.

Several of the proposed amendments would bring QC 1000 into closer alignment with other quality management standards, both internationally and in the United States. However, differences remain in areas where we continue to believe that alternative or incremental

provisions better address our legal and regulatory environment, the needs and priorities of our stakeholders, and our statutory mandate of protecting investors and the public interest.

II. BACKGROUND

This section presents background information on this supplemental request for comment, including recent rulemaking history and staff implementation support efforts since SEC approval of QC 1000 in September 2024, and the purpose of the supplemental request for comment.

A. Recent Rulemaking History

On May 13, 2024, we adopted QC 1000 and related amendments. They were approved by the SEC on September 9, 2024, with an effective date of December 15, 2025.[4]

On August 28, 2025, to provide firms with additional time for implementation, we proposed to delay the effective date of QC 1000 and related amendments to December 15, 2026, and that postponement became immediately effective.[5] The SEC received 15 comment letters in response to its notice regarding the postponement.[6] Commenters included firms and related groups, investor-related groups, and others. In addition to comments received by the SEC, the PCAOB received a letter from a firm-related group regarding implementation of QC 1000.[7]

Investor-related groups generally did not object to providing additional time for implementation to help with effective adoption of QC 1000.[8] One of these commenters particularly stressed the benefit to smaller firms.[9] However, they cautioned against using the

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[4] For a complete rulemaking history of QC 1000 to date, see Rulemaking Docket No. 046 on the Board's website, *available at* https://pcaobus.org/about/rules-rulemaking/rulemaking-dockets/docket-046-quality-control. *See also 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*, SEC Rel. No. 34-103803 (Aug. 28, 2025).

[5] *See* SEC Rel. No. 34-103803.

[6] The comment letters received are available on the SEC's webpage, *available at* https://www.sec.gov/comments/pcaob-2025-01/pcaob202501.htm.

[7] *See* letter from the Center for Audit Quality dated July 23, 2025 ("CAQ 2025 Letter"), *available at* https://www.thecaq.org/comment-letter-pcaob-requesting-deferral-qc-1000. For ease of reference, we refer to the CAQ 2025 Letter as a comment letter in this release.

[8] *See* letters from CFA Institute (Sept. 23, 2025) ("CFA Institute") and Council of Institutional Investors (Sept. 18, 2025) ("CII").

[9] *See* letter from CFA Institute.

delay as a basis for broader revisions to the standard or withdrawal of the standard.[10] Two commenters, seeking to balance investor protections and implementation concerns, recommended a phased implementation approach that would keep the original effective date for annually inspected firms while delaying it for others.[11] Firms and firm-related groups supported the one-year deferral, citing significant operational and interpretive complexity, resource constraints, and the need for testing; and for global networks, the need to coordinate across jurisdictions.[12]

Firms and firm-related groups also commented on QC 1000's divergence from other quality management standards that were adopted or became effective in recent years,[13] with some firms particularly citing its prescriptive requirements, such as those relating to:

- Roles and responsibilities,
- EQCF,
- An automated independence system,
- The evaluation framework,
- A fixed evaluation date,
- Documentation requirements, including the seven-year retention requirement, and
- The obligation to design a QC 1000-compliant system for firms that are not required to implement and operate such a QC system.

Some commenters said that these prescriptive requirements drive cost and complexity without commensurate audit-quality benefit[14] and may also incentivize withdrawal from PCAOB

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[10] *See* letters from CII and CFA Institute.

[11] *See* letters from CFA Institute and U.S. Chamber of Commerce (Sept. 24, 2025) ("Chamber").

[12] *See* letters from Baker Tilly US, LLP (Sept. 23, 2025) ("Baker Tilly"); Chris Barnard (Sept. 22, 2025) ("Barnard"); BDO USA, P.C. (Sept. 24, 2025) ("BDO"); Center for Audit Quality (Sept. 24, 2025) ("CAQ"); Crowe LLP (Sept. 24, 2025) ("Crowe"); Deloitte & Touche LLP (Sept. 24, 2025) ("Deloitte"); Ernst & Young LLP (Sept. 24, 2025) ("EY"); Grant Thornton LLP (Sept. 24, 2025) ("GT"); KPMG LLP (Sept. 24, 2025) ("KPMG"); Plante & Moran (Sept. 22, 2025) ("Plante & Moran"), PricewaterhouseCoopers LLP (Sept. 24, 2025) ("PwC"); and RSM US LLP (Sept. 23, 2025) ("RSM").

[13] *See* letters from Baker Tilly; BDO; CAQ; Crowe; Deloitte; EY; GT; Plante & Moran; PwC; and RSM.

[14] *See* letters from Crowe; EY; and GT.

registration, particularly among foreign firms.[15] These commenters broadly encouraged the PCAOB and SEC to use the extension period to provide additional implementation guidance and to consider targeted amendments to enhance scalability and mitigate unintended consequences while preserving investor protections.[16]

In March 2026, we received a further letter from a firm-related group reiterating its support for targeted changes to QC 1000 to address differences between QC 1000 and ISQM 1 in the areas listed above, which it said have resulted in implementation challenges.[17]

On March 31, 2026, the Board issued a request for public comment on the PCAOB's strategic priorities, including future standard-setting activity.[18] The Board received 69 comment letters in response to its request as of June 5, 2026,[19] of which 26 raised comments specifically about QC 1000.[20]

The comments relating to QC 1000 were generally consistent with themes raised in comment letters submitted to the PCAOB and SEC in connection with the extension of the effective date of QC 1000. Comments relating to the matters on which we are soliciting comment are addressed in Section III below.

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[15] *See* letters from BDO; CAQ; Crowe; and GT.

[16] *See* letters from Baker Tilly; BDO; CAQ; EY; GT; KPMG; Plante & Moran; PwC; and RSM.

[17] *See* letter from the Center for Audit Quality dated March 20, 2026 ("CAQ 2026 Letter"), *available at* https://www.thecaq.org/letter-to-the-pcaob-on-qc1000-implementation-experience-and-costs. For ease of reference, we refer to the CAQ 2026 Letter as a comment letter in this release.

[18] *See Request for Public Comment, PCAOB Strategic Priorities*, PCAOB Rel. No. 2026-001 (Mar. 31, 2026).

[19] The comment letters received are available on the Board's website, *available at* https://pcaobus.org/about/strategic-plan-budget/public-comments-on-pcaob-strategic-priorities.

[20] *See* letters on the PCAOB's strategic priorities from Members of the Audit Committee Council (May 11, 2026) ("ACC"); Agentic CPA Inc. (May 14, 2026); AICPA (May 15, 2026); Baker Tilly US, LLP (May 15, 2026); BDO USA, P.C. (May 15, 2026); Dennis Beresford (Apr. 3, 2026) ("Beresford"); CBIZ CPAs P.C. (May 15, 2026) ("CBIZ"); Cherry Bekaert LLP (Apr. 30, 2026); Robert A. Conway (May 15, 2026); Council of Institutional Investors (May 15, 2026) ("CII 2026"); CPA Club Inc (May 14, 2026) ("CPA Club"); Deloitte & Touche LLP (May 15, 2026) ("DT 2026"); Ernst & Young LLP (May 15, 2026); Forvis Mazars, LLP (May 15, 2026); Grant Thornton LLP (May 15, 2026) ("GT 2026"); ICR Inc. (Apr. 21, 2026); The International Corporate Governance Network (May 13, 2026); Members of the Investor Advisory Group (May 13, 2026); KPMG LLP (May 14, 2026) ("KPMG 2026"); Lark Research (May 15, 2026); Pennsylvania Institute of Certified Public Accountants (May 12, 2026) ("PICPA"); PricewaterhouseCoopers LLP (May 13, 2026) ("PwC 2026"); RiskGraphs (Apr. 21, 2026); RSM US LLP (May 15, 2026) ("RSM 2026"); Tapestry Networks, Inc. (May 15, 2026); and Texas Society of Certified Public Accountants (May 11, 2026) ("TXCPA").

Most commenters urged the Board to adopt or align more closely with ISQM 1, suggesting it may better support global implementation, while emphasizing that differences in structure, terminology, and prescriptive requirements in QC 1000 create operational challenges, limit firm judgment, and increase complexity for global firms.[21]

We are proposing targeted amendments to QC 1000 rather than wholesale alignment of our standard with ISQM 1. We continue to believe that QC 1000 should be appropriately tailored to address our legal and regulatory environment and our investor protection mandate, which necessitates areas of continued divergence. We also note that, even if QC 1000 and ISQM 1 were identical, differences could still arise in the design and operation of firm QC systems due to differences in applicable professional and legal requirements, including auditing and independence standards, as well as differences in the relevant populations of engagements and in the individuals performing engagements or QC activities.

QC 1000 and related amendments are slated to take effect on December 15, 2026.[22] Commenters on our strategic priorities had opposing views on that timing, with one encouraging the Board to maintain the date[23] and another suggesting that we suspend the effective date indefinitely.[24] At this time, we are not further extending the effective date, either for the provisions as to which we are soliciting comment or for any other provisions. We believe that firms have had ample time to prepare for QC 1000 and, based on our implementation support efforts, that firms are generally in a position to implement the standard timely. We also note that the changes we are considering, which would generally relax or eliminate certain requirements of QC 1000, should not increase the time needed for implementation.

B. Implementation Support Efforts

Since SEC approval of QC 1000 and the related amendments, PCAOB staff have published a broad set of resources and tools to assist firms with implementation.[25] The staff have observed progress made by firms to implement QC 1000. The staff's activities also

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[21] *See* letters from ACC; AICPA; CBIZ; CPA Club; DT 2026; Forvis Mazars; GT 2026; KPMG 2026; PwC 2026; and RSM 2026.

[22] *See* SEC Rel. No. 34-103803.

[23] *See* letter from CPA Club.

[24] *See* letter from Beresford.

[25] *See* PCAOB, *Quality Control—Implementation Resources*, *available at* https://pcaobus.org/oversight/standards/implementation-resources-PCAOB-standards-rules/quality-control, which includes staff guidance and other materials issued to support implementation of QC 1000 and the related amendments.

involved gaining an understanding of implementation challenges and questions regarding the requirements of QC 1000.

In addition, during the summer of 2025, the staff hosted two in-person QC workshops tailored for smaller firms and, to reach a broader audience, converted that content into two virtual workshops held in July 2025. In August and October of 2025, the staff also met with the Smaller Firm Resource Group, an advisory group composed of professionals from smaller audit firms, to obtain feedback on QC 1000 implementation matters.

Feedback obtained from implementation support efforts was generally consistent across firms and aligned with themes raised in comment letters submitted by some firms and firm-related groups to the PCAOB and SEC following SEC approval of QC 1000. Firms also provided additional detail during implementation support efforts and identified further operational challenges, including areas that extend beyond those raised in the comment letters.

C. Purpose of This Supplemental Request for Comment

This supplemental request for comment presents proposed amendments to certain QC 1000 requirements, and requests comment on those proposed amendments and other related matters. In developing the proposed amendments, we considered comment letters received by the SEC and the PCAOB following SEC approval of QC 1000 and by the PCAOB regarding our strategic priorities, as well as information obtained by PCAOB staff during implementation support efforts. We have also considered whether certain aspects of QC 1000 may be more prescriptive than necessary to achieve our regulatory objectives in light of the costs and implementation challenges identified by firms. We believe the proposed amendments may provide a more practical and scalable approach in certain areas, and that QC 1000, if amended as we propose, would still promote improvements in audit quality that are our ultimate goal. At the same time, we continue to believe that other requirements in QC 1000 that are not within the scope of the proposed amendments, including certain prescriptive elements, remain important to supporting consistent execution of high-quality audits.

We discuss the feedback received from stakeholders in Section III below. We believe other implementation concerns and interpretive questions may be addressed, as appropriate, through guidance.

We intend to monitor the implementation of QC 1000 through our oversight activities. The findings from this monitoring effort will inform the strategy and design of any post-implementation review of QC 1000.

III. PROPOSED AMENDMENTS TO QC 1000, RULE 2203A, AND FORM QC

This section describes the requirements of QC 1000, Rule 2203A, and Form QC that we are proposing to amend. Where we believe it would advance readers' understanding, the text

of QC 1000 is presented in text boxes, with potentially deleted text ~~struck through~~ and potential new text underscored. The full text of the proposed amendments to QC 1000 appears in Appendix 1. The full text of the proposed amendments to PCAOB Rule 2203A, *Report on the Evaluation of the Firm's System of Quality Control*, and Form QC appears in Appendix 2. Terms defined in Appendix A, *Definitions,* to QC 1000, are italicized throughout.

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

.05 A properly conducted *engagement* and the related report enhance the confidence of investors and other market participants in the company's information to which the firm's report relates. The objective of the firm is to design~~ and, if applicable~~, implement, and operate an effective QC system. An effective QC system protects investors by facilitating the consistent preparation and issuance of informative, accurate, and independent *engagement* reports in accordance with *applicable professional and legal requirements*. To accomplish this, an effective QC system consistently provides a firm with reasonable assurance that:

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.06 A firm must design, implement, and operate an effective QC system in compliance with this standard at all times when the firm is required to comply with *applicable professional and legal requirements* with respect to any of the firm's *engagements*,[3] and thereafter through the following *evaluation date*.[4]~~a QC system that complies with this standard. To design such a QC system, the firm must:~~

~~a. Assign QC related roles and responsibilities (*see* paragraphs .10–.17);~~

~~b. Establish *quality objectives*, annually identify and assess *quality risks* to the achievement of those objectives, and design *quality responses* to address those risks (*see* paragraphs .18–.57);~~

~~c. Design a monitoring and remediation process (*see* paragraphs .58–.76); and~~

~~d. Document the design of the QC system (*see* paragraphs .81–.86).~~

[3] With respect to firm responsibilities subsequent to the issuance of an audit report, see, for example, AS 2901, *Responding to Engagement Deficiencies After Issuance of the Auditor's Report*; AS 2905, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*; AS 4101, *Responsibilities Regarding Filings Under Federal Securities Statutes*.

[4] *See* paragraph .77 (requiring evaluation of the effectiveness of the QC system as of ~~September 30~~the *evaluation date*).

.07 The requirement to design, implement, and operate the QC system applies as follows:

~~a. A firm must implement and operate an effective QC system at all times when the firm is required to comply with *applicable professional and legal requirements* with respect to any of the firm's *engagements*,[3] and thereafter through the following September 30.[4]~~

a~~b~~. During the time the firm's QC system is required to be operating effectively, the firm's QC system must operate over any audit, attestation, review, or other work performed under PCAOB standards by the firm, regardless of the level of the firm's participation in such work (i.e., even if the firm plays less than a substantial role).[5]

b~~c~~. A firm that is required to design, implement, and operate its QC system is also required to annually evaluate its QC system as of ~~September 30~~the *evaluation date* and report on that evaluation (*see* paragraphs .77-.80).

~~d. For any time that a firm is not required to implement and operate an effective QC system, this standard will apply to the firm only in regard to the design of the QC system (based on the *quality risks* the firm likely would face if it were to perform *engagements*) as provided in paragraph .06.~~

Note: Any obligations under QC 1000 that exist at the time a firm is no longer required to design, implement, and operate the QC system, such as obligations to evaluate and report on the QC system for previous periods, will continue.

[5] *See* PCAOB Rule 1001(p)(ii).

QC 1000 requires all firms to design a QC system that complies with the standard, regardless of whether the firm is subject to applicable professional and legal requirements with respect to an "engagement" as defined in QC 1000. This "design-only" requirement elicited a significant number of comments during the rulemaking process and has continued to be an issue of concern in the stakeholder feedback received since SEC approval.[26] Some firms suggested that we eliminate the design-only requirement for firms that do not conduct such engagements.[27]

We understand that many firms subject to the design-only requirement are international global network affiliates that do not lead or play a substantial role in engagements but maintain a home country audit practice. We understand that other firms subject to the requirement include U.S.-based firms that conduct audits of private companies under the

[26] *See* letters from BDO; CAQ; Chamber; Crowe; GT; PICPA; PwC; and RSM.

[27] *See* letters from BDO; Crowe; PICPA; and RSM.

standards of the AICPA.[28] We expect that both types of firms would be required to comply with the quality control provisions of ISQM 1 or SQMS 1, which share a common basic structure with QC 1000. Feedback received from firms and a firm-related group suggests that the additional costs of complying with the design-only requirement of QC 1000, in addition to ISQM 1 or SQMS 1, are significant.[29] Commenters have informed us that certain firms have withdrawn from PCAOB registration as a result.[30]

We are proposing to rescind the design-only requirement. We are proposing to revise paragraphs .06 and .07 to eliminate the separate obligation to design a QC system and maintain unchanged the obligation to design, implement, and operate a QC system in compliance with QC 1000 when a firm is subject to applicable professional and legal requirements with respect to any of the firm's engagements.

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). As adopted, QC 1000 would require such firms to design a QC system specifically tailored to audits of issuers and broker-dealers, perhaps without any relevant experience and based on an assessment of hypothetical risks. The design-only requirement thus may impose costs on firms without commensurate benefits. Moreover, we do not believe that achieving the objectives of QC 1000, including compliance with our statutory mandate under Sarbanes-Oxley,[32] requires firms that are not subject to full QC 1000 implementation to design QC 1000-compliant systems.

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[28] Furthermore, we understand that some firms may register with the PCAOB to be eligible to perform certain work under financial regulatory regimes that are outside the PCAOB's jurisdiction. *See, e.g.,* Guiding and Establishing National Innovation for U.S. Stablecoins Act, Pub. L. No. 119–27 (July 18, 2025), § 4(a)(3)(A), 12 U.S.C. § 5903(a)(3)(A) (requiring month-end reports of permitted payment stablecoin issuers to be examined by a PCAOB-registered firm).

[29] *See* letters from CAQ; GT; and PwC.

[30] *See* letters from Crowe and CAQ. Section V.B. below discusses firms that withdrew from registration in connection with QC 1000.

[31] *See* Section 102(a) of Sarbanes-Oxley, 15 U.S.C. § 7212(a); PCAOB Rule 2100, *Registration Requirements for Public Accounting Firms*.

[32] In particular, we do not believe that our proposed approach would violate the mandate in Section 103(a)(2)(B) of Sarbanes-Oxley, 15 U.S.C. § 7213(a)(2)(B), to adopt requirements "for every registered public accounting firm" that address certain enumerated areas in "the quality control standards that [the PCAOB] adopts with respect to the issuance of audit reports." Under our proposed approach, QC 1000 would apply to every firm with respect to the issuance of "audit reports" (limited under Sarbanes-Oxley to those relating to audits of issuers and broker-dealers).

Rescinding the design-only requirement would likely entail foregoing the benefits associated with greater preparedness of firms not subject to paragraphs .06 and .07 to take on a PCAOB engagement. However, such firms could still choose to design (and for that matter, implement and operate) a QC system that complies with QC 1000. Firms may choose to do so if, for example, they are planning to bid for a PCAOB engagement, are taking on work on other firms' engagements that could potentially constitute a substantial role, or otherwise wanted to put themselves in a position to implement and operate a QC 1000-compliant system on short notice. We are not proposing to modify the requirement that a firm is required to design, implement, and operate an effective QC 1000-compliant system at all times when the firm is required to comply with applicable professional and legal requirements with respect to any of the firm's engagements, as defined in QC 1000.

As an alternative to rescinding the design-only requirement, we also considered, and are soliciting comment on, two potential approaches to QC system design requirements and the possible circumstances triggering such a requirement.

First, we considered linking a design requirement to the existing statutory requirement that public accounting firms include a statement of their quality control policies in their applications for PCAOB registration.[33] Currently, the Board implements the statutory requirement by directing applicants to submit a summary description of their QC policies addressing the "areas reflected in the Board's quality control standards,"[34] which correspond to the QC areas listed in QC 20.07 but could be revised to correspond to the areas reflected in QC 1000, such as the components. Under this approach, we considered requiring firms to maintain QC policies sufficient to meet the requirements for registration without requiring them to design a fully QC 1000-compliant system.

Second, we considered retaining a design requirement applicable to all firms but simplifying the criteria the design must meet for firms that are not required to implement and operate a QC 1000-compliant system. Specifically, we considered requiring design of a QC system that addresses the components of QC 1000 without necessarily complying with all of its specific provisions.

Under these two alternatives, a firm that has already designed a QC system under ISQM 1 or SQMS 1 would not be required to perform incremental work to comply with QC 1000 until the firm becomes subject to applicable professional and legal requirements with respect to an engagement and therefore must implement and operate a QC 1000-compliant system. For

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[33] *See* Section 102(b)(2)(D) of Sarbanes-Oxley, 15 U.S.C. § 7212(b)(2)(D).

[34] *See Frequently Asked Questions Regarding Registration with the Board*, PCAOB Rel. No. 2003-011F, at Q.32 (Dec. 4, 2017), ("Registration FAQ"), *available at* https://pcaobus.org/Registration/Information/Documents/Registration_FAQ.pdf (providing guidance regarding PCAOB Form 1, *Application for Registration*, Item 4.1).

firms that are not subject to either ISQM 1 or SQMS 1, both alternatives may involve one-time QC-system design costs.

These alternative approaches could continue to impose regulatory burdens on firms that do not perform engagements, as defined in QC 1000, without clearly advancing the PCAOB's mandate to protect investors and advance the public interest in informative, accurate, and independent audit reports.

Additionally, we considered whether the obligation to design a QC system should be triggered earlier than when a firm becomes subject to applicable professional and legal requirements with respect to an engagement. An earlier trigger could strike a different balance between, on one hand, a firm's preparedness to perform engagements and, on the other hand, the costs and other burdens associated with designing a QC system, especially one that might be designed prematurely or that might never need to be implemented. We are soliciting comment on this topic.

Questions

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

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?

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?

B. Roles and Responsibilities

1. Assignment of roles and responsibilities

.12 The firm must assign other roles and responsibilities with respect to the QC system to ~~*firm personnel*~~individual(s)[5A] who understand and are accountable for their roles and responsibilities and who have the experience, competence, authority, and time needed to enable them to carry out their assigned responsibilities.[6] Such roles should include the following:

a. Operational responsibility and accountability for the QC system as a whole;

b. Operational responsibility for the firm's compliance with ethics and independence requirements;

c. Operational responsibility for the monitoring and remediation process; and

d. If appropriate based on the nature and circumstances of the firm, operational responsibility for other components of the QC system.

Note: ~~Each of the roles identified in subparagraphs a.-c. above cannot be shared, but rather must be assigned to only one individual. However, d~~Depending on the nature and circumstances of the firm (including its size and structure) and its *engagements*, the firm (i) may assign one individual to more than one of the roles identified in paragraphs .11 and .12 and (ii) may divide responsibilities of a role identified in paragraph .12 among multiple individuals.

5A Such individuals are "associated persons" of the firm. *See* PCAOB Rule 1001(p)(i).

6 *See* Note in paragraph .44a. of this standard for a description of competence.

QC 1000 requires that the operational roles and responsibilities specified in paragraph .12 be assigned only to "firm personnel."[35] The note to paragraph .12 provides that responsibility for the roles in subparagraphs a.-c. cannot be shared and must be assigned to only one individual, to reinforce that the individual assigned to a specified role would be responsible and accountable for the role.

While at adoption we believed that a single individual within the firm should remain responsible for the responsibilities of the assigned roles, in connection with providing implementation support efforts we have received additional information on the operational challenges and potentially negative impacts on audit quality of this requirement that are leading us to reconsider it. Several commenters expressed concern that certain of the requirements in paragraph .12 were too prescriptive, particularly the requirement to assign these roles to firm personnel and the requirement that each role be filled by a single individual.[36] They also noted that ISQM 1 does not contain similar limitations.[37]

Some commenters suggested removing the requirement that the specified roles and responsibilities be assigned only to firm personnel and instead relying exclusively on the

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35 *See* QC 1000.A5.

36 *See* letters from BDO; Chamber; Deloitte; GT; and PwC.

37 *See* letters from Deloitte; EY; GT; and PwC.

requirement that the roles be assigned to individuals with the experience, competence, authority, and time needed to carry them out.[38] Some commenters stated that audit quality may be affected because limiting these responsibilities to firm personnel may restrict firms' ability to assign roles to the most qualified individuals, particularly where the most qualified individuals may be from another network member firm or an associated entity.[39] For example, through our implementation support efforts, we understand that a single individual may act as the monitoring leader or independence leader for multiple network firms in a region, and that such an approach could help to drive consistent audit quality.

Some commenters recommended allowing the operational roles and responsibilities for ethics and independence compliance and for monitoring and remediation to be divided among qualified individuals.[40] They and another commenter said that requiring a single individual to hold such roles may not allow flexibility for intentional assignments designed to drive the highest quality outcome and promote specialization, objectivity, or workload sharing.[41] For example, some commenters stated that requiring one person to serve as both ethics and independence leader combines responsibilities that are often overseen by two individuals with different skills and experience.[42] Some commenters also said firms may need to change their operating structures to comply, creating unnecessary disruption without a commensurate benefit.[43]

We are proposing amendments to paragraph .12 to allow flexibility in assigning the specified roles and responsibilities to any individual (whether firm personnel or an "other participant"[44]), rather than limiting those roles to firm personnel. We believe this proposed amendment would support audit quality in cases where the individuals most qualified to assume responsibility for certain roles may not be firm personnel. In connection with that change, we are considering clarifying, in a 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.[45] The proposed amendment, by permitting any qualified individual to fill the specified QC system roles, would align with ISQM 1.

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38 *See* letters from CAQ and KPMG.

39 *See* letters from CAQ; EY; and KPMG.

40 *See* letters from BDO; CAQ; Deloitte; EY; KPMG; and PwC.

41 *See* letters from BDO; CAQ; Deloitte; EY; GT; KPMG; and PwC.

42 *See* letters from BDO; CAQ; Deloitte; EY; and PwC.

43 *See* letters from BDO; CAQ; Deloitte; and GT.

44 *See* QC 1000.A7.

45 *See* PCAOB Rule 1001(p)(i).

To preserve the accountability and responsibility objectives of paragraph .12, we are also proposing amendments to emphasize that individuals assigned specific roles understand and are accountable for their roles and responsibilities. The proposed amendment would align with ISQM 1.

We are also proposing amendments to the note to paragraph .12 to allow firms to divide responsibilities of a role among multiple individuals. For example, a firm may assign one individual operational responsibility for ethics and another operational responsibility for independence. We believe these proposed amendments would increase flexibility in assigning these roles, reducing the need for organizational changes that may not serve audit quality and broadening the pool of individuals with the appropriate experience, competence, and authority to perform specified roles.[46]

We are considering, and soliciting comment on, whether these proposed amendments should be available only on a scaled basis, and if so, what the appropriate thresholds should be.

2. Responsibilities for roles with operational responsibility

.15 The individual(s) assigned operational responsibility and accountability for the QC system as a whole should:

a. Supervise, within the scope of their assigned responsibilities, the design, implementation, and operation of the firm's QC system in accordance with *applicable professional and legal requirements* and the firm's policies and procedures; and

b. Certify the firm's report to the PCAOB on its annual evaluation of the QC system (*see* paragraph .79).

.16 The individual(s) assigned operational responsibility for the firm's compliance with ethics and independence requirements should, within the scope of their assigned responsibilities:

a. Supervise the design, implementation, and operation of the firm's ethics and independence component (*see* paragraphs .30-.36); and

b. Communicate, on a timely basis, violations of ethics or independence requirements, including personal independence violations, to the individuals assigned (1) operational responsibility for the firm's monitoring and remediation

[46] Conforming amendments to Form QC are also being proposed, as shown in Appendix 2, to reflect the possibility that operational responsibility and accountability for the QC system as a whole would be divided among multiple individuals.

process and (2) operational responsibility and accountability for the QC system as a whole.

.17 The individual(s) assigned operational responsibility for the monitoring and remediation process should, within the scope of their assigned responsibilities:

a. Supervise the design, implementation, and operation of the firm's monitoring and remediation process (*see* paragraphs .58-.76) and the annual evaluation of the QC system (*see* paragraphs .77-.78), including:

(1) The evaluation of the results of the monitoring activities;

(2) The evaluation of whether remedial actions are implemented as designed and operate effectively to remediate *QC deficiencies* and, if not, the taking of timely action until such *QC deficiencies* are remediated; and

(3) The firm's other policies and procedures with regard to monitoring and remediation.

b. Communicate, on a timely basis, to the individuals assigned (1) ultimate responsibility and accountability for the QC system as a whole and (2) operational responsibility and accountability for the QC system as a whole, a description of:

(1) Monitoring activities performed and the results of such activities, including, if applicable, monitoring activities performed by a network;

(2) Identified *engagement deficiencies*~~,~~ and *QC deficiencies*~~, and *major QC deficiencies*~~, including the nature, severity, and pervasiveness of such deficiencies; and

(3) Actions taken to address *engagement deficiencies*~~,~~ and *QC deficiencies*~~, and *major QC deficiencies*~~.

To align with the proposed amendments to QC 1000.12, we are proposing conforming amendments to paragraphs .15-.17 that would acknowledge the possibility that multiple individuals could share the specified roles and clarify that such individuals' obligations are limited to the scope of their assigned responsibilities.

In addition, a proposed amendment to paragraph .17b(2)-(3) would delete the communication requirements related to major QC deficiencies to align with the proposed amendments to the evaluation requirement in paragraph .77 discussed in Section III.F.1.d. below.

Questions

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?

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

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

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?

C. External QC Function

Paragraph .28 of QC 1000 includes a specified quality response that requires firms with a larger PCAOB audit practice[47] to incorporate into their governance structure an EQCF for the QC system composed of one or more persons 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.

The EQCF responsibilities include, at a minimum, evaluating the significant judgments made and the related conclusions reached by the firm when evaluating and reporting on the effectiveness of its QC system. Although we provided additional specificity and clarity to help firms implement the EQCF requirement,[48] we understand that firms have continued to face challenges with implementing the EQCF requirement.

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[47] Firms with a larger PCAOB audit practice are considered those firms that issued audit reports for more than 100 issuers in the prior calendar year.

[48] *See* PCAOB Letter to SEC Regarding Rule File No. PCAOB-2024-02 (Aug. 16, 2024) ("Board Letter"), *available at* https://assets.pcaobus.org/pcaob-dev/docs/default-

Most firm and firm-related groups that commented on the EQCF requirement did not support it.[49] Some commenters cited challenges and the costs associated with the EQCF requirement.[50] One commenter said the costs associated with the requirement could provide disincentives for mid-sized firms operating at or around the 100-issuer threshold to grow their public company audit practices.[51] While feedback received during implementation support efforts from firms subject to the requirement indicated that some firms expected to utilize their existing advisory structures for the EQCF, some commenters indicated that the role differs from their existing advisory board structures and necessitated the hiring of new individuals, requiring additional time and resources.[52] During implementation support efforts, at least one firm said it had engaged an EQCF. However, some commenters said there were challenges in identifying qualified individuals.[53] Some commenters did not believe there would be a corresponding improvement in audit quality that could justify the costs, especially in situations in which firms already have independent oversight in their governance structures.[54] Also, several commenters expressed concerns regarding the prescriptive nature of the EQCF requirement.[55]

An investor-related group endorsed the view expressed by the PCAOB in proposing the requirement that such an oversight function could reduce negative impacts of commercial considerations on decision making by firms and improve incentives to implement QC systems that more fully meet the interests of investors and financial statement users.[56] The same investor-related group also recommended requiring larger firms to have a "QC Committee" composed of at least three persons independent of the firm.[57] Another commenter supported retaining the EQCF requirement because it would provide a structured, independent, outside

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source/rulemaking/docket046/pcaob-board-letter-to-sec-regarding-rule-filing-2024-02.pdf?sfvrsn=cd8cde04_1; *Staff Guidance – Insights for Firms, QC 1000: A Firm's System of Quality Control* (Sept. 15, 2025), *available at* https://assets.pcaobus.org/pcaob-dev/docs/default-source/standards/documents/qc-1000---implementation-guidance-revised-9-15-2025.pdf?sfvrsn=9af42ad4_2.

49 See letters from BDO; CAQ; Crowe; Deloitte; EY; GT; PICPA; PwC; and RSM.

50 *See* letters from Crowe; EY; GT; and RSM.

51 *See* letter from TXCPA.

52 *See* letters from CAQ and Deloitte.

53 *See* letters from CAQ and Crowe.

54 *See* letters from Deloitte; EY; GT; and PwC.

55 *See* letters from Deloitte and PwC.

56 *See* letter from CII.

57 *See* letter from CII 2026.

perspective on the design and operation of the firm's system of quality management that firms have historically lacked.[58]

Based on our implementation support efforts and outreach discussions, we understand that implementing this requirement has proven more difficult and more costly than originally anticipated. We are concerned that the benefits of the requirement may not justify the costs, except potentially for the largest U.S. global network firms.

For that reason, we are proposing to rescind the EQCF requirement. We believe that rescinding the EQCF requirement may give firms greater flexibility to tailor their governance structure, including the involvement of independent voices and the extent of their responsibilities and authority, to the size, nature, and circumstances of the firm. The quality objectives for the governance and leadership component continue to call for (i) firm leadership to communicate and promote the firm's commitment to quality, (ii) the firm to clearly define leadership's responsibility for quality and hold them accountable, (iii) firm leadership to demonstrate a commitment to quality through actions and behaviors, (iv) the firm's strategic decisions and actions to be consistent with and support the firm's commitment to quality, and (v) resources to be obtained, developed, allocated, and assigned in a manner that enables an effective QC system and the performance of compliant engagements.[59] To achieve these objectives, firms are required to design and implement quality responses that are based on the related quality risks and the reasons for the assessments given to the quality risks. We have observed that some firms already incorporate independent oversight into their organizational and governance structure and they may continue to do so as part of their response to the quality risks associated with these quality objectives.

We have considered and are soliciting comment regarding alternatives to rescinding the EQCF requirement. We have considered retaining the EQCF requirement for only those firms that issue audit reports for more than 500 issuers in the prior calendar year. We considered this approach because these firms currently audit companies that make up approximately 98% of U.S. public market capitalization,[60] and they have a relatively large revenue base from issuer audits that could more easily support the incremental cost of an EQCF. Retaining the EQCF requirement for this population, therefore, may generate benefits to investors that justify the associated costs.

In addition, we have considered and are soliciting comment regarding the potential to amend the requirement for an independent oversight function to revert to the description initially proposed:

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58 *See* letter from CPA Club.

59 *See* QC 1000.25.

60 S&P Global Market Intelligence as of December 31, 2025.

If the firm issued audit reports with respect to more than 100 issuers during the prior calendar year, the firm's governance structure should incorporate an oversight function for the audit practice that includes at least one person who is not a partner, shareholder, member, other principal, or employee of the firm and does 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.

We believe by eliminating the prescriptive responsibilities of the EQCF regarding evaluation of significant judgments and related conclusions, this approach could potentially preserve many of the expected benefits of the EQCF requirement while providing greater flexibility, thereby potentially mitigating commenter concerns about costs and implementation challenges.

Questions

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

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?

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

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?

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?

D. Information and Communication

.53 The *quality objectives* established by the firm with respect to information and communication should include the following:

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e. If a firm communicates firm-level or *engagement*-level information with respect to the firm's audit practice, *firm personnel*, or *engagements*, such as firm or *engagement* metrics, to external parties, such information is accurate and not misleading and, with respect to any such metrics that are communicated in writing <u>and made publicly available by the firm</u>, the communication <u>provides an</u>

explanation~~explains~~ in reasonable detail of how the metrics were determined and, if applicable, how the method of determining them changed since the metrics were last communicated.

Note: The communication may provide an explanation either within the communication itself or by referring to a publicly available explanation presented elsewhere, such as the firm's website.

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QC 1000 requires a firm to establish a quality objective that if the firm communicates firm-level or engagement-level information with respect to the firm's audit practice, firm personnel, or engagements, such as firm or engagement metrics, to external parties, such information is accurate and not misleading and, with respect to any such metrics that are communicated in writing, the communication explains in reasonable detail how the metrics were determined and, if applicable, how the method of determining them changed since the metrics were last communicated.

As discussed in the QC 1000 adopting release, the information that this requirement applies to includes public communications about firm-level or engagement-level information, such as firm metrics and financial data. For example, some firms publish transparency or audit quality reports, either voluntarily or in response to the requirements of other jurisdictions, that contain data such as:

- Revenue breakdown by service line, by year, or by geographic segment;
- Professional staff ratios;
- Staff turnover ratios;
- Average training hours per professional; and
- Partner workload.

Firms may also communicate such data via webpages or other media, such as promotional publications, social media, interviews, or presentations via webcast or video.[61]

In connection with providing implementation support efforts, we received several questions on the scope of the requirement under QC 1000.53e. Some firms have expressed

[61] *See* PCAOB Rel. No. 2024-005, at 187.

concerns about the breadth of communications that the quality objective would apply to, highlighting the large number of metrics that firms communicate publicly or nonpublicly to external parties. Some firms also questioned the appropriateness of the requirement as it applies to nonpublic communications.

Based on the input received, we are proposing an amendment to narrow the requirement of QC 1000.53e regarding the need for an explanation of written metrics to those metrics that the firm makes publicly available. We believe that recipients of nonpublic communications regarding metrics, such as regulators, company management, and audit committees, are generally in a position to request additional information about the metrics if they desire it. Further, some nonpublic metrics may already be calculated in accordance with a method prescribed by the recipient (for example, in response to a regulatory requirement or as part of an audit committee request for proposal). In contrast, where metrics are publicly available, such as in firm transparency reports or promotional publications, these are usually one-way communications in which the external parties do not have the ability to ask questions or request clarification from the firm.

We believe that the proposed amendment could achieve our regulatory goal at lower cost. It stops short of requiring firms to incur the costs associated with making additional disclosures to recipients who can request more information if they need it, while still ensuring that recipients of public communications have access to an explanation of the metrics that have been provided.

In addition, we are proposing to add a note to paragraph .53e stating that the explanation of the method for determining metrics can be provided either within the public written communication that includes the metrics or by referring in the communication to a publicly available explanation presented elsewhere, such as the firm's website. If a firm elects to provide the explanation by referring to a publicly available explanation presented elsewhere, the firm would need to ensure that the explanation remains accurate and publicly available for as long as the firm continues to make the public written communication referring to it available. Given the volume of information that a firm might communicate about itself, and the possibility that the same information may be repeated through various communication platforms, we believe that permitting a firm to make reference to a single publicly available explanation could reduce unnecessary duplication of disclosures. We believe that providing a reference to where the explanation can be found in the same public written communication as the metric would preserve the importance of the explanation to the intended audience and their ability to easily access additional information if desired, and would not adversely impact the quality of information that firms make public about themselves.

During our implementation support efforts, some firms expressed uncertainty regarding which information would qualify as a metric subject to the requirement. We intend for the proposed requirement to apply only to calculated measures, not to underlying data. For

example, if a firm publicly discloses its auditor-employee headcount for a region or office, the firm would not need to describe how it counted the employees. The proposed requirement would apply, however, to any calculated figures derived using that data, such as the average years of experience for audit personnel (i.e., total years of audit experience divided by auditor-employee headcount).

Questions

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

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?

E. Monitoring and Remediation Process

1. Evaluating whether similar engagement deficiencies exist

.68 When an *engagement deficiency* exists, the firm should:

a. For *engagement deficiencies* relating to in-process *engagements*, take action to address the deficiency in accordance with *applicable professional and legal requirements* (to the extent necessary, before the issuance of the related *engagement* report(s)), such that the *engagement* ~~report(s) are~~ is free of significant engagement deficiencies~~appropriate in the circumstances~~;[40A]

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d. For *engagement deficiencies* that resulted or could result in (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*, ~~E~~evaluate whether similar *engagement deficiencies* exist on:

(1) Other in-process *engagements*, or would arise if remedial action is not taken;

(2) Other completed *engagements*, unless it is probable that the *engagement* report(s) are not being relied upon; and

(3) Work performed by the firm on other firms' *engagements*;

and if so, take actions described in paragraphs .68a.-c. above, as applicable.

[40A] A significant engagement deficiency exists when (1) the engagement team failed to obtain sufficient appropriate evidence or failed to perform interim review or attestation procedures necessary in the circumstances in accordance with the standards of the PCAOB, (2) the engagement team reached an inappropriate overall conclusion on the subject matter of the *engagement*, (3) the *engagement* report is not appropriate in the circumstances, or (4) the firm is not independent of its client. This concept aligns with "significant engagement deficiency" in AS 1220, *Engagement Quality Review* (*see* Notes to AS 1220.12, .17, .18B), but applies to all *engagements* as defined in this standard.

QC 1000 requires that, when the firm determines that an engagement deficiency exists, the firm should evaluate whether similar engagement deficiencies exist in other in-process engagements, completed engagements (unless it is probable that the engagement report is not being relied upon), and work performed on other firms' engagements, and if so, take actions as required by paragraphs .68a-c, as applicable. As defined in the standard, an engagement deficiency is an instance of noncompliance with applicable professional or legal requirements by the firm, firm personnel, or other participants with respect to an engagement of the firm, or by the firm or firm personnel with respect to an engagement of another firm.[62]

Some commenters said that the requirement in paragraph .68d could be complex, highly subjective, challenging, and costly to implement, and is somewhat duplicative of the more principles-based requirements for firms to perform monitoring of in-process and completed engagements using a risk-based approach.[63] One commenter said that the requirement to evaluate for similar engagement deficiencies could lead to various unintended consequences and costs that do not benefit audit quality, though it did not provide specific examples.[64] In connection with our implementation support efforts, some firms suggested that the requirement to evaluate whether similar engagement deficiencies exist on other engagements should apply only for engagement deficiencies related to an unsupported opinion.

Given this feedback, we are proposing to limit the requirement to evaluate whether similar engagement deficiencies exist so it applies only with respect to those engagement deficiencies that resulted or could result in (i) a failure to obtain sufficient appropriate evidence

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[62] QC 1000.A4.

[63] *See* letters from EY and KPMG.

[64] *See* letter from EY.

to support the conclusion reached on an engagement[65] or (ii) an inappropriate overall conclusion on the subject matter of an engagement.

The proposed amendment in clause (i) would not require that the engagement deficiency actually resulted in a failure to obtain sufficient appropriate evidence to support the conclusion on the engagement in which the engagement deficiency was identified. This would depend in part on the materiality to that specific engagement of the matter where the engagement deficiency arose. Rather, it would apply to engagement deficiencies that resulted or could result in a failure to obtain sufficient appropriate evidence. This approach is intended to focus effort in areas where there is a risk that engagement teams have not performed the work necessary to support the conclusion reached on an engagement.

Consider, for example, an audit engagement selected by the firm for monitoring that had an engagement deficiency related to the engagement team's failure to perform confirmation procedures for cash and cash equivalents held by third parties, as required by AS 2310, *The Auditor's Use of Confirmation*.[66] On this particular audit engagement, cash was not a significant account as it fell below the engagement's materiality threshold. Consequently, the team's failure to perform the required procedures did not result in a failure to obtain sufficient appropriate audit evidence in that engagement. In determining whether this engagement deficiency is subject to the requirements of paragraph .68d, the firm would need to determine whether a similar engagement deficiency (i.e., failure to perform cash confirmation procedures) resulted or could result in a failure to obtain sufficient appropriate evidence on another engagement of the firm (for example, where cash may be a significant account). If so, the firm would be required to take actions required by subparagraphs a-c of paragraph .68.

The concept of "an inappropriate overall conclusion on the subject matter of an engagement" reflected in clause (ii) aligns with one of the examples of a significant engagement deficiency in AS 1220, *Engagement Quality Review,* which requires that "an engagement quality reviewer may provide concurring approval of issuance only if . . . he or she is not aware of a significant engagement deficiency."[67] In an audit, for example, issuing an unqualified opinion when a qualified opinion was warranted would constitute an inappropriate conclusion on the subject matter of an engagement. In proposing AS 1220, the Board provided two other examples: failure to appropriately modify the engagement conclusion in response to (1) a

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[65] Because QC 1000 covers not only audit engagements but also review engagements and attestation engagements, reference to "sufficient appropriate evidence" is necessary as this concept aligns with the audit, review, and attestation standards.

[66] *See* AS 2310.24.

[67] Notes to AS 1220.12, .17, .18B.

material departure from generally accepted accounting principles or (2) a material weakness in internal control over financial reporting ("ICFR").[68]

We believe this approach could provide a more risk-based framework for evaluating whether similar engagement deficiencies exist, reducing compliance costs and sharpening the focus on the deficiencies that most directly threaten audit quality. Engagement deficiencies that would not be covered by an amended paragraph .68d, if adopted, 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*. These types of engagement deficiencies would still be required to be addressed in accordance with subparagraphs a-c of paragraph .68 and to be evaluated to determine whether QC deficiencies exist in accordance with paragraph .72.

Relatedly, we are also proposing to amend paragraph .68a and replace the language "the engagement report(s) are appropriate in the circumstances" with "the engagement is free of significant engagement deficiencies." The concept of a significant engagement deficiency is derived from AS 1220. As noted above, under that standard, an engagement quality reviewer ("EQR") is permitted to provide concurring approval of issuance only if, after performing with due professional care the review required by the standard, the EQR is not aware of a significant engagement deficiency.[69] We are proposing to add a footnote that describes what significant engagement deficiencies are and to clarify that the concept applies in this context with respect to all engagements (e.g., including engagements performed pursuant to the PCAOB's interim attestation standards), not only the types described in AS 1220. The proposed amendment to paragraph .68a would focus firms on matters that must be corrected before an audit report is issued or before an engagement conclusion is communicated to the company.[70]

2. Definition of QC deficiency

.A8 QC deficiency – A *QC observation* that, based on the evaluation under paragraph .72, individually, or in combination with one or more other *QC observations*, evidences:

(1) That the likelihood of the firm not achieving the reasonable assurance objective or one or more *quality objectives* has not been reduced to an acceptably low level;

Note: The likelihood of not achieving the reasonable assurance objective or one or more *quality objectives* would be above an acceptably low level if, for example, a *quality objective* is not established, a *quality risk* is not properly identified or

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68 *See Proposed Auditing Standard—Engagement Quality Review and Conforming Amendment to the Board's Interim Quality Control Standards*, PCAOB Rel. No. 2008-002 (Feb. 26, 2008), at 16.

69 Notes to AS 1220.12, .17, .18B.

70 *Cf.* PCAOB Rel. No. 2008-002, at 16 (describing significant engagement deficiencies).

assessed, or a *quality response* is not properly designed or implemented or is not operating effectively and other *quality responses* do not achieve the relevant objective(s).

(2) Noncompliance with requirements of this standard, other than those under "Documentation"; or

(3) Noncompliance with requirements of this standard under "Documentation" that adversely affects the firm's ability to comply with any of the other requirements of this standard.

A commenter,[71] and in connection with providing implementation support efforts some firms, expressed concern that differences between the definition of "QC deficiency" in QC 1000 and analogous terms in other quality management standards create significant operational and communication challenges and that without a consistent definition, quality control policies and procedures may become unclear and inconsistent. In particular, through our implementation support efforts, a few firms questioned the reason for the differences in the consideration of compensating responses in QC 1000 from other quality management standards. These firms questioned whether the Note to paragraph .A8(1) should be read as referring to a single quality response being "not properly designed or implemented or not operating effectively" even if the firm had other quality responses to the same quality risk that, in combination, reduced to an appropriately low level the risk that a quality objective would not be achieved.

After considering concerns raised, we are proposing to amend the definition of "QC deficiency" to clarify that a failure of a quality response would be regarded as evidencing a QC deficiency only if other quality responses do not achieve the relevant objective(s). This will make clear that, when firms have implemented more than one quality response to address the same quality risk, they can take those other quality responses into account when determining whether a QC deficiency exists, and no QC deficiency would arise if the other quality responses were effective in achieving the relevant objective(s).

Questions

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

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

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[71] *See* letters from GT and GT 2026.

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

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?

F. Evaluation of and Reporting on the QC System

1. Annual evaluation of the QC system

.77 Once a firm has been subject to the requirement to design, implement, and operate a QC system under paragraph .06 for at least five consecutive months~~Annually~~, the firm must annually evaluate the effectiveness of its QC system, based on the results of its monitoring and remediation activities, and conclude, as of ~~September 30 (~~the ~~"~~*evaluation date*,[44]~~"),~~ that its QC system:

a. Is effective in achieving the reasonable assurance objective~~with no unremediated *QC deficiencies*~~; or

Note: The firm's QC system is effective in achieving the reasonable assurance objective under paragraph .77a if, as of the *evaluation date*, there are no unremediated *QC deficiencies* other than those that, individually or in combination, are not severe.

b. Is effective in achieving the reasonable assurance objective except for ~~one or more~~ unremediated *QC deficiencies* that have a severe but not pervasive effect on the design, implementation, and operation of the QC system (and do not render the QC system not effective)~~ that are not *major QC deficiencies*~~; or

c. Is not effective in achieving the reasonable assurance objective~~(one or more *major QC deficiencies* exists)~~.

Note: An unremediated *QC deficiency* is one for which remedial actions that completely address the *QC deficiency* have not been fully implemented, tested, and found effective. For this purpose, implementation must be completed as of the *evaluation date* and testing and the determination of effectiveness must be completed no later than the date Form QC is due under paragraph .79 (or, if earlier, the date Form QC is filed).

[44] The selection of the firm's *evaluation date* may be influenced by the nature and circumstances of the firm and its *engagements*, including, for example, the firm's fiscal year-end or

the timing of monitoring activities. If the firm changes its *evaluation date*, the firm is required to provide notice of such change on Form QC.

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.A4A Evaluation date – The date selected by the firm as of which to evaluate its QC system under paragraph .77.

a. Evaluation date

QC 1000 requires that the firm perform an evaluation of the effectiveness of its QC system annually and as of September 30.

Some commenters suggested that firms be permitted to select their own evaluation date.[72] Staff have also learned through commenters[73] and implementation support efforts that some firms are experiencing challenges implementing the fixed evaluation date of September 30. One commenter explained that some firms have adopted a different evaluation date under ISQM 1 for operational and regulatory reasons, particularly due to the requirement to issue transparency reports within a fixed timeframe after fiscal year-end,[74] and that QC 1000 will cause increased costs and implementation challenges, including some firms being required to have multiple evaluation dates.[75] Another commenter said that allowing firms to choose their own date would enable firms to choose the most relevant date based on their unique business considerations, avoiding the cost and complexity of completing two separate annual evaluations at different times of the year.[76] Another commenter said that the fixed annual evaluation date of September 30 does not give adequate time to complete the majority of the calendar-year-end inspections typically conducted during an inspection cycle, perform root cause episodic and systemic analyses to identify QC deficiencies, design and implement remedial responses, and monitor the effectiveness of those actions all prior to September 30.[77] Another commenter stated that the fixed timeline does not take into account a firm's fiscal

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72 *See* letters from BDO; CAQ; CPA Club; Crowe; Deloitte; EY; and RSM.

73 *See* letters from BDO; EY; and GT.

74 *See* Article 13, paragraph 1, of Regulation (EU) 537/2014, *available at* https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2014:158:FULL#page=79 (requiring audit firms that carry out statutory audits of public interest entities to make public an annual transparency report "at the latest four months after the end of each financial year").

75 *See* letter from Deloitte.

76 *See* letter from EY.

77 *See* letter from BDO.

year-end, the normal cadence of its QC system, or existing processes aligned with prevailing business practices and regulatory standards.[78] This commenter further stated that, for instance, the fixed dates do not coincide with the firm's established internal and external inspection cycles, including peer review (when applicable), which serve as a critical input to the overall evaluation of the QC system.

We are proposing to amend QC 1000 to permit firms to select their own annual evaluation date for their QC system by adding a new defined term, "evaluation date," defined as the date selected by the firm as of which to evaluate its QC system under paragraph .77, and making conforming changes to paragraph .77.[79]

The choice of evaluation date is an aspect of QC system design and, as such, would have to have been made and documented when the firm becomes subject to the QC 1000.06 requirement to design, implement, and operate an effective QC system in compliance with this standard.

We are also proposing to include language in a new footnote to guide the firm's selection of evaluation date by recognizing that the firm's choice may be influenced by the nature and circumstances of the firm and its engagements, including, for example, the firm's fiscal year-end or the timing of monitoring activities. The firm has to have the information needed to reach a conclusion about the effectiveness of its QC system and to identify unremediated QC deficiencies as of the evaluation date, and for the individuals with ultimate responsibility and accountability and operational responsibility and accountability for the QC system as a whole, acting with due professional care, to certify the firm's report to the PCAOB on its annual evaluation of the QC system. This suggests that the evaluation date and the firm's monitoring and remediation cycle ought to be coordinated so that sufficient, timely information is available when needed about the implementation and operation of the QC system (including the status of remediation efforts) and the compliance of the firm's engagements with applicable professional and legal requirements. Because of the relationship between the evaluation date and the firm's monitoring and remediation activities, we do not anticipate that firms will change their selected evaluation date without a specific reason (e.g., regulatory requirements, business combination transactions, changes in fiscal year or business cycles).

We believe allowing each firm to select its evaluation date based on the particular facts and circumstances of the firm would be responsive to the implementation challenges experienced by some firms and, in particular, could reduce the burden and costs of multiple annual evaluations that some firms could have experienced due to having different required evaluation dates for their QC system under QC 1000 and other regulations to which they are

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[78] *See* letter from GT.

[79] *See* proposed QC 1000.06, .07b, and .53g in Appendix 1. *See also* proposed amendments to General Instructions 3 and 4 and Item 3.2 of Form QC in Appendix 2.

subject. It would also better align with the flexibility provided by other quality management standards, which permit firms to choose their own evaluation date. Additionally, we do not believe that allowing firms to select their own evaluation date would impair our ability to carry out our inspection program.

b. Obligation to evaluate the effectiveness of the firm's QC system

We are proposing to add language to paragraph .77 that would delay the point at which a firm is first required to evaluate its QC system. Under this proposed amendment, a firm would be required to evaluate its QC system once the firm has been subject to the requirement to design, implement, and operate a QC system under paragraph .06 for at least five consecutive months (whether due to the effectiveness of QC 1000 on December 15, 2026, or to the firm's later becoming subject to the requirements of QC 1000.06). We believe this new provision may be necessary, in a context where firms are choosing their own evaluation dates, to ensure that firms are not required to perform an evaluation of the QC system until the system has been operating long enough to provide sufficient information to support the evaluation.

For example, under the proposed amendments, if a firm that is subject to the requirements of QC 1000.06 when the standard becomes effective (i.e., on December 15, 2026) selects June 30 as its evaluation date, the firm would first evaluate the effectiveness of its QC system in accordance with QC 1000 as of June 30, 2027. Alternatively, if such a firm selects March 31 as its evaluation date, the firm would be required to first evaluate the effectiveness of its QC system as of March 31, 2028. As another example, if a firm first became subject to the requirements of QC 1000.06 because the firm becomes subject to applicable professional and legal requirements with respect to an engagement on June 1, 2027, and the firm selects July 31 as its evaluation date, the firm would be required to first evaluate the effectiveness of its QC system as of July 31, 2028.

c. Evaluation conclusions

QC 1000 requires the firm to evaluate annually and conclude that its QC system is effective, is effective except for one or more unremediated QC deficiencies that are not major QC deficiencies, or is not effective (i.e., one or more major QC deficiencies exists).

Some commenters[80] to the SEC and feedback received during our implementation support efforts raised issues with the evaluation framework under QC 1000 and suggested that we conform the evaluation framework with that of ISQM 1, in order to avoid differing conclusions under each standard. Although QC 1000 does not require firms to publicly disclose their evaluation conclusions and Form QC is not public, commenters have indicated that certain jurisdictions require firms to publicly provide the conclusion on the effectiveness of their QC

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[80] *See* letters from Baker Tilly; CAQ; Deloitte; EY; and GT.

system.[81] During our implementation support efforts, some firms stated that without providing their QC 1000 conclusion in addition to their conclusion under another quality management standard (e.g., ISQM 1), the disclosure could be considered misleading. Through our implementation support efforts, firms also repeatedly expressed concerns that differing conclusions could create comparability and clarity issues across jurisdictions, and could cause stakeholders to potentially misunderstand whether differences in reported conclusions reflect substantive differences in the effectiveness of the firm's QC system.

In response to this feedback and in an effort to align QC 1000 more closely with other quality management frameworks, such as ISQM 1, we are proposing to amend the conclusions related to the evaluation of effectiveness of the firm's QC system. Under proposed paragraph .77, the firm would be required to conclude, as of the evaluation date, that its QC system:

- Is effective in achieving the reasonable assurance objective; or
- Is effective in achieving the reasonable assurance objective except for unremediated QC deficiencies that have a severe but not pervasive effect on the design, implementation, and operation of the QC system (and do not render the QC system not effective); or
- Is not effective in achieving the reasonable assurance objective.

Our proposed evaluation conclusions are based on and generally align with the ISQM 1 conclusions.

To clarify when a firm may conclude that its QC system is effective in achieving the reasonable assurance objective under paragraph .77a, we are proposing to include a note explaining that such a conclusion would be appropriate when, as of the evaluation date, there are no unremediated QC deficiencies other than those that, individually or in combination, are not severe. This clarification is intended to emphasize that the presence of unremediated QC deficiencies does not, in all cases, preclude a conclusion that the QC system is effective. Rather, the determination depends on the severity of those deficiencies and their effect on the firm's ability to achieve the reasonable assurance objective. Under the proposed approach, QC deficiencies that are not severe, whether considered individually or in combination, would not indicate that the QC system is failing to operate effectively, which is consistent with the ISQM 1 evaluation framework and with the reasonable assurance objective of QC 1000.

A firm would conclude under proposed paragraph .77b if its QC system was effective in achieving the reasonable assurance objective except for unremediated QC deficiencies that have a severe but not pervasive effect on the design, implementation, and operation of the QC system (and do not render the QC system not effective). The parenthetical statement is

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[81] *See* letters from CAQ and Deloitte.

intended to avoid potential ambiguity by clarifying that if QC deficiencies are so severe as to prevent the firm from achieving the reasonable assurance objective, the appropriate conclusion would be under proposed paragraph .77c. A firm would conclude under paragraph .77c if its QC system was not effective in achieving the reasonable assurance objective.

Under our proposal, QC 1000 would continue to specify that an unremediated QC deficiency is one for which remedial actions that completely address the QC deficiency have not been fully implemented, tested, and found effective. We believe that this degree of precision is appropriate to avoid inconsistent and overly subjective interpretation of what counts as remediation. However, some firms have described, through comment letters[82] and during our implementation support efforts, time-constraint challenges related to testing the operating effectiveness of remedial actions by the evaluation date. We recognize that some remedial actions may need to operate for a period of time before their operating effectiveness can be tested. Therefore, we are also proposing to modify an existing note to paragraph .77 to explain that, while remedial actions must be fully implemented as of the evaluation date, they can be tested and found effective no later than the date Form QC is due under paragraph .79 (or, if earlier, the date Form QC is filed). The note distinguishes between the implementation of remedial actions and the demonstration of their effectiveness. For purposes of determining whether a QC deficiency is remediated, firms are expected to have fully implemented remedial actions as of the evaluation date, but the assessment of whether those actions are operating effectively may be supported by evidence obtained from testing after the evaluation date but before the Form QC filing date.

d. Evaluating the severity and pervasiveness of unremediated QC deficiencies

.78 In performing the evaluation and reaching the conclusion required by paragraph .77, the firm should evaluate the severity (i.e., the seriousness, including potential impact on the firm's ability to achieve the reasonable assurance objective) and the pervasiveness (i.e., the breadth of impact on the firm's QC system or across the firm's portfolio of *engagements*) of all unremediated *QC deficiencies*, individually and in combination, considering both quantitative and qualitative implications. In evaluating severity and pervasiveness, the firm should consider the following factors: ~~As of the *evaluation date*, the firm must evaluate unremediated *QC deficiencies* to determine whether *major QC deficiencies* exist. The firm's determination should be based on whether either of the presumptions described in paragraph .78a. arises and, when relevant, the factors listed in paragraph .78b.~~

~~a. A *major QC deficiency* would be presumed to exist if there is an unremediated *QC deficiency* or combination of unremediated *QC deficiencies* that:~~

[82] *See* letters from BDO and EY.

~~(1) Relates to the firm's governance and leadership that affect the overall environment supporting the operation of the QC system; or~~

~~(2) Results in or is likely to result in one or more significant engagement deficiencies[44] in *engagements* that, taken together, are significant in relation to the firm's total portfolio of *engagements* (for example, because of the number of *engagements* or *firm personnel* affected or likely to be affected, the associated revenue or profit, the associated risks, or the relevant industry).~~

~~Note: A firm may rebut the presumption that a *major QC deficiency* exists only if the firm demonstrates, taking into account both factors listed in paragraph .78b. (including all of the listed examples in paragraph .78b.(1)), that the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* does not constitute a *major QC deficiency*.~~

~~b. The following factors are relevant (i) in rebutting a presumption under paragraph .78a., and (ii) for unremediated *QC deficiencies* that do not give rise to a presumption under paragraph .78a., in determining whether a *major QC deficiency* exists:~~

~~(1) The severity and pervasiveness of the unremediated *QC deficiency* or combination of unremediated *QC deficiencies*, which may be evidenced by, for example:~~

~~(~~a.~~)~~ The number and nature of components or *quality objectives* directly or indirectly affected;

~~(~~b.~~)~~ The extent to which the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* relates to a component, *quality objective*, or *quality response* that affects the design or operation of other aspects of the QC system;

~~(~~c.~~)~~ The number and pervasiveness of root causes;

~~(~~d.~~)~~ The persistence of the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* over time;

e. Whether the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* has resulted or could result in significant engagement deficiencies;

f. Whether the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* has resulted or could result in the need for revisions to *engagement* reports, or is or could be associated with restatements of financial statements or

reissuances of company-prepared reports that are the subject of audit or attestation *engagements*;[44A]

~~(e)~~g. With respect to the factors in subparagraphs d.-f., ~~T~~the number and significance (to the firm's portfolio of *engagements*) of *engagements* that are affected by the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* or are likely to be affected in the future in the absence of remediation, and the nature of the effect ~~if the *QC deficiencies* are not remediated~~; and

~~(f) The number of *engagements* that may have unsupported opinions unless additional procedures are performed; and~~

~~(g) The number of *engagements* for which the firm revised and reissued its *engagement* report(s) because, after additional procedures were performed, the financial statements or management's report on internal control over financial reporting was restated or revised; and~~

~~Note: In evaluating each unremediated *QC deficiency* or combination of unremediated *QC deficiencies*, the firm would consider both quantitative and qualitative implications.~~

~~(2)~~h. The ~~extent~~effects of ~~to which~~any remedial actions that have been implemented, tested, and found to be effective.

~~44 A significant engagement deficiency exists when (1) the engagement team failed to obtain sufficient appropriate evidence in accordance with the standards of the PCAOB or failed to perform interim review or attestation procedures necessary in the circumstances, (2) the engagement team reached an inappropriate overall conclusion on the subject matter of the engagement, (3) the engagement report is not appropriate in the circumstances, or (4) the firm is not independent of its client. *See, e.g.*, Notes to AS 1220.12, .17, .18B.~~

[44A] Company-prepared reports subject to audit or attestation *engagements* include the report on internal control over financial reporting and broker-dealer compliance and exemption reports.

To enhance alignment with other quality management standards, we are proposing to eliminate the concept of a "major QC deficiency," including the associated presumptions. However, we are proposing to retain, in modified form, the examples relevant to determining whether a major QC deficiency exists as factors to consider in evaluating the severity and pervasiveness of unremediated QC deficiencies.

We are proposing to amend paragraph .78 to require firms to evaluate the severity and pervasiveness of unremediated QC deficiencies in reaching the evaluation conclusion under

paragraph .77. Proposed paragraph .78 would clarify that the firm's evaluation would consider all unremediated QC deficiencies individually and in combination, considering both quantitative and qualitative implications. It includes descriptions to clarify the meaning of severity and pervasiveness for purposes of this evaluation: Severity reflects the seriousness of a QC deficiency or combination of QC deficiencies, including its potential impact on the firm's ability to achieve the reasonable assurance objective, while pervasiveness reflects the breadth of impact of the QC deficiency or combination of QC deficiencies on the QC system or across the firm's portfolio of engagements.

In evaluating severity and pervasiveness, the firm would be required to consider the factors in paragraphs .78a-h. We believe that these factors could promote consistency by identifying situations that are particularly relevant in assessing the seriousness and breadth of unremediated QC deficiencies.

a. *The number and nature of components or quality objectives directly or indirectly affected*

This factor focuses on how many components or quality objectives of the QC system are affected, what they are, and whether the impact is direct or spread through other components or quality objectives.

b. *The extent to which the unremediated QC deficiency or combination of unremediated QC deficiencies relates to a component, quality objective, or quality response that affects the design or operation of other aspects of the QC system*

This factor focuses on how widespread the impact of the unremediated QC deficiency or combination of unremediated QC deficiencies is throughout the QC system.

c. *The number and pervasiveness of root causes*

This factor focuses on what the firm's root cause analysis reveals about why the QC deficiency occurred and how significantly or broadly it affects the QC system.

d. *The persistence of the unremediated QC deficiency or combination of unremediated QC deficiencies over time*

This factor focuses on the existence of a QC deficiency or deficiencies that recur or continue unremediated year over year.

e. *Whether the unremediated QC deficiency or combination of unremediated QC deficiencies has resulted or could result in significant engagement deficiencies*

This factor focuses on whether the unremediated QC deficiency or combination of unremediated QC deficiencies is leading to or likely to lead to significant engagement deficiencies.

f. *Whether the unremediated QC deficiency or combination of unremediated QC deficiencies has resulted or could result in the need for revisions to engagement reports, or is or could be associated with restatements of financial statements or reissuances of company-prepared reports that are the subject of audit or attestation engagements*[83]

This factor focuses on whether the unremediated QC deficiency or combination of unremediated QC deficiencies has already led or could lead, to revisions of engagement reports, or is or could be associated with financial statement restatements or reissuances of management reports on internal control over financial reporting or broker-dealer compliance or exemption reports.

g. *With respect to the factors in subparagraphs d.-f., the number and significance (to the firm's portfolio of engagements) of engagements that are affected by the unremediated QC deficiency or combination of unremediated QC deficiencies or are likely to be affected in the future in the absence of remediation, and the nature of the effect*

This factor focuses on how important the affected engagements are compared to the firm's overall practice under PCAOB standards.

The number and significance of affected engagements to the firm's portfolio of engagements depends on, for example, firm personnel affected or likely to be affected, the associated revenue or profit, the associated risks, and the relevant industry.

h. *The effects of any remedial actions that have been implemented, tested, and found to be effective*

Before the annual evaluation date, a firm may implement remedial actions that may reduce the severity or pervasiveness of an unremediated QC deficiency while not completely addressing it. These remedial actions would need to be implemented as of the evaluation date, and tested and found to be effective before Form QC is due and filed for a firm to take credit for them in this context. For example, in response to a QC deficiency related to a problem identified with the firm's audit software, a firm designs and implements five remedial actions as of the evaluation date. Of those five remedial actions, two remedial actions have been tested and found to be effective before Form QC is due and filed. When determining the severity and

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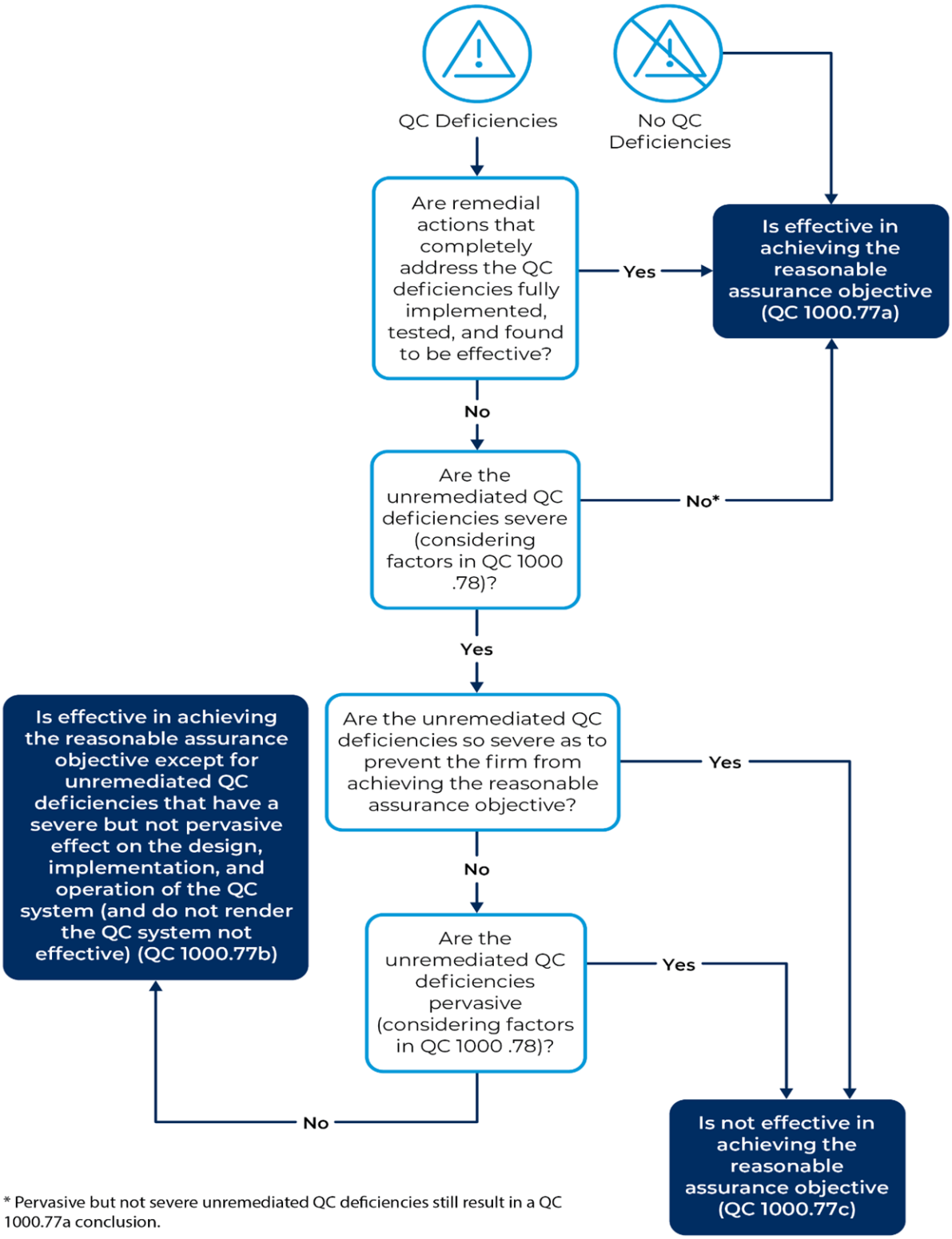
[83] Company-prepared reports subject to audit or attestation engagements include the report on internal control over financial reporting and broker-dealer compliance and exemption reports.

pervasiveness of an unremedied QC deficiency, the firm can consider the effects of the two remedial actions that have been tested and found to be effective.

We note that, despite increased alignment between the evaluation conclusions under QC 1000 and other quality management standards, the possibility remains that firms may reach different conclusions regarding the effectiveness of their QC system under QC 1000 and ISQM 1 or SQMS 1. Even if we adopted ISQM 1 wholesale, this could occur. For example, there are differences in the professional and legal requirements that apply to practice under PCAOB standards compared to other standards, including variations between applicable auditing standards and independence requirements. In addition, the relevant populations of engagements are different. There could also be differences relating to the individuals who perform such engagements or perform activities within the QC system, including with regard to training and supervision. In addition, QC 1000, as we propose to amend it, would continue to require a more structured approach to the evaluation process than other standards, including through the application of specific defined terms and factors that are required to be considered. We believe this more structured approach is important both in supporting consistent and appropriate evaluation of the QC system by firms and in providing a foundation for PCAOB oversight in the future.

The process flow below illustrates how to apply the above considerations in reaching one of the three evaluation conclusions in paragraph .77.

Annual Evaluation of the QC System



* Pervasive but not severe unremediated QC deficiencies still result in a QC 1000.77a conclusion.

e. Alternative evaluation conclusion considered

In developing the proposed amendments, we also considered an alternative evaluation framework under which a firm would be required to reach a binary conclusion (i.e., that its QC system is either effective or not effective in achieving the reasonable assurance objective). Under this approach, the evaluation would not include a separate category for the conclusion that the firm's QC system is effective in achieving the reasonable assurance objective except for unremediated QC deficiencies that have a severe but not pervasive effect on the design, implementation, and operation of the QC system. Under this alternative, binary approach, the concept of a major QC deficiency would also be removed from the standard.

Under a binary framework, we believe firms would still need a structure for evaluating identified QC deficiencies and determining whether those deficiencies result in a conclusion that the QC system is not effective. For this reason, we believe it would be important to preserve the factors from paragraph .78b as adopted, which would continue to inform the firm's assessment of the severity and pervasiveness of QC deficiencies and support its determination of whether the QC system achieves the reasonable assurance objective.

In considering this alternative, we took into account the IAASB staff's rationale in developing the evaluation framework in ISQM 1 (i.e., paragraph 54 of ISQM 1 provides for three possible outcomes). The IAASB staff noted the importance of ensuring that the appropriate conclusion is reached and said that a purely binary conclusion did not promote a sufficiently thoughtful consideration of the effectiveness of the QC system.[84] We likewise believe that while a binary approach may simplify the evaluation, it could reduce the rigor of the evaluation process and reduce the ability of the evaluation conclusion to convey meaningful information to the firm and the PCAOB about the nature and impact of identified QC deficiencies, particularly where QC deficiencies exist but do not rise to a level that would warrant an overall conclusion that the QC system is not effective.

2. Reporting to the PCAOB

.79 The firm must report annually to the PCAOB on Form QC, in accordance with the instructions to that form, the results of the evaluation of its QC system no~~t~~ later than 60 days after the *evaluation date*~~November 30~~.

.80 The contents of the firm's reporting to the PCAOB must include the following:

[84] *See* paragraph 136 of Basis for Conclusions Prepared by the Staff of the IAASB, December 2020, International Standard on Quality Management (ISQM) 1 (Previously International Standard on Quality Control 1), *available at* https://www.ifac.org/_flysystem/azure-private/publications/files/IAASB-ISQM-1-Basis-for-Conclusions.pdf.

a. The firm's conclusion that, as of the *evaluation date*, the firm's QC system:

(1) Is effective in achieving the reasonable assurance objective~~ with no unremediated *QC deficiencies*~~;

(2) Is effective in achieving the reasonable assurance objective, except for ~~one or more~~ unremediated *QC deficiencies* that have a severe but not pervasive effect on the design, implementation, and operation of the QC system (and do not render the QC system not effective)~~that are not *major QC deficiencies*~~; or

(3) Is not effective in achieving the reasonable assurance objective~~(one or more *major QC deficiencies* exists)~~.

b. If~~,~~ ~~the firm reports a conclusion under paragraph .80a.(2) or paragraph .80a.(3)~~as of the *evaluation date*, the firm has any unremediated *QC deficiencies*, a description of each unremediated *QC deficiency*~~, including each *major QC deficiency*,~~ consisting of:

(1) The requirements of this standard or the *quality objective(s)* to which it relates;

(2) The firm's basis for determining it was a *QC deficiency* as of the *evaluation date*; and

(3) A summary of the remedial actions taken and planned to be taken to address the *QC deficiency*, as well as the timing and the status of such actions, including a summary of actions taken or to be taken by the firm to address the risk that the *QC deficiency* resulted or could result in significant engagement deficiencies~~the issuance of unsupported *engagement* reports~~.

~~c. If a *major QC deficiency* is presumed to exist but the determination was made that there is no *major QC deficiency*, the basis for such determination~~.

a. Reporting on the annual evaluation of the effectiveness of the QC system

QC 1000 provides that firms have until November 30 to report on Form QC to the PCAOB based on an evaluation date of September 30. This provides firms with 61 days after the evaluation date of September 30 to file Form QC. Based on the proposed amendment discussed above in Section III.F.1.a. to permit firms to select their own evaluation date, we are proposing to amend the due date of Form QC in paragraph .79 to, similarly, provide the firm with 60 days after its chosen evaluation date to file Form QC. We also propose to amend the Form QC

reporting rule, PCAOB Rule 2203A, *Report on the Evaluation of the Firm's System of Quality Control*, and General Instruction 3 to Form QC to reflect this proposed amendment, as reflected in Appendix 2.

We also propose to amend General Instruction 4 to Form QC to clarify the reporting period covered by the firm's evaluation, as shown in Appendix 2. As proposed, the reporting period would be the period beginning the day after the most recent previous evaluation date and ending on the evaluation date, with the following exceptions to the beginning of the reporting period:

- If a firm has not previously been required to evaluate its QC system under QC 1000, the reporting period is the period beginning on the date the firm first incurred an obligation to design, implement, and operate a QC system under QC 1000.06.

- If a firm was previously required to evaluate its QC system under QC 1000, but such obligation lapsed because the firm ceased having any obligations under applicable professional and legal requirements with respect to one or more engagements, the reporting period is the period beginning when the firm subsequently incurred an obligation to design, implement, and operate a QC system under QC 1000.06.

Under this proposed amendment, the reporting period will generally be twelve months long, but it will be longer or shorter if the obligation to design, implement, and operate the QC system arises mid-period (whether by virtue of the effective date of QC 1000 or the firm's otherwise becoming subject to the requirement to design, implement, and operate the QC system).

QC 1000 will continue to require that firms report all unremediated QC deficiencies as of the evaluation date on Form QC, regardless of the conclusion reported under paragraph .80a. Accordingly, a firm's Form QC reporting would need to include any unremediated QC deficiencies identified as of the evaluation date, including QC deficiencies that were determined not to be severe or pervasive. We continue to believe that reporting of all unremediated QC deficiencies will inform various aspects of our oversight activities. Through our implementation support efforts, several firms suggested that we align the conclusions with ISQM 1 while retaining the requirement to report unremediated QC deficiencies to the PCAOB.

Based on the proposed amendments described above in Sections III.F.1., additional conforming amendments are proposed to paragraph .80 and Form QC. We are also proposing amendments to paragraph .80 and Form QC to replace the language "the issuance of unsupported opinions" with "significant engagement deficiencies" consistent with the proposed amendment described in Section III.E.1.

b. Reporting changes to the firm's evaluation date

Under the proposed amendments to QC 1000.77, as discussed above in Section III.F.1.a., each firm would select its own evaluation date. We are proposing that any change in the evaluation date, together with a brief statement of the firm's rationale for making the change, would be reported on Form QC within 30 days after the firm's decision. We believe this information would inform the timing of our oversight efforts.

To codify this requirement, we are proposing to recaption Rule 2203A as "*Reporting on the Evaluation of the Firm's System of Quality Control,*" amend paragraph (a) of Rule 2203A to require notification of a change in the evaluation date on Form QC, and amend paragraph (b) of Rule 2203A to require such notification to be filed no later than 30 days after the firm's decision to change the evaluation date.

Relatedly, we are proposing to amend Form QC to add a new Item 1.2, *Change to the Evaluation Date*, for providing notice of a change to the evaluation date, including the new evaluation date and a brief statement of the rationale for making the change. Additional language is also proposed to be added to General Instruction 3 to explain that Form QC is required to be filed no later than 30 days after the firm's decision to change the evaluation date and that a notification of change in the evaluation date need only include a completed Part I and the signed certification in Part V of Form QC. See Appendix 2 for proposed amendments to Form QC.

Questions

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

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?

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?

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

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

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

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

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?

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?

G. Documentation

.84 ~~A complete and final set of documentation as required by paragraphs .81-.83 with respect to the 12-month[48] period ended the prior September 30 and any evaluation required as of that date should be assembled for retention not later than December 14 ("QC documentation completion date").~~No later than 14 days after Form QC is filed (or due to be filed, if earlier) ("QC documentation completion date"), the firm should complete the documentation required by paragraphs .81-.83 with respect to the period covered by the firm's annual evaluation and retain it in a manner that permits timely retrieval.

~~48 In the first year that the firm is required to evaluate its QC system under paragraph .77, the period is from the date on which the firm becomes subject to such requirement to the next September 30.~~

QC 1000 provides firms until December 14 following the firm's annual evaluation to assemble for retention a complete and final set of QC documentation.

Commenters expressed concern regarding the costs that would be incurred to meet the documentation requirements of the standard.[85] In connection with providing implementation support efforts, we have learned that some of these costs are related to firms interpreting a "complete and final set of documentation" to be similar to an audit file after the completion of an engagement. Firms explained that, unlike engagement documentation, a firm's QC system involves many ongoing systems that would be unable to be stopped and "assembled for

[85] *See* letters from Deloitte; EY; GT; KPMG; and PwC.

retention" at a particular date. Some firms, through comment letters[86] or through our implementation support efforts, said that significant costs would be incurred related to the implementation of new or enhanced systems for purposes of meeting the requirement. One firm stated during our implementation support efforts that it anticipated needing to take thousands of screenshots of documentation residing in source systems in order to assemble it within the central QC documentation. Other firms described similar implementation challenges relating to the transfer of large amounts of QC documentation into a single central repository for the purposes of compliance with QC 1000. One commenter also raised concerns regarding the central maintenance of confidential personnel or privileged information and the possible risks this may create.[87]

After considering concerns raised regarding implementation of the documentation requirements, we are proposing amendments to QC 1000.84 to clarify that the QC documentation should be completed and retained "in a manner that permits timely retrieval," rather than "assembled for retention," by the QC documentation completion date. We believe that this proposed amendment could reduce the burdens and costs associated with preparing and retaining the required documentation of the QC system while still accomplishing our regulatory goals, including enabling PCAOB inspection of the design, implementation, and operation of the QC system and the firm's QC system evaluation.

We believe the proposed amended documentation requirement would clarify that firms are permitted to maintain the documentation of their QC system in the documentation's original system of record and not require the potentially costly and time-consuming transfer and assembly of documentation from the various source systems into a single system for archiving and retention. In addition to clarifying that the firm need not transfer the documentation between systems, we believe that this proposed amendment would also address concerns regarding the need for new technology solutions to be implemented by the firm for the purpose of meeting QC 1000's documentation requirements because the revised requirement would make clear that documentation can continue to exist within the systems in which it originated or was used as long as it remains available for retrieval, e.g., for purposes of subsequent monitoring or inspection. We believe that this proposed amendment would also alleviate concerns regarding data confidentiality such that documentation can continue to exist in the system of record without creating additional data transfer risks or the potential increase to the number of individuals with access rights to the data.

In addition, we acknowledge that a firm's QC system is continuously operating and the firm might not have the capability to take snapshots of the documentation at a point in time or for the systems to be locked down and archived. Therefore, the proposed amended requirement would require that the documentation be retained in a manner that permits

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86 *See* letters from GT and KPMG.

87 *See* letter from PwC.

timely retrieval. Firms are not expected to continuously or periodically take a snapshot of the system's data to meet this amended requirement. However, given that QC documentation may reside within live systems under this amended requirement, the firm would need to be able to access and timely retrieve the documentation required by paragraphs .81-.83 as it existed at the time that it was considered complete. Documentation would be considered timely retrievable when it is made available in a manner that does not hinder an experienced auditor's ability to understand the design, implementation, and operation of the QC system during a particular evaluation period in accordance with QC 1000.83b and the accompanying note.

QC 1000 requires that the firm perform an evaluation of the effectiveness of its QC system annually as of September 30, report on that evaluation to the PCAOB not later than November 30, and complete its QC documentation by December 14. In conjunction with the proposed amendments to paragraphs .77 and .79 of QC 1000, which would permit firms to select their own evaluation date and report on that evaluation no later than 60 days after that date, we are also proposing to amend the QC documentation completion date to be 14 days after Form QC is filed (or due to be filed, if earlier).

.86 The firm must retain the documentation of its QC system required under paragraphs .81-.83 and paragraph .85 for ~~seven~~five years from the QC documentation completion date, unless a longer period of time is required by law.

QC 1000 includes a requirement that the firm retain QC documentation for seven years from the QC documentation completion date, unless a longer period is required by law.

Commenters raised several concerns regarding the seven-year document retention requirement.[88] Several of these commenters suggested that requiring the retention of large volumes of documentation for a period of seven years is creating implementation challenges such as increased costs and operational complexity.[89] Some commenters stated that a requirement to retain documentation for seven years does not improve audit quality and creates an unnecessary burden on firms without a corresponding benefit.[90] During our implementation support efforts, some firms stated that they would encounter challenges if systems that hold QC documentation were retired and would incur costs to maintain system licenses for seven years. One firm stated that some firms operate in jurisdictions that require documentation to be retained for only five years and said that they were experiencing implementation challenges with changing to a seven-year retention requirement. Another firm

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88 *See* letters from CAQ; Crowe; Deloitte; EY; GT; and KPMG.

89 *See* letters from Deloitte; EY; GT; and KPMG.

90 *See* letters from Crowe; Deloitte; and KPMG.

stated that seven years goes beyond what it would consider necessary and conflicts with some of its current system policies, such as its email retention policy.

Some commenters stated that the requirement to retain documentation for seven years is significantly different from ISQM 1[91] and suggested that this difference causes challenges.[92] We do not believe that it would be appropriate, in light of our statutory mandate, to follow a similar approach to ISQM 1, whereby the firm need retain QC documentation only for a period that is sufficient to enable the firm's own monitoring of its QC system (or for a longer period if required by law or regulation). Such a change would adversely affect the PCAOB's oversight activities relating to a firm's QC system and would potentially have an impact on audit quality.

After considering implementation challenges with the seven-year retention requirement, we are proposing to amend paragraph .86 to reduce the QC documentation retention period to five years from the QC documentation completion date. We believe that reducing the number of years that firms are required to retain QC documentation to five would not adversely affect firms' ability to monitor their QC systems or the PCAOB's ability to inspect, and would not otherwise have any impact on audit quality. Furthermore, the approach we are suggesting does not conflict with ISQM 1. On the contrary, ISQM 1 expressly contemplates that regulators such as the PCAOB may require a longer retention period than the firm itself would deem sufficient for purposes of ISQM 1.

Questions

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

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

H. Additional Commenter Feedback on QC 1000

Comments received on the Board's strategic priorities that relate to the requirements of QC 1000 and have not previously been addressed in the QC 1000 rulemaking process are generally discussed above, in the context of the requirements to which they relate. In addition, one firm commenter suggested that the Board re-evaluate the requirement in paragraph .62b of QC 1000 to inspect at least one completed engagement for each engagement partner on a

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[91] ISQM 1 requires the firm to establish a period of time for the retention of documentation for the system of quality management that is sufficient to enable the firm to monitor the design, implementation and operation of the firm's system of quality management, or for a longer period if required by law or regulation. *See* paragraph 60 of ISQM 1.

[92] *See* letters from CAQ; Deloitte; EY; and GT.

cyclical basis, irrespective of engagement-level risk and the effectiveness of other QC activities.[93] The commenter said the requirement posed particular challenges for non-U.S. firms where PCAOB engagements are a relatively small portion of their overall audit portfolio, subjecting the same engagements or partners to repeated inspection. We continue to believe that this requirement is appropriate and that inspection of non-PCAOB engagements would not be an adequate substitute in light of the differences in applicable professional and legal requirements. We also note that paragraph .62b does not mandate any particular frequency for such inspections, although a firm using a cycle longer than every three years would have to demonstrate how its chosen cycle is adequate to provide a reasonable basis for detecting engagement deficiencies and QC deficiencies.

IV. PROPOSED AMENDMENTS TO OTHER PCAOB FORMS

We are proposing amendments to PCAOB reporting forms to align terminology, concepts, and cross-references with the proposed amendments to QC 1000 discussed in Section III.

In addition, in connection with the QC 1000 adoption, Form 1 and Form 2 were amended to include an item in which firms confirm whether they have designed a QC system in accordance with QC 1000. If we adopt the proposed amendments discussed in Section III.A., we would also make corresponding proposed amendments to remove the instructions and requirement for firms to confirm whether they have designed a QC system in accordance with QC 1000.

The text of the proposed amendments to Form 1 and Form 2 appears in Appendix 3.

Questions

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

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?

V. ECONOMIC CONSIDERATIONS

The Board is mindful of the economic impacts of its standard setting. When the Board adopted QC 1000, it included an economic analysis of the new standard in the adopting release, including discussion of the benefits and costs of key provisions, some of which would be

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[93] *See* letter from KPMG 2026.

affected by the proposed amendments.[94] The Board also submitted a comment letter to the SEC that provided additional information regarding its economic analysis, including the benefits and costs of the EQCF requirement, which the Board is proposing to eliminate.[95] When the SEC approved QC 1000, it included additional discussion of the benefits and costs of certain of the provisions of QC 1000 and related amendments in its order granting approval.[96]

In this section we provide some discussion of the benefits and costs of the proposed amendments, including, for some of the proposed amendments, discussion of new information. There are limited data and research findings available to estimate quantitatively the economic impacts of the proposed amendments. Therefore, the economic considerations are largely qualitative in nature. However, where reasonable and feasible, the economic considerations incorporate newly available quantitative information for public review and comment.[97] The economic considerations also consider information about firms' implementation activities obtained through the PCAOB's implementation support efforts. We encourage commenters to provide additional data and information that could inform the Board about the benefits and costs of the proposed amendments.

The economic considerations discussed in this section consider potential impacts relative to a regulatory baseline in which QC 1000, as originally adopted by the PCAOB and approved by the SEC, will be effective. Since QC 1000 is not yet effective, the economic considerations acknowledge that the proposed amendments, if adopted, could allow many firms to avoid some QC system design and implementation costs that would be incurred if QC 1000 were to take effect as originally adopted. Notably, however, we believe certain design and implementation costs may have already been incurred and likely could not be recovered.

In the adopting release, we noted that QC 1000 would benefit investors and other financial statement users by improving compliance with applicable professional and legal requirements.[98] We explained that QC 1000 would achieve this by (1) explicitly connecting the components of the QC system into an integrated cycle of risk assessment, performance monitoring, and remediation; (2) emphasizing accountability to the reasonable assurance objective; and (3) enhancing the Board's ability to inspect and enforce compliance.[99] We noted that improved compliance with auditing standards can improve financial reporting quality,

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[94] *See* PCAOB Rel. No. 2024-005, at 345-351, 355-360.

[95] *See* Board Letter.

[96] *See* SEC Rel. No. 34-100968.

[97] Staff gathered data and performed this analysis in the first and second quarters of 2026. The analysis relies on PCAOB filings data available as of May 12, 2026.

[98] *See* PCAOB Rel. No. 2024-005, at 341.

[99] *See id.* at 341.

benefiting investors. We also noted that improved financial reporting quality can improve capital market efficiency, increase capital formation, and reduce cost of capital to audited companies.[100] Regarding costs, we noted that there would be direct costs to firms to design and, as applicable, implement and operate a QC system that complies with QC 1000.[101] We noted that the design and implementation costs would be largely fixed in nature and would decline over time.[102] We also noted there could be indirect costs to audited companies to the extent firms request more information or require greater fees.[103]

With QC 1000 as the baseline, this section discusses the impacts of the proposed amendments through the lens of augmentation or attenuation of these overarching impacts. For example, to the extent a proposed amendment reduces the effectiveness of firms' QC systems, this could negatively impact compliance with applicable professional and legal requirements and in turn financial reporting quality. Conversely, to the extent a proposed amendment reduces direct costs to audit firms, it could also benefit audited companies in the form of lower audit fees. Where appropriate, we have noted compensating factors that may attenuate these impacts. For example, since QC 1000 establishes outcome-based quality objectives, risk created by reduced requirements in one area may be addressed by other requirements in a related area.

With these considerations in mind, we begin below by first discussing two types of data that are relevant to the potential economic impacts of the proposed amendments: first, the number of firms that are subject to particular provisions of QC 1000, and second, recent trends in the number of firms that requested to withdraw from registration or applied for registration with the PCAOB. We then turn to discussion of the benefits and costs of specific proposed amendments. We end with discussion of differential impacts for firms of different sizes and impacts on emerging growth companies (EGCs).

A. Number of Firms Subject to QC 1000 Provisions

QC 1000 applies to all firms, but certain of its provisions apply to only a subset of firms. Specifically:

- All firms are required to design a QC system that complies with QC 1000.
- Firms must implement and operate a QC system that complies with QC 1000 when they lead an engagement under PCAOB standards, play a substantial role in the

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100 *See id.* at 344.

101 *See id.* at 352.

102 *See id.* at 353.

103 *See id.* at 355.

preparation or furnishing of an audit report (as defined in our rules), or have current responsibilities under applicable professional and legal requirements regarding any such engagement.[104] We refer to firms that are required to implement and operate a QC system as "full-implementation" firms. Under QC 1000 as adopted, all other firms are required to design (but not implement or operate) a QC system; while we refer to these herein as "design-only" firms, the Board is proposing to rescind this requirement.

- Firms that issued audit reports with respect to more than 100 issuers in the prior calendar year are required to implement several additional requirements.[105]

Table 1 summarizes the number of firms that would likely fall into various categories, including the categories discussed above. Firms that reported any engagements on their Form 2 filings from the prior seven reporting years are classified as full-implementation firms because they are likely subject, at a minimum, to audit documentation requirements. Table 1 is relevant to several of the analyses that appear below.

- Table 1 shows that 49% (734 ÷ 1,489) of the firms in our sample would be design-only firms. Figure 1 in Section V.B. below utilizes the same methodology to identify design-only firms. Section V.C. discusses the impacts of the proposed amendment to rescind the design-only requirement, which would primarily impact the design-only firms.

- Table 1 also shows that 1% ((5 + 7) ÷ 1,489) of the firms in our sample would be subject to QC 1000's requirements that apply to firms that audit more than 100 issuers; to the extent that any such requirement is adjusted to apply only to firms that audit more than 500 issuers, then the table shows that seven fewer firms would be subject to such requirement. Section V.E. below discusses the impacts of the proposed amendment to rescind the EQCF requirement, which is one such

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[104] An "engagement" is any audit, attestation, 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). *See* QC 1000.A3. Playing a substantial role in the preparation or furnishing of an audit report means (1) to perform material services that a public accounting firm uses or relies on in issuing all or part of its audit report, or (2) to perform the majority of the audit procedures with respect to a subsidiary or component of any issuer, broker, or dealer, the assets or revenues of which constitute 20% or more of the consolidated assets or revenues of such issuer, broker, or dealer necessary for the lead auditor to issue an audit report. *See* PCAOB Rule 1001(p)(ii).

[105] *See* PCAOB Rel. No. 2024-005, at 9. Staff note that broker-dealer audit reports are not counted for purposes of determining whether firms are required to implement these additional requirements.

requirement with a 100-issuer threshold. Section V.J. provides additional discussion on how the impacts would vary by firm size.[106]

- Finally, Table 1 shows that 23% (336 ÷ 1,489) of the firms in our sample issued no audit reports for issuers during the 2025 reporting period yet would still qualify as full-implementation firms based on (i) broker-dealer audit reports issued during the 2025 reporting period; (2) substantial roles played with respect to an issuer or broker-dealer audit report during the 2025 reporting period; or (3) issuer or broker-dealer audit reports issued or substantial roles played with respect to such audit reports during the six prior reporting periods.

Table 1. Full-Implementation and Design-Only Firms, U.S. and Non-U.S.

	Firms	U.S. Firms	Non-U.S. Firms
All firms	1,489	662	827
Full-implementation firms	755	393	362
By recent issuer audit report count			
More than 500	5	5	0
101 – 500	7	7	0
1 – 100	407	192	215
0	336	189	147
Design-only firms	734	269	465

Source: PCAOB Form 2 filings.

Notes: (1) Table 1 shows the counts of firms registered with the PCAOB as of March 31, 2025, excluding firms with withdrawal pending or suspended status. U.S. and non-U.S. firms are defined based on firm headquarters locations as indicated in their required PCAOB filings. Staff considered firms registered as of March 31, 2025, because the most recent Form 2 filings as of the date of this analysis cover the period from April 1, 2024, through March 31, 2025. The number of firms has changed since March 31, 2025, due to registration approvals and withdrawals from registration.

(2) Staff identified full-implementation and design-only firms based on their annual Form 2 fillings for the 2019 through 2025 reporting periods, which cover firm activity from April 1, 2018, to March 31, 2025. Staff classified a firm as full-implementation if the firm reported on any of its 2019 through 2025 Form 2 filings that it issued an audit report with respect to any issuer, broker, or dealer or that it played a substantial role with respect to any such audit report during the 2019 through 2025 reporting periods. On such engagements, the firms in our sample would likely have been subject at least to audit documentation requirements as of March 31, 2025. Staff classified all other firms as design-only firms. Staff assumed that a firm that did not file a Form 2 for a given reporting period did not lead or play a substantial role in any issuer or broker-dealer audit during the reporting period. The staff's methodology may misassign firms to the extent firms incorrectly completed or failed to

[106] The number of firms that will be subject to QC 1000's requirements that apply to firms that issued audit reports for more than 100 issuers in the prior calendar year may differ because Table 1 presents counts of issuer audit reports issued during the 2025 reporting period, as reported by firms in their Form 2 filings, which is not a calendar year. Staff note that firms that have issued audit reports for more than 100 issuers during the prior calendar year are subject to annual inspection and, as of the time of this analysis, 13 firms are subject to annual inspection.

file their Form 2. A firm's implementation status (i.e., full-implementation or design-only) as of March 31, 2025, is hypothetical since QC 1000 was not in effect at that time. A firm's actual implementation status may be different when QC 1000 becomes effective.

(3) For purposes of categorizing full-implementation firms by their recent issuer audit report counts, staff referred to the number of audit reports issued by the firm for issuers based on the firm's 2025 Form 2 filing.

In the adopting release, we said we believed that most firms had either implemented ISQM 1 already or would implement SQMS 1 when it goes into effect.[107] We noted that one commenter said that nearly all firms are subject to multiple QC standards, including ISQM 1, and concluded that the comments indicated that firms have made progress implementing the quality management standards of other standard setters.[108] We also cited several public information sources that supported our view that most firms will be complying with either ISQM 1 or SQMS 1.[109]

We continue to believe most firms are subject to either ISQM 1 or SQMS 1, which share many common features with QC 1000. This view is informed by several staff analyses of public data sources.[110] In the adopting release, we acknowledged that even firms that have an ISQM 1

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[107] *See* PCAOB Rel. No. 2024-005, at 330.

[108] *See id.* at 331.

[109] *See id.* at 331.

[110] Staff performed several quantitative analyses to test our view that most firms are subject to either ISQM 1 or SQMS 1. First, using the AICPA Peer Review public website, staff manually checked whether U.S.-headquartered firms had been peer reviewed as part of the AICPA peer review program and are currently enrolled in the program. Staff found that 79% of these U.S. firms were peer reviewed and are currently enrolled in the program and thus would likely be subject to SQMS 1. Second, staff's review of firms' responses to Item 5.2 of their most recent Form 2 submissions indicates that 71% of non-U.S.-headquartered firms have an audit-related membership, affiliation, or similar arrangement (i.e., firms that answered "Yes" for either Item 5.2a.1 or Item 5.2a.2). These firms may obtain QC policies and procedures derived from ISQM 1 as part of these relationships. Third, 39% of non-U.S.-headquartered firms are members of the six largest global networks (BDO International Ltd., Deloitte Touche Tohmatsu Ltd., Ernst & Young Global Ltd., Grant Thornton International Ltd., KPMG International Cooperative, and PricewaterhouseCoopers International Ltd.). We believe these firms have likely adopted policies and procedures derived from ISQM 1 because these six global networks generally encourage member firms to adopt their global quality management frameworks which generally encompass ISQM 1. *See*, *e.g.,* PricewaterhouseCoopers U.S.'s 2025 Transparency Report (Oct. 31, 2025) at 4, *available at* https://www.pwc.com/us/en/about-us/assets/pwc-us-2025-transparency-report.pdf. Fourth, based on information published by the International Federation of Accountants (IFAC) and a web search for official pronouncements from local jurisdictions, staff identified countries that indicate that they have adopted ISQM 1 or similar quality management standards (*see*, *e.g.*, the "Quality Assurance" section of Switzerland's profile page on the IFAC webpage, *available at* https://www.ifac.org/about-ifac/membership/profile/switzerland, indicating that Switzerland "has issued national quality management standards . . . which are based on the International Standards on Quality Management

or SQMS 1 QC system in place will incur additional costs to design and implement QC 1000 requirements that are incremental to ISQM 1 and SQMS 1.[111] As described in more detail later in this section, the proposed amendments should mitigate some of these incremental costs. For example, the proposed amendments would rescind the requirement for all firms to design a QC

(ISQM) issued by the International Auditing and Assurance Standards Board (IAASB)"). Eighty-nine percent of non-U.S.-headquartered firms are headquartered in these countries. Fifth, just 8% of full-implementation firms reported on their 2025 Form 2 filings in Item 3.2a that 100% of their total fees billed to all clients for services rendered during the reporting period were attributable to fees billed to issuer audit clients. This suggests that few full-implementation firms specialize only in audits of issuers under PCAOB standards. We note that the letter from ACC said that many firms have already implemented international quality management requirements.

[111] *See* PCAOB Rel. No. 2024-005, at 351. The 2026 letter from RSM said there would be costs operating two separate quality control standards. The CAQ 2026 Letter provides some evidence related to (1) the overall costs to operate firms' systems of quality control and (2) the onetime and ongoing costs of the QC 1000 requirements that are incremental to ISQM 1 and SQMS 1. The CAQ 2026 Letter indicates that the CAQ obtained estimated cost data from nine of its member firms. Based on the letter, the surveyed firms (1) generally have the largest issuer portfolios; (2) collectively audit 99.6% of U.S. market capitalization; and (3) utilized different methodologies and assumptions when preparing their responses. Regarding overall costs, the letter reports that for respondents that were unable to gather the necessary data to quantify the incremental costs of ISQM 1, the cost to operate their respective systems of quality control is over half a billion dollars annually. Based on the letter, it is unclear whether this cost estimate refers to costs incurred by individual respondents or to total costs incurred by all respondents. We recognize that firms' systems of quality control require significant resources. Accordingly, as part of the adopting release, PCAOB staff conducted a voluntary survey of the U.S. members of the six largest global networks ("U.S. GNFs") on the resources they employ to design, implement, and operate QC policies and procedures. *See* PCAOB Rel. No. 2024-005, at 318. However, the CAQ 2026 Letter does not describe the methodology for defining the scope of the system of quality control (e.g., whether it includes engagement-level work related to the system of quality control, whether it includes spending on information technology). Regarding costs associated with QC 1000 requirements that are incremental to ISQM 1, the letter reports that, for respondents that were able to gather the necessary data, these costs are 224% of ongoing ISQM 1 costs. We note that this calculation includes onetime costs in the numerator (incremental QC 1000 requirements) but not in the denominator (ISQM 1 requirements). This may significantly inflate the percentage because we believe much of the costs are incurred in the onetime setup phase. Research on Sarbanes-Oxley implementation has found this to be the case in the context of public company ICFR systems. *See*, *e.g.*, John C. Coates and Suraj Srinivasan, *SOX After Ten Years: A Multidisciplinary Review*, 28 Accounting Horizons 627 (2014). Further, the CAQ 2026 Letter reports that average estimated onetime and ongoing QC 1000 costs are $18.9 million and $12.1 million, respectively. Since firms have not completed their QC 1000 implementation, it is unclear whether the reported implementation cost estimate includes future spending. Staff note that, while the survey respondents were asked to report costs of the QC 1000 requirements that are incremental to ISQM 1 and SQMS 1, respondents' use of different and undisclosed methodologies and assumptions in their estimates makes it difficult to evaluate the reliability of these estimates.

system that complies with QC 1000, which should mitigate incremental costs for firms that do not have obligations with respect to PCAOB engagements (i.e., design-only firms).

B. Registration Activity

Commenters suggested that some firms have withdrawn or are in the process of withdrawing from PCAOB registration due to QC 1000.[112] Commenters also suggested that design-only firms would be especially incentivized to withdraw from PCAOB registration to avoid the costs associated with designing their QC systems in compliance with QC 1000.[113]

To inform the Board's consideration of the potential impact QC 1000 is having on registration activity, Figure 1 shows trends in the number of requests to withdraw from registration and the number of applications for registration for calendar years 2020 through 2025. Panels A and B of Figure 1 summarize recent trends in the number of requests to withdraw from registration for full-implementation firms and design-only firms, respectively. To provide a sense of the significance of the number of requests, Panels A and B of Figure 1 also show the number of full-implementation and design-only firms, respectively, as of March 31 of each respective calendar year, using the same methodology staff used in Table 1 to identify whether a firm would likely qualify as a full-implementation firm. Staff note that the actual number of firms (both design-only and full-implementation firms) changes over the course of any calendar year. Overall, we observe an uptick in requests to withdraw from registration that appears to be related in some part to QC 1000. For example, 154 (9 + 79 + 2 + 59 + 5) withdrawal requests were filed in 2025, greater than any year since 2020, and 7% ((9 + 2) ÷ 154) of these cited QC 1000 as the reason. This trend appears to be more pronounced for design-only firms, with 10% (9 ÷ (9 + 79)) of design-only firm withdrawal requests citing QC 1000 as the reason versus 3% (2 ÷ (2 + 59 + 5)) of full-implementation firm withdrawal requests. We discuss some of these trends in greater detail in Section V.C. below where we discuss the impacts of the proposed rescission of the design-only requirement.

Panel C of Figure 1 summarizes recent trends in the number of applications for registration. To provide a sense of the significance of the number of applications, Panel C of Figure 1 also shows the number of firms as of March 31 of each respective calendar year. Staff note that the actual number of firms changes over the course of any calendar year. Most firms that apply to register with the PCAOB do not have prior engagements and therefore would be classified as design-only firms upon registering with the PCAOB. Overall, we observe that the number of applications for registration has not decreased in recent years but rather is slightly

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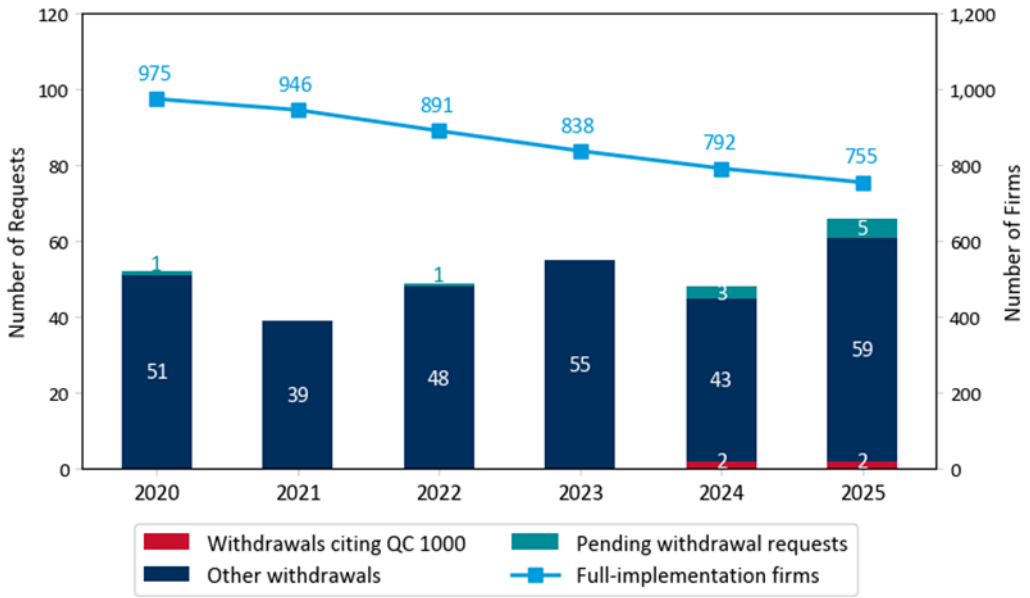
112 *See* letters from BDO; Crowe; and GT; CAQ 2026 Letter.

113 *See* letters from BDO; Crowe; and PwC; CAQ 2026 Letter.

higher than the number of applications filed per year between 2020 and 2022.[114] We discuss some of these trends in greater detail in Section V.C. below where we discuss the impacts of the proposed rescission of the design-only requirement.

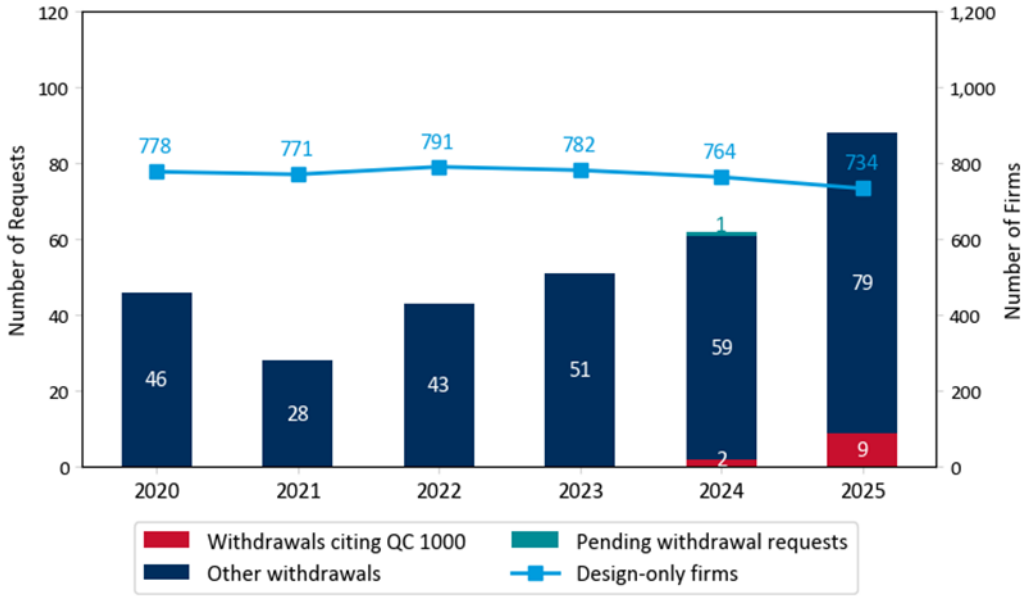
Figure 1. PCAOB Registration Activity

Panel A. Full-Implementation Firm Requests to Withdraw from Registration, Calendar Years 2020-2025

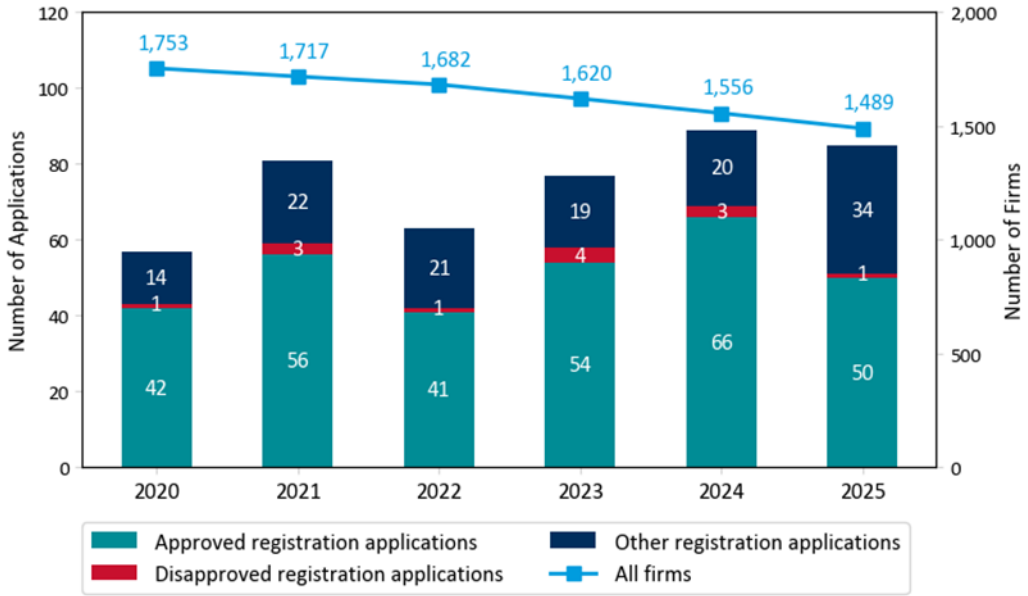


[114] We acknowledge that trends in the number of applications for registration may be driven by multiple factors. For example, part of the increase we observe may be driven in part by pandemic-related disruptions that occurred during the earlier part of the period.

Panel B. Design-Only Firm Requests to Withdraw from Registration, Calendar Years 2020-2025



Panel C. Applications for Registration, Calendar Years 2020-2025



Sources: PCAOB Form 2 filings; Form 1-WD filings; Form 1 filings.

Notes: (1) The number of firms in each panel of Figure 1 represents the count of firms registered with the PCAOB as of March 31 of each calendar year, excluding firms with withdrawal pending or suspended status. These firms are identified as full-implementation or design-only firms based on the information contained in their Form 2 filings for the seven reporting periods leading up to and including the calendar year. For example, firms as of March 31, 2020, are classified based on their 2014

through 2020 Form 2 filings. Staff assumed that a firm that did not file a Form 2 for a given reporting period did not lead or play a substantial role in any issuer or broker-dealer audit during the reporting period.

(2) Panels A and B show the number of Form 1-WD requests to withdraw from registration, grouped by the calendar year in which each request was initially filed, from 2020 to 2025. Request status (i.e., withdrawal or pending withdrawal request) is as of May 12, 2026. Staff identified the firms that filed a Form 1-WD as full-implementation or design-only based on their Form 2 filings for the most recent seven reporting periods prior to their Form 1-WD filing.

(3) Form 1-WD asks firms to provide a reason for their withdrawal. When firms do not provide a reason for withdrawing, PCAOB staff solicit a reason. The analysis reported in Figure 1 considers the reason submitted in Form 1-WD when available and the solicited reason otherwise. Of the 627 firms that filed withdrawal requests between 2020 and 2025, 17% (104 ÷ 627) did not provide a withdrawal reason through either channel. Among those that provided a reason, staff determined whether a firm cited QC 1000 based on a programmatic search for keywords related to QC 1000 followed by a manual review. Staff note that firms that cited QC 1000 may have requested withdrawal for other reasons as well. Staff also note that the staff's methodology may undercount the number of withdrawal requests related to QC 1000 to the extent firms did not explicitly mention QC 1000 as the reason for their withdrawal. For example, of the 122 firms that filed withdrawal requests in 2025 for which a withdrawal reason is available, four discussed overall compliance costs associated with PCAOB standards while not specifically citing QC 1000.

(4) Figure 1 does not include the 2026 calendar year because it is a partial calendar year as of the time this analysis was performed and therefore is not directly comparable to earlier years. However, staff note that, as of May 12, 2026, there have been 26 withdrawal requests filed in 2026, and none cited QC 1000 as the reason for withdrawal.

(5) Panel C shows applications for PCAOB registration, grouped by the calendar year in which each application was initially filed, from 2020 to 2025. Application status (i.e., approved, disapproved, or other) is as of May 12, 2026. The "other registration applications" group includes applications under review and applications withdrawn by firms. Staff note that there are fewer approved applications in 2025 likely because many applications filed in 2025 are still under review.

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

The proposed amendments would rescind the requirement for design-only firms to design a QC system that complies with QC 1000.

In the adopting release, we noted that requiring design-only firms to design a QC system that complies with QC 1000 would better position these firms to accept and perform engagements in compliance with applicable professional and legal requirements.[115] We also noted that design-only firms would face design costs incremental to the requirements of complying with ISQM 1 or SQMS 1, including around ethics, independence, monitoring, and remediation, and that these costs could lead some firms to withdraw from PCAOB registration.[116]

Table 1 indicates that, based on the set of firms registered as of March 31, 2025, approximately 734 firms will be design-only under QC 1000 as adopted. While design-only firms comprise 49% (734 ÷ 1,489) of the population of firms, their role in the issuer and broker-dealer audit market is relatively smaller by comparison. Based on their PCAOB Form 2 filings, design-only firms did not play a lead or substantial role on any engagements in the 2019 through 2025 reporting periods. However, 5% (35 ÷ 734) of design-only firms provided at least 5% of total

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115 *See* PCAOB Rel. No. 2024-005, at 346.

116 *See id.* at 355.

audit hours on the audits of 51 issuers during the 2025 reporting period. The total audit fees paid to the lead auditor and all participants on these engagements were approximately $379 million.[117]

As described and further elaborated upon in Section V.A. above, we said in the adopting release that we believed that most firms had either implemented ISQM 1 already or would implement SQMS 1 when it goes into effect. We continue to believe this is the case and we believe it is the case for design-only firms in particular.[118] Furthermore, 12% (86 ÷ 734) of the

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[117] For three of these 51 issuer audits, multiple design-only firms (three on average) provided at least 5% of the total audit hours. The remaining 95% (699 ÷ 734) of design-only firms were not identified on any Form AP filings for audit reports issued during the 2025 reporting period. The staff's analysis is based on Form AP filings for audit reports issued during the 2025 reporting period (i.e., from April 1, 2024, through March 31, 2025). In cases where multiple audit reports were issued with respect to the same issuer during the reporting period, staff selected the Form AP associated with the most recent audit report. Firms are identified on Form AP as other accounting firms if they provided at least 5% of the total audit hours for the engagement. *See* Form AP instructions, *available at* https://pcaobus.org/about/rules-rulemaking/rules/form-ap---auditor-reporting-of-certain-audit-participants. Form AP filings are available for download from the Board's website, https://pcaobus.org/resources/auditorsearch. The staff's methodology searches for other accounting firm roles in Form AP filings using the firm's Firm ID. Accordingly, the staff's methodology may undercount other accounting firm roles to the extent firms never filed a Form AP or firms that filed a Form AP failed to report Firm IDs of other accounting firms. Staff obtained audit fees data from Audit Analytics. Staff note that academic literature finds that audit fees are highly correlated with audit hours. *See*, *e.g.*, Daniel Aobdia, *Do Practitioner Assessments Agree with Academic Proxies for Audit Quality? Evidence from PCAOB and Internal Inspections*, 67 Journal of Accounting and Economics 144 (2019), Table 4 (finding Spearman and Pearson correlations of 0.91 and 0.90, respectively, between audit hours and audit fees for PCAOB-inspected audit engagements). Therefore, the level of participation by these design-only firms in these audits provides a proxy for their share of the total audit fees. The most common level of participation (63% of roles played) was 5% to less than 10% of total audit hours. As design-only firms, all should have played a less-than-substantial role, and therefore their hours should not constitute more than 20% of the total engagement hours provided by the lead auditor. From April 1, 2025, through May 12, 2026, 36 design-only firms provided at least 5% of the total audit hours on the audits of 47 issuers. The total audit fees paid to the lead auditor and all participants on these engagements were approximately $187 million. For three of these 47 issuer audits, multiple design-only firms (three on average) provided at least 5% of the total audit hours.

[118] Staff performed several quantitative analyses to test our view that most design-only firms are subject to either ISQM 1 or SQMS 1. These analyses largely mirror the analyses staff performed with respect to the full population of firms registered as of March 31, 2025. First, using the AICPA Peer Review public website, staff manually checked whether U.S.-headquartered design-only firms had been peer reviewed as part of the AICPA peer review program and are currently enrolled in the program. Staff found that 74% of these U.S. firms were peer reviewed and are currently enrolled in the program and thus would likely be subject to SQMS 1. Second, staff's review of firms' responses to Item 5.2 of their

2025 design-only firms have failed to file a Form 2 and pay their annual fees to the PCAOB for at least two consecutive years. These firms might have ceased to exist or might no longer be operational. If their delinquencies persist, they would be eligible for withdrawal from PCAOB registration at the Board's discretion.[119]

For design-only firms that remain registered following the effective date of QC 1000, the proposed amendments would essentially eliminate the need to make any initial changes to their QC system designs and to annually identify and assess quality risks. For design-only firms that register (or re-register) in the future, the proposed amendment would, at a minimum, also eliminate the need to annually identify and assess risks after they register.[120] These cost savings would be largest for the subset of design-only firms that are not required to implement ISQM 1 or SQMS 1 already because the savings would reflect the avoided costs of designing a wholly

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most recent PCAOB Form 2 filings indicates that 61% of non-U.S.-headquartered design-only firms have an audit-related membership, affiliation, or similar arrangement (i.e., firms that answered "Yes" for either Item 5.2a.1 or Item 5.2a.2). These firms likely obtain QC policies and procedures derived from ISQM 1 as part of these relationships. Third, 16% of non-U.S.-headquartered design-only firms are members of the six largest global networks. We believe these firms have likely adopted policies and procedures derived from ISQM 1 because these six global networks generally encourage member firms to adopt their global quality management frameworks which generally encompass ISQM 1. *See*, *e.g.,* PricewaterhouseCoopers U.S.'s 2025 Transparency Report (Oct. 31, 2025) at 4, *available at* https://www.pwc.com/us/en/about-us/assets/pwc-us-2025-transparency-report.pdf. Fourth, based on information published by IFAC, staff identified countries that indicate that they have adopted ISQM 1 or similar quality management standards (*see*, *e.g.*, the "Quality Assurance" section of Switzerland's profile page on the IFAC webpage, *available at* https://www.ifac.org/about-ifac/membership/profile/switzerland, indicating that Switzerland "has issued national quality management standards . . . which are based on the International Standards on Quality Management (ISQM) issued by the International Auditing and Assurance Standards Board (IAASB)"). Eighty-eight percent of non-U.S.-headquartered design-only firms are headquartered in these countries and may therefore be adopting ISQM 1 or similar standards. We note that the CAQ 2026 Letter indicated that, in most cases, design-only firms have already adopted ISQM 1.

[119] For more information on this withdrawal process, *see Constructive Requests to Withdraw from Registration*, PCAOB Rel. No. 2024-011 (Nov. 14, 2024), and *Public Company Accounting Oversight Board; Order Granting Approval on Constructive Requests to Withdraw from Registration*, SEC Rel. No. 34-102074 (Jan. 2, 2025).

[120] For design-only firms that register (or re-register) in the future, the proposed amendments may also reduce costs associated with the registration process; however, the extent of any cost reduction will depend on how the Board evaluates registration applications after QC 1000 goes into effect. As noted above, under Section 102(b)(2)(D) of Sarbanes-Oxley, applicant firms are required to provide a statement of the quality control policies of the firm for its accounting and auditing practices when applying to register with the PCAOB. *See* Registration FAQ, at Q.32 In light of QC 1000, the Board may opt to revise its interpretation or implementation of this requirement or its criteria for evaluating these statements.

new QC system rather than the more modest costs of incremental changes to an existing system. Whether or not already subject to ISQM 1 or SQMS 1, any such benefits will be reduced to the extent that such design-only firms have already incurred design costs (e.g., to design a QC system that addresses QC 1000 requirements incremental to ISQM 1 or SQMS 1).

For design-only firms that have withdrawn from PCAOB registration or plan to do so as a result of QC 1000, the proposed amendments could incentivize many of these firms to re-apply for PCAOB registration or remain registered. This could benefit these firms as it could allow them to profit through greater participation in the PCAOB audit market (e.g., as discussed below, in cases where lead auditors prefer to use registered firms for less-than-substantial-role work even though it is not required). This benefit would be offset in part by the costs of re-applying for registration. The increase in the number of registered firms could also benefit audited companies as it could increase the supply of firms that could be in the position, after designing, implementing, and operating a QC 1000-compliant system, to accept engagements and serve as a lead auditor or to play a substantial role in the future.[121] Staff analysis suggests that this is not uncommon. For example, we found that roughly 8% (62 ÷ 778) of the 2020 design-only firms reported a lead or substantial role at least once over the following five reporting periods.[122] While lead auditors may be able to continue using design-only firms that withdraw from PCAOB registration as a result of QC 1000 at a level below a substantial role, some lead auditors may have a preference to use registered firms. If the design-only requirement is eliminated and these firms remain registered or return to PCAOB registration, such lead auditors will be able to continue using the work of these firms and thereby avoid the inconvenience and risk of transitioning this work to a different other accounting firm or decreasing the share of work performed by other accounting firms. Similarly, some audit

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[121] Panel B of Figure 1 provides an indication of this population of design-only firms. It indicates that between 2020 and 2025, 11 design-only firms requested to withdraw from registration citing QC 1000 as the reason. As discussed in greater detail below, staff analysis indicates that these firms played a relatively small role in the overall audit market. We recognize that, absent the proposed amendments, the number of registration withdrawals could increase in the future after QC 1000 goes into effect. We also note that the impacts discussed in this paragraph apply similarly to future design-only firms that might choose to remain unregistered due to QC 1000. Consistent with the discussion in the adopting release, an increase in the supply of design-only firms may lower audit fees but may also lead to audit quality risks. For example, there may be increased potential for opinion shopping since issuers and broker-dealers would have a larger set of potential lead auditors from which to select. *See* PCAOB Rel. No. 2024-005, at 361-365. However, recent literature suggests that audit quality may improve in the specific context of potential competition among smaller firms. *See* Devin Williams, *The Effect of Potential Entrants on Audit Market Competition*, 100 The Accounting Review 375 (2025) (finding that the potential competitive threat posed by firms that have no publicly traded clients lowers audit fees and increases audit quality for engagements performed by triennially inspected firms).

[122] Staff determined the proportion of 2020 design-only firms that subsequently entered into an engagement using their 2021 through 2025 Form 2 filings.

committees may only consider retaining firms to be the lead auditor to the extent they are already registered with the PCAOB and would not consider, for example, design-only firms that withdrew from registration due to QC 1000 and are seeking to re-register to take the engagement. Accordingly, the increased supply of registered firms could support or increase competition in the audit market.[123]

Design-only firms that plan to withdraw from registration as a result of QC 1000, but have not yet done so, would also be able to avoid the time and costs of re-applying for registration. Staff analysis of PCAOB registration data indicates that the registration process requires on average 133 days between initially filing a Form 1 and receiving approval from the Board and includes a fee of $500 dollars.[124]

Panel B of Figure 1 shows that the number of design-only firms has been decreasing since 2022. This appears to be driven in part by an increase in the number of withdrawals starting in 2022. Requests to withdraw from registration by design-only firms increased substantially in 2025, some of which could be attributed to anticipation of QC 1000. As discussed above, the proposed amendments could encourage these firms to re-apply for registration or reduce future withdrawals from registration. However, Figure 1 suggests this impact would be limited by several factors. Just 7% ((9 + 2) ÷ (9 + 2 + 59 + 79 + 1)) of the design-only firms that requested to withdraw from registration in 2024 and 2025 cited QC 1000 as the reason. This suggests that, in some cases, recent design-only firms' requests to withdraw from registration are for reasons unrelated to QC 1000 and we do not expect that the proposed

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[123] Academic research provides mixed findings regarding the impact PCAOB deregistration may have on audit quality. Staff note that recent unpublished research suggests that PCAOB deregistration is associated with an increase in audit fees for clients of deregistering firms. *See* Michael Ettredge, Juan Mao, and Mary S. Stone, *Small Audit Firms' Public Market Exits, Business Model Changes, and Market Consequences*, SSRN Electronic Journal (2024) (finding that audit firm deregistration does not appear to affect the audit quality of these firms' former issuer clients on average but it is associated with higher audit fees). Depending on the audit quality proxy, earlier research finds mixed results on the effect on audit quality of audit firm market exits following the passage of Sarbanes-Oxley. *See* Mark L. DeFond and Clive S. Lennox, *The Effect of SOX on Small Auditor Exits and Audit Quality*, 52 Journal of Accounting and Economics 21 (2011); Neil L. Fargher, Alicia Jiang, and Yangxin Yu, *Further Evidence on the Effect of Regulation on the Exit of Small Auditors from the Audit Market and Resulting Audit Quality*, 37 Auditing: A Journal of Practice & Theory 95 (2018). Staff note that, in these studies, PCAOB deregistration typically refers to withdrawal from PCAOB registration.

[124] The length of the registration process has changed over time. This estimate is based on the 304 firms that had their registration applications approved by the Board between 2020 and 2025. Section 102(c)(1) of Sarbanes-Oxley requires the Board to approve a completed application for registration not later than 45 days after the date of receipt of the application, in accordance with the rules of the Board, unless the Board, prior to such date, issues a written notice of disapproval to, or requests more information from, the prospective registrant. *See* PCAOB Rel. No. 2003-011F, at Q.11, for additional information on the time it takes firms to register.

amendments would encourage these firms to remain registered.[125] Furthermore, these firms had a relatively small market share and we do not expect their re-registration would have a significant impact on audit fees or audit quality. The 11 design-only firms that have withdrawn from registration citing QC 1000 as the reason reported no lead or substantial roles since the 2019 reporting period. Four of these 11 firms were named on Form AP as other accounting firms on seven audits of four issuers during this time. The total audit fees paid to the lead auditor and all participants for these seven audits were $17 million.[126] We recognize that the number of requests for registration withdrawal could increase in the future if QC 1000 goes into effect as adopted.[127]

Figure 1 also shows the number of applications for registration with the PCAOB by calendar year from 2020 to 2025. Almost all firms that applied for registration during this period had not performed an engagement (as defined in QC 1000) in the past seven years and therefore would be classified, upon their entry to PCAOB registration, as design-only.[128] Overall, there does not appear to be evidence that anticipation of QC 1000 has significantly reduced the level of registration activity. To the contrary, registration applications were at their highest over

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[125] Staff found no instances of a firm citing the new paragraph (h) ("Constructive Withdrawal Requests") of Rule 2107, which went into effect in 2025, as a reason for withdrawal.

[126] The audit reports of these seven audits were issued during the 2019 through 2023 reporting periods. For each of the seven audits, only one of the four firms was named. The remaining seven firms were not named on a Form AP since the 2019 reporting period. The staff's analysis is based on Form AP filings for audit reports issued since the 2019 reporting period (i.e., from April 1, 2018, through May 12, 2026). Staff obtained audit fees information from Audit Analytics. As noted above, audits fees are highly correlated with audit hours. The level of participation for all the other accounting firm roles played by these four firms on these seven audits was 5% to less than 10% of total audit hours.

[127] Staff recognize that design-only firms that have not affirmatively withdrawn from registration may also have lost interest in remaining registered with the PCAOB, which is a requirement to serve as a lead auditor or play a substantial role in the issuer and broker-dealer audit market. To evaluate whether any design-only firms may have lost interest in remaining registered in response to QC 1000, staff performed an analysis of trends in new design-only delinquent filers and payers. Staff identified by calendar year design-only firms that failed to file a Form 2 and pay their annual fees to the PCAOB for the two-year period ending in each calendar year, excluding firms that were already delinquent in prior years. The staff's analysis suggests that this form of disengagement (1) has been infrequent by comparison to the number of requests for withdrawal from registration and (2) was flat between 2022 and 2025 (six per year). Overall, while this form of disengagement may be driven by many factors, the evidence suggests that this form of disengagement has not increased due to QC 1000.

[128] Of the 452 firms that applied for registration between 2020 and 2025, 18 had been previously registered with the PCAOB at some point during the seven years before their current registration approval dates. Of these 18 firms, five had a lead or substantial role on engagements during the seven reporting periods prior to their return to PCAOB registration.

this six-year period in 2024, the year when QC 1000 was adopted. We recognize that the number of registration applications may decrease in the future after QC 1000 goes into effect.

The proposed amendments may also have some negative impacts. Design-only firms that choose not to voluntarily design a QC system that complies with QC 1000 may be less prepared to implement and operate a QC system under QC 1000 if they ever enter into an engagement. This could increase the risk that their engagements are not performed in compliance with applicable professional and legal requirements when these firms initially take on these engagements. For example, a design-only firm may unintentionally fail to account for a quality risk. As discussed above, staff found that roughly 8% (62 ÷ 778) of the 2020 design-only firms reported a lead or substantial role at least once over the following five reporting periods. These negative impacts would be mitigated, however, to the extent firms most interested in leading or performing a substantial role in an audit will have incentives to voluntarily design a QC 1000-compliant QC system in order to compete for engagements. These negative impacts would also be mitigated to the extent these firms already have a QC system design in place that complies with either ISQM 1 or SQMS 1 or they have already designed a QC system that complies with QC 1000.

D. Roles and Responsibilities

The proposed amendments would provide increased flexibility in assigning specified roles and responsibilities with respect to the QC system, including permitting roles to be assigned to non-firm personnel and dividing roles among multiple individuals.

The proposed amendments would reduce restructuring costs for firms that currently assign roles to non-firm personnel or divide roles among multiple individuals when operating their QC system. It could improve audit quality to the extent the responsibilities performed over firms' QC systems are carried out more effectively under the proposed amendments. For example, firms with larger and more complex audit practices (e.g., the U.S. GNFs) may find that some specific responsibilities required under QC 1000, such as the responsibility over ethics and independence compliance, require the expertise of multiple individuals. Firms may also find it excessively burdensome to identify a single individual willing to bear the entire responsibility over these areas. Firms with fewer staff may prefer to use individuals from other, larger firms that have more expertise and capacity. For context, 4% (30 ÷ 755) of the full-implementation firms identified in Table 1 have just one accountant on staff and 13% (95 ÷ 755) have between two and 10 accountants. Among these registered firms, 22% (28 ÷ 125) are a member of one of the six largest global networks or indicated on Item 5.2 of their 2025 Form 2 filings that they

were members of or affiliated with some other audit-related network, arrangement, alliance, partnership, or association.[129]

The proposed amendments could also have some negative consequences. If a firm's QC system responsibilities are split in subcomponents across multiple individuals, there could be a risk that subcomponents of the responsibilities are never assigned. For example, if a firm's QC system responsibility over monitoring and remediation is split into responsibility over monitoring and responsibility over remediation, responsibilities that could reasonably be assigned to either may inadvertently never be assigned. Absent an explicit assignment, individuals may not be motivated to pick up these responsibilities voluntarily. On the other hand, there could be a risk that certain subcomponents are assigned multiple times, leading to unnecessary costs to firms. It could also require greater coordination and communication between individuals with responsibility over related subcomponents (e.g., monitoring and remediation) and between these individuals and the individual(s) with ultimate responsibility. If information is not shared effectively, individuals may be forced to make decisions with incomplete information. If responsibility is assigned to an individual external to the firm, this external individual's incentives may not be aligned with the firm's incentives. For example, while firms may be able to align external individuals' incentives in part to the success of the firm's QC system using, for example, incentive contracting, external individuals may still be more interested in the reputation and commercial success of their home firms than their QC responsibilities to other firms. Furthermore, an external individual may be less familiar with the firm and, as an "other participant" for purposes of QC 1000, would not be subject to the firm's QC system in the same way as "firm personnel." These potential impacts could reduce the effectiveness of the QC system. However, these potential negative consequences would be mitigated by the requirement that the individual(s) assigned roles and responsibilities with respect to the QC system must understand and be accountable for their roles and responsibilities and must have the experience, competence, authority, and time needed to enable them to carry out their assigned responsibilities. These potential negative consequences could also be mitigated through the governance and leadership component of the QC system.[130]

E. External QC Function

The proposed amendments would rescind paragraph .28 of QC 1000, which requires firms that issued audit reports for more than 100 issuers in the prior calendar year to incorporate into their governance structure an external QC function, or EQCF.

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[129] Source: Firms' most recent Form 2 filings. Staff determined that firms were members of or affiliated with some other audit-related network, arrangement, alliance, partnership, or association if they answered "Yes" for Item 5.2a.1, Item 5.2a.2, or Item 5.2a.3 in their Form 2 filings.

[130] *See*, *e.g.*, QC 1000.25e, 1000.25f, and 1000.27.

In the adopting release, we noted that the EQCF requirement could help mitigate commercial considerations in decision making about a firm's QC system.[131] We also noted that firms would incur costs to retain individuals to provide the function and to change their existing governance approach. As a potential benchmark to inform some of these costs, we noted estimates of compensation for non-employee board directors in 2023 of approximately $328,000 per year.[132] We also noted that variation between the responsibilities of an oversight function and a non-employee director function may limit the relevance of this cost reference to some extent. In the Board Letter, we reported the range (approximately $77,000 to $385,000) and average (approximately $167,000) of total remuneration for individual independent non-executives (INEs) under the U.K.'s audit firm governance rules in 2023.[133]

As discussed in Section III.C., firm and firm-related groups have described in their comment letters a variety of implementation costs and challenges associated with the EQCF. For example, we heard that individuals are reluctant to take on the role out of liability concerns.[134] We have also heard that mid-sized firms are finding that the pool of interested and qualified individuals who are free of conflicts is small.[135] Furthermore, based on our implementation support efforts and outreach discussions, we understand that implementing this requirement has proven more difficult and more costly than originally anticipated.

Rescinding paragraph .28 of QC 1000 would reduce the costs to firms of hiring, retaining, and compensating suitable individuals for the EQCF role. We discuss updated potential benchmarks for the cost savings below. Firms could redeploy the funds and resources required to implement the EQCF requirement to other activities and would be free to incorporate an element of independence into their governance structures as they see fit.[136] On the other hand, to the extent that the EQCF role would help mitigate commercial considerations in decision making about a firm's QC system, the proposed amendment could remove a potentially beneficial element of firms' QC systems. However, this potential negative consequence would be mitigated by the quality objectives that firms are required to establish with respect to their governance and leadership.[137] Furthermore, based on information obtained through recent PCAOB oversight activities, 9 of the 13 firms that are annually

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131 *See* PCAOB Rel. No. 2024-005, at 347.

132 *See id.* at 356.

133 *See* Board Letter, at 20.

134 *See* letter from BDO.

135 *See* CAQ 2026 Letter.

136 The 2026 letter from KPMG said that the EQCF requirement would diminish firms' ability to direct their resources towards potentially more effective methods of engagement monitoring.

137 *See* QC 1000.25.

inspected as of the time of this analysis and therefore would likely be subject to the EQCF requirement already have an independent individual serving in an advisory role for the firm.

We are not aware of evidence that bears directly on the impact of rescinding the EQCF requirement. However, to inform the Board's consideration of the potential impacts of the proposed amendment, staff reviewed updated information related to: (1) the compensation for INEs disclosed by PCAOB-registered firms based in the U.K. pursuant to the 2022 Financial Reporting Council (FRC) Audit Firm Governance Code;[138] (2) market research on director salaries at S&P 500 companies; and (3) academic literature related to director independence.

Table 2 summarizes the staff's analysis of U.K. INE compensation. Total annual remuneration per INE ranges from $25,935 to $387,288 with an average of $141,691. The total annual remuneration is on average $180,850 for Big 4 firms[139] and $110,364 for other firms. Staff note that the U.K. total remuneration figures are an imperfect proxy for the actual costs to retain individuals to meet the EQCF requirement. Litigation risks are likely greater in the U.S. compared to the U.K., requiring greater compensation to retain individuals. In addition, the responsibilities are different. For example, the EQCF's only mandated responsibility is to evaluate significant judgments made and the related conclusions reached by the firm when evaluating and reporting on the effectiveness of its QC system.[140] By contrast, the INE is intended to observe, challenge, and influence decision making in the firm more broadly.[141]

Table 2. INE Annual Remuneration Per Individual Disclosed by Audit Firms in the U.K.

Firm Size	Average	Std. Deviation	Minimum	Maximum
Big 4	$180,850	$85,057	$56,480	$387,288
Other	$110,364	$34,367	$25,935	$238,828
All	$141,691	$68,437	$25,935	$387,288

Source: U.K. firm transparency reports.

Notes: (1) The staff's analysis was limited to the nine firms that the FRC lists as being subject to the Audit Firm Governance Code and that are registered with the PCAOB. Staff obtained the INE remuneration information from each firm's most recent

[138] *See* FRC Audit Firm Governance Code (Apr. 2022), *available at* https://www.frc.org.uk/library/standards-codes-policy/audit-assurance-and-ethics/audit-firm-governance-code/.

[139] Big 4 firms are member firms of the following global networks: Deloitte Touche Tohmatsu Ltd., Ernst & Young Global Ltd., KPMG International Cooperative, and PricewaterhouseCoopers International Ltd.

[140] *See* QC 1000.28.

[141] *See* FRC Audit Firm Governance Code, paragraphs 29 through 39, *available at* https://media.frc.org.uk/documents/FRC_Audit_Firm_Governance_Code_April_2022_ULZgYEU.pdf.

transparency report. Seven firms disclosed the total annual remuneration paid to each individual who served as an INE, while two firms disclosed a fixed fee for the INE role. For this reason, staff could not calculate the average or standard deviation of remunerations across all INE individuals. Instead, staff calculated the average remuneration for each firm and report the average and standard deviation of average remunerations across firms in Table 2.

(2) Staff converted the reported compensation figures to U.S. dollars using the 5-year average yearly exchange of 1.29096 U.S. dollars to one U.K. pound sterling over 2021 to 2025. *See* Board of Governors of the Federal Reserve System, U.S. Dollars to U.K. Pound Sterling Spot Exchange Rate [AEXUSUK], retrieved from FRED, Federal Reserve Bank of St. Louis, March 26, 2026.

Market research shows that the average compensation per non-employee director at S&P 500 public companies was $336,352 in 2025.[142] Staff note that variation between the responsibilities of an oversight function and a non-employee director function may limit the relevance of this cost reference to some extent. For example, directors at S&P 500 public companies are members of a board with broad responsibilities over the company while the EQCF is focused on significant judgments made and the related conclusions reached by the firm when evaluating and reporting on the effectiveness of its QC system. The litigation risk profile is also meaningfully different; while the EQCF role would be new and questions of liability have not been addressed, it seems reasonable to infer, from the relatively low rate of claims by investors against audit firms, that the risk of investor lawsuits is greater for public company directors than it would be for EQCFs.

We are not aware of academic research that bears directly on how the proposed amendment would impact the operation of a firm's QC system. However, to inform the Board's consideration of potential impacts, staff reviewed recent academic research related to the impacts of board member independence in public company oversight, which may be indirectly relevant in that it speaks to the role of independent individuals in governance processes. Academic research cited in the adopting release finds that the level of board independence is associated with certain benefits to public companies, such as improved operating performance and company value, but may also be associated with less competent oversight.[143] More recent research finds mostly positive impacts of board independence but some negative impacts as well. For example, one study finds that increased board independence is positively associated with financial reporting quality.[144] Another study of Taiwanese companies finds that board

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[142] *See* 2025 U.S. Spencer Stuart Board Index (2025), *available at* https://www.spencerstuart.com/-/media/2025/10/ssbi2025/2025-us-board-index.pdf (analyzing 488 DEF-14A proxy statements filed by S&P 500 companies with the SEC from May 1, 2024, through April 30, 2025).

[143] *See*, *e.g.*, Anzhela Knyazeva, Diana Knyazeva, and Ronald W. Masulis, *The Supply of Corporate Directors and Board Independence*, 26 The Review of Financial Studies 1561 (2013); Praveen Kumar and K. Sivaramakrishnan, *Who Monitors the Monitor? The Effect of Board Independence on Executive Compensation and Firm Value*, 21 The Review of Financial Studies 1371 (2008).

[144] *See* Christine Porter and Matthew Sherwood, *The Effect of Increases in Board Independence on Financial Reporting Quality*, 36 Accounting Research Journal 109 (2023).

independence is positively associated with corporate financial performance.[145] Another study finds that board independence is positively associated with company performance during demand downturns.[146] However, another study finds that board independence is negatively associated with annual report readability.[147]

F. Information and Communication

The proposed amendments would simplify requirements when firms disclose written metrics about their audit practice, firm personnel, or engagements. These amendments should reduce costs for audit firms when disclosing written metrics to external parties on a nonpublic basis. External parties receiving the nonpublic written metrics may already understand these metrics and some may be able to request additional information directly from the firm on an as-needed basis. Therefore, we expect these proposed amendments would have limited negative impacts. To the contrary, the proposed amendments may incentivize firms to provide more disclosure of written metrics to external parties on a nonpublic basis because the costs of doing so would be less.

G. Monitoring and Remediation Process

For firms responding to an identified engagement deficiency, the proposed amendments would require evaluation of whether similar engagement deficiencies exist only if the identified deficiency resulted in or could result in: (1) a failure to obtain sufficient appropriate evidence to support the conclusion reached on an engagement or (2) an inappropriate overall conclusion on the subject matter of an engagement.

This proposed amendment would reduce costs to audit firms to operate their QC systems because they would be required to evaluate whether similar engagement deficiencies exist in fewer cases. At the same time, it could also reduce audit quality because some engagement deficiencies may go undetected. However, the impact should not be significant since the proposed amendment scopes out only engagement deficiencies that are less directly related to audit quality. Moreover, to the extent firms are constrained by limited staff resources, focusing firms' attention on engagement deficiencies that directly relate to audit quality may improve audit quality overall. Furthermore, firms would still be required to design,

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[145] *See* Van Le Pham and Yi-Hui Ho, *Independent Board Members and Financial Performance: ESG Mediation in Taiwan*, 16 Sustainability 6836 (2024).

[146] *See* Xiaoyuan Hu, Danmo Lin, and Onur Kemal Tosun, *The Effect of Board Independence on Firm Performance–New Evidence from Product Market Conditions*, 29 The European Journal of Finance 363 (2023).

[147] *See* Dewan Rahman and Muhammad Kabir, *Does Board Independence Influence Annual Report Readability?*, 33 European Accounting Review 1923 (2024).

implement, and operate a monitoring and remediation process to provide a reasonable basis for timely detection of engagement deficiencies.[148]

To inform the Board's consideration of the potential impacts of this proposed amendment, staff calculated the prevalence of Part I.A deficiencies for 2024.[149] The definition of a Part I.A deficiency aligns closely with the first criterion for evaluating whether similar engagement deficiencies exist. The PCAOB does not retain data that would allow staff to reliably estimate the prevalence of engagement deficiencies that would satisfy the second criterion. Accordingly, the prevalence of Part I.A deficiencies provides a lower bound of how often firms may need to perform the evaluation described in the proposed amendment to paragraph .68d. Based on current estimates for the 2024 inspection year, the overall Part I.A deficiency rate was 19% among engagements selected by the PCAOB for inspection on a random basis. In these cases, there were on average four unique Part I.A deficiencies per inspected engagement.[150]

The proposed amendments would also revise the definition of a QC deficiency by permitting compensating quality responses to be taken into account, such that fewer QC observations would qualify as a QC deficiency. By clarifying the scope of the definition, staff believe this amendment would reduce regulatory uncertainty about the existence, and thus the need to remediate, deficiencies in firms' QC systems. At the same time there would be negligible risk to the overall functioning of the QC system because the scope reduction focuses on instances where a quality response was not necessary to achieve the reasonable assurance objective or one or more quality objectives.

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[148] *See* QC 1000.59.

[149] Part I.A deficiencies are "deficiencies in reviewed issuer audits that were of such significance that the Board believes that the firm, at the time it issued its audit report, had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements and/or ICFR." *See* PCAOB Inspection Procedures: What Does the PCAOB Inspect and How Are Inspections Conducted?, *available at* https://pcaobus.org/oversight/inspections/inspection-procedures.

[150] Staff used the randomly selected engagements to provide a potentially more representative estimate of the true population-wide deficiency rate. Staff acknowledge that inspection focus areas within each engagement may still have been chosen on a risk-sensitive basis. Staff also acknowledge that the randomly selected engagements are limited to engagements performed by annually inspected firms and therefore may provide a less representative estimate of the deficiency rate among engagements performed by triennially inspected firms. Based on current estimates, the overall Part I.A deficiency rate was 38% in 2024, and the overall average number of unique Part I.A deficiencies was four per engagement among engagements that had at least one Part I.A deficiency.

H. Evaluation of and Reporting on the QC System

The proposed amendments would allow firms to select an annual evaluation date for their QC system evaluation, rather than requiring all firms to evaluate as of September 30. In the adopting release, we noted that a benefit of a fixed September 30 evaluation date is that the PCAOB would have relatively current information available when it selects firms and engagements for inspection. However, we also noted that the evaluation requirement would be less costly to firms if they were able to choose the date, for example because they could choose to use the same evaluation date under QC 1000 and ISQM 1.[151]

Section III.F.1. above summarizes commenters' concerns related to the evaluation date. Overall, commenters have suggested that most firms use a different evaluation date than September 30 that is linked to their fiscal year-end. Commenters argued that changing their evaluation date to September 30 could involve significant challenges. To help inform the Board's consideration of the potential magnitude of these concerns, staff performed an analysis of firms' QC system annual evaluation dates disclosed pursuant to European Union (EU) transparency rules.[152] Figure 2 shows the distribution of firms' existing annual evaluation dates based on their most recent transparency reports.[153] Panel A shows the distribution by month while Panel B shows the distribution by month relative to the month of the firm's fiscal year-end. Panel A shows that 79% (19 ÷ 24) of the firms in our sample use evaluation months other than September (86% (6 ÷ 7) of the annually inspected firms in our sample). Panel B shows that 78% (18 ÷ 23) of the firms in our sample set the month of their evaluation date to be the same as the month of their fiscal year-end (43% (3 ÷ 7) of the annually inspected firms in our sample).

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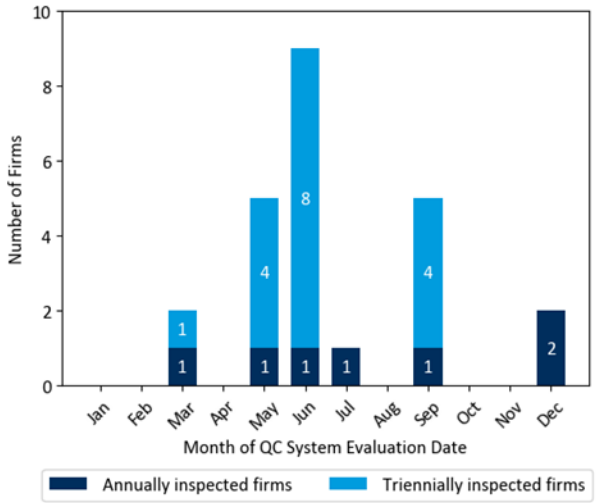
151 *See* PCAOB Rel. No. 2024-005, at 371.

152 Regulation (EU) 537/2014, Article 13, requires audit firms that carry out statutory audits of public-interest entities to make public an annual transparency report after the end of each financial year. The transparency report must include, among other information about the audit firm, an indication of when the last quality assurance review was carried out and a statement by the administrative or management body on the effectiveness of the functioning of the internal quality control system.

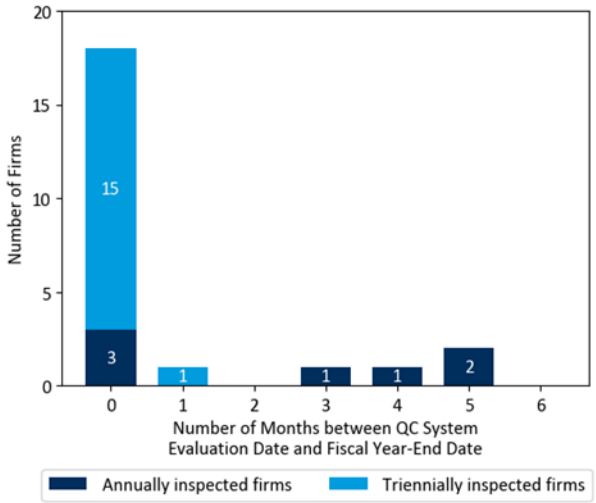
153 Staff searched for transparency reports or audit quality reports for the 100 largest firms by issuer count and identified information regarding QC system evaluations from the reports found. Among the 100 firms, 30 firms published an EU transparency report or audit quality report in recent years, including 24 firms that disclosed QC system evaluation dates. Among the 24 firms, staff identified fiscal year-ends for 23 firms from their transparency reports or other official documents published by the firms.

Figure 2. QC System Annual Evaluation Dates

Panel A: Distribution of QC System Evaluation Dates



Panel B: Months between QC System Evaluation Date and Fiscal Year-End Date



Source: Firm EU transparency reports.

Note: The staff's analysis is based on 24 audit firms that disclosed their QC evaluation dates in their most recent EU transparency reports. Staff could not identify the fiscal year-end for one of these firms and therefore excluded it from Panel B. Registered firms that have issued audit reports for more than 100 issuers during the prior calendar year are subject to annual inspection. Registered firms that have issued audit reports for 100 or fewer issuers during the prior calendar year are required to be inspected at least once every three years. Staff assigned firms as annually or triennially inspected based on their designation as of the time of this analysis.

The proposed amendments would also revise the QC system evaluation conclusions to align more closely with the conclusions in other quality management standards. This proposed amendment would reduce confusion by reducing (but not eliminating) the likelihood that firms reach different conclusions about QC system effectiveness under different QC standards. As discussed in Section III.F.1. above, even if QC 1000 and ISQM 1 were identical in all respects, differences in firm QC systems would remain, including due to variations in applicable professional and legal requirements, the populations of engagements, and the individuals performing such engagements or performing activities within the QC system. As to the QC system evaluation conclusions in particular, conclusions may also differ based on QC 1000's more precise and potentially broader concept of an unremediated QC deficiency (i.e., one for which remedial actions that completely address the QC deficiency have not been fully implemented, tested, and found effective). It may also reduce the cost of a QC system evaluation as firms may be able to leverage, to some extent, the evaluation process they perform under ISQM 1 or SQMS 1 (e.g., when assessing the seriousness and breadth of unremediated QC deficiencies) or perform both evaluations concurrently.

However, the proposed amendments would likely broaden the conditions under which firms would be able to reach favorable conclusions about the effectiveness of their QC system. For example, firms would be able to report that the system was effective, without an "except for" qualification, when there were unremediated QC deficiencies that, individually or in combination, are not severe. Under QC 1000 as originally adopted, this reporting would have been permitted only if there were no unremediated QC deficiencies at all. The presumptions regarding the existence of a major QC deficiency would also be eliminated, affording firms greater latitude when determining whether the QC system failed to achieve the reasonable assurance objective. In either of these cases, firms would have less incentive to remediate QC deficiencies because doing so would not impact the conclusion they report to the PCAOB. However, we acknowledge that firms would still have significant incentive to remediate QC deficiencies for reasons independent of these proposed amendments. For example, firms would still need to consider a variety of factors when assessing the severity of unremediated QC deficiencies, including the persistence of those QC deficiencies. In addition, allowing QC deficiencies to remain unremediated may lead to pervasive or severe QC deficiencies in the future. Furthermore, to the extent QC deficiencies are determined to be Part II deficiencies, firms would still have an incentive to remediate them.[154]

Section III.F.1. above summarizes commenters' concerns related to the evaluation criteria. Commenters suggested that firms could reach a different evaluation conclusion under ISQM 1 compared to QC 1000 and that this could lead to confusion. For example, some firms suggested they may need to report two conflicting conclusions in their EU transparency reports. To help inform the Board's consideration of the potential magnitude of these concerns, staff performed an analysis of QC system evaluation conclusions disclosed pursuant to ISQM 1 and EU transparency rules.[155] Table 3 summarizes firms' conclusions regarding their QC systems in their EU transparency reports. It indicates that 84% (21 ÷ 25) of the firms in our sample concluded that their QC system is effective under ISQM 1. The remaining 16% (4 ÷ 25) concluded that their QC system is effective except for certain matters having "a severe but not pervasive effect." Notably, while no firm concluded that its system was ineffective, some of

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[154] We include deficiencies in Part II if an analysis of the inspection results, including the results of the reviews of individual audits, indicates that the firm's QC system does not provide reasonable assurance that firm personnel will comply with applicable professional standards and requirements. Generally, the report's description of quality control criticisms is based on observations from our inspection procedures. Moreover, outcome-based management of the remediation and evaluation processes in a way that is not compliant with QC 1000 could itself form the basis for a Part II finding, which should provide another constraint on the extent to which judgment can be used to avoid reaching a negative conclusion.

[155] Staff searched for EU transparency reports or audit quality reports for the 100 largest firms by issuer count and identified information regarding QC system evaluations from the reports found. Among the 100 firms, 30 firms published an EU transparency report or audit quality report in recent years, including 25 firms that disclosed QC system evaluation conclusions.

these firms had a Part II deficiency included in their most recent PCAOB inspection report.[156] However, it bears noting, among other things, that the ISQM 1 evaluation criteria differ from the Board's criteria for finding Part II deficiencies, the timing of the firm's ISQM 1 evaluation may have differed substantially from the timing of the PCAOB's inspection, and it is unclear whether these firms considered their issuer and broker-dealer engagements performed under PCAOB standards when evaluating their QC system under ISQM 1.

Table 3. Number of Firms by QC Evaluation Conclusion

QC Evaluation Conclusion	Firms	Annually Inspected Firms	Triennially Inspected Firms
Effective	21	6	15
Effective except for certain matters	4	1	3
Not Effective	0	0	0
Total	25	7	18

Sources: Firm EU transparency reports.

Note: The staff's analysis is based on 25 audit firms that disclosed their QC evaluation conclusions in their most recent EU transparency reports. Firms reached conclusions about their QC systems that generally followed the conclusions defined in ISQM 1, including "(a) The system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved" ("Effective"); "(b) Except for matters related to identified deficiencies that have a severe but not pervasive effect on the design, implementation and operation of the system of quality management, the system of quality management provides the firm with reasonable assurance that the objectives of the system of quality management are being achieved" ("Effective except for certain matters"); or "(c) The system of quality management does not provide the firm with reasonable assurance that the objectives of the system of quality management are being achieved" ("Not effective"). Staff assigned firms as annually or triennially inspected based on their designation as of the time of this analysis.

I. Documentation

The proposed amendments simplify the requirements for retention of QC system documentation. This proposed amendment would reduce costs for firms. For example, costs associated with developing IT systems, gathering data, transferring data, and retaining data should be reduced. As this proposed amendment is intended to address specific potential unintended negative consequences, we do not expect it would negatively impact the overall effectiveness of firms' QC systems or our ability to carry out our oversight. For example, we

[156] As required under Sarbanes-Oxley, any QC deficiencies observed during a PCAOB inspection are not included in the public portion of the relevant inspection report when first issued. If a firm does not address to the Board's satisfaction criticisms of, and potential defects in, the firm's QC system within 12 months after the issuance of the PCAOB inspection report, Part II of the report will be issued publicly to include such deficiencies. Accordingly, we are not disclosing the number of these 25 firms whose most recent PCAOB inspection report included Part II deficiencies. However, staff note that these 25 firms' most recent PCAOB inspection reports included an average of four unique Part II deficiencies.

believe permitting firms to maintain documentation of their QC system in the documentation's original system of record should not have any impact on the overall effectiveness of their QC systems.

The proposed amendments would also abbreviate the document retention period from seven to five years. As discussed above in Section III.G., we have heard from firms that the seven-year retention period has presented them with certain challenges. This proposed amendment would address these concerns and thereby reduce the costs for firms to design, implement, and operate their QC system. The shorter retention period would also reduce the amount of information available to firms and to the PCAOB. This could negatively affect firms' ability to analyze the performance of their QC system over time. However, the salience of QC system documentation likely decreases with time and shortening the period by two years should not significantly negatively impact firms' ability to monitor their QC systems or impair PCAOB oversight.

J. Differential Impacts for Firms of Different Sizes

The impact of the proposed amendments on an individual firm will depend on the firm's unique facts and circumstances, including the size of the firm's issuer and broker-dealer assurance practice (e.g., the number of engagements and the amount of auditing required for those engagements, which may vary based on the size or complexity of those engagements). In the adopting release, we noted that the direct costs of QC 1000 would likely depend on the size of the firm and the nature of the firm's audit practice. We noted that firms with larger PCAOB audit practices that already have extensive QC systems in place may benefit from economies of scale or scope when incorporating the new requirements into their existing systems, which would decrease the cost of QC 1000 per engagement. We further noted that firms with larger PCAOB audit practices would be able to distribute fixed implementation costs over a larger number of engagements, while firms with smaller practices would distribute fixed implementation costs over a smaller number of engagements.[157] We also noted that, to the extent that QC 1000 improves compliance with applicable professional and legal requirements, the improvement might be greater with respect to broker-dealer engagements and issuer audits performed by firms other than U.S. GNFs because auditing deficiencies appeared to be more prevalent for these firms.[158] We also noted that, under QC 1000, larger firms were subject to additional requirements meaningfully different from ISQM 1 or SQMS 1, which would increase the overall cost of QC 1000 to these firms.[159]

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[157] *See* PCAOB Rel. No. 2024-005, at 354. The letter from TXCPA said that QC 1000, as adopted, imposes disproportionate implementation burdens on smaller firms relative to larger network firms.

[158] *See* PCAOB Rel. No. 2024-005, at 341.

[159] *See id.* at 355-360.

The proposed amendment to rescind the EQCF requirement would only apply to larger firms and therefore would result in cost savings to larger firms only. By contrast, the proposed amendment related to the QC system design requirements would largely eliminate costs associated with designing a QC system for the design-only firms, resulting in cost savings to design-only firms which, by definition, have a smaller PCAOB audit practice since the services they are providing, if any, would need to be below a substantial role.[160]

Other proposed amendments would apply to all firms. For example, such amendments would allow multiple individuals and non-firm personnel to serve in certain QC system governance roles, allow firms to choose their own QC system evaluation date, and narrow the scope of deficiencies for which firms would be required to evaluate whether similar engagement deficiencies exist. These amendments would reduce the costs of designing, implementing, and operating a QC system in compliance with QC 1000 for all firms. However, the magnitude of these effects may differ between larger and smaller firms. For example, smaller firms may be more likely to share resources with other firms. The ability to use non-firm personnel to serve in certain QC system governance roles may therefore provide more relief to these firms. Some of these cost savings would largely be fixed in nature and would not scale with the firm's size (i.e., the number of engagements or the amount of auditing required for those engagements). For example, the flexibility to choose any QC system evaluation date is largely independent of the number of engagements a firm has. Because smaller firms have fewer engagements to distribute QC system cost savings across, these cost savings could have a more significant impact on smaller firms' profitability and competitiveness. The letter from PICPA said the documentation requirement for design-only firms may impose disproportionate costs. On the other hand, some of the cost savings associated with the proposed amendments would scale with the firm's size and therefore should benefit both smaller firms and larger firms proportionately. For example, the proposed amendment to narrow the scope of deficiencies for which firms would be required to evaluate whether similar engagement deficiencies exist would provide more relief for larger firms in absolute dollars, but because the relief would be proportional to the size of the audit practice, the impact is not expected to be disproportionate.

K. Emerging Growth Company Considerations

The data on EGCs outlined in the most recent EGC white paper, released in May 2025, remains generally consistent with the data outlined in prior EGC white papers.[161] As of the

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[160] In addition to having smaller PCAOB audit practices, design-only firms tend to have fewer accountants. Based on analysis of Form 2 filings and using the design-only and full-implementation firms identified above in Table 1, staff analysis finds that design-only firms have a median (mean) of 30 (122) accountants compared to 123 (781) for full-implementation firms.

[161] *See* PCAOB, *White Paper on Characteristics of Emerging Growth Companies and Their Audit Firms at November 15, 2023* (May 23, 2025), *available at* https://pcaobus.org/resources/other-research-projects ("EGC White Paper").

November 15, 2023, measurement date, PCAOB staff identified 2,599 companies that self-identified with the SEC as EGCs and filed with the SEC audited financial statements in the 18 months preceding the measurement date. Of those 2,599, the 1,458 EGCs with common equity securities listed on a U.S. national securities exchange had a total U.S. market capitalization of $406 billion. These EGCs represented approximately 26% of all exchange-listed companies yet just 0.7% of U.S. total market capitalization. Forty-one percent of EGCs reported no revenue or self-identified as shell companies.

Of the 260 PCAOB-registered firms that audited EGCs:

- 214 firms (or 82%) performed audits for both EGC and non-EGC issuers. Approximately 97% of EGCs were audited by these 214 firms.
- 136 firms (or 52%) were headquartered in the U.S. Approximately 82% of EGCs were audited by these 136 firms.
- While none were design-only firms, design-only firms provided at least 5% of total audit hours on 15 EGC audit engagements.[162]
- 23 firms (or 9%) have withdrawn from PCAOB registration since November 15, 2023. One firm referenced QC 1000 as a reason for withdrawal. One EGC was audited by this firm.
- 15 firms issued audit reports with respect to more than 100 issuers.[163] Approximately 50% of EGCs were audited by these 15 firms.

Any reduction in audit quality arising from the proposed amendments could reduce financial reporting quality, which could result in less efficient capital allocation, higher cost of capital, and less capital formation. This effect could be particularly pronounced for EGCs. EGCs tend to be smaller and have a shorter SEC financial reporting history than the broader population of public companies. Academic research suggests that, for several reasons, smaller public companies tend to exhibit greater information asymmetry between management and

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[162] Source: Form AP filings.

[163] The EGC White Paper counts issuers by reference to audit reports issued during the 18-month measurement period (i.e., May 16, 2022, through November 14, 2023). Therefore, the firms that will be subject to QC 1000's requirements that apply to firms that issued audit reports for more than 100 issuers in the prior calendar may be different from these 15 firms. As noted above, 13 firms are subject to annual inspection as of the time of this analysis.

investors.[164] Accordingly, EGCs are likely to exhibit greater information asymmetry between management and investors and hence the importance of the external audit to investors in enhancing the credibility of EGC financial reporting may be more pronounced.

The proposed amendments would also likely decrease costs incurred by firms to design, implement, and operate their QC systems. Firms could pass part of these cost savings down to their clients, including EGCs, in the form of lower audit fees. EGCs are disproportionately audited by smaller firms. Just over 50% (1,312 ÷ 2,599) of EGCs were audited by firms that had over 100 issuer clients while approximately 12% ((138 + 143 + 30) ÷ 2,599) were audited by firms that had 10 or fewer issuer clients. By contrast, approximately 73% (6,975 ÷ (8,838 + 678)) of non-EGCs were audited by firms that had over 100 issuer clients while approximately 8% ((126 + 179 + 95 + 261 + 143) ÷ (8,838 + 678)) were audited by firms that had 10 or fewer issuer clients.[165] However, because it is unclear whether the proposed amendments disproportionately impact smaller firms, it is also unclear whether EGCs would be disproportionately impacted by cost savings passthrough.

Reduced audit fees could increase capital formation by decreasing the overall regulatory burdens of being a public company (e.g., accounting fees paid during IPO and for annual SEC reporting). Reduced audit fees could also lessen a competitive disadvantage for EGCs in their respective product markets to the extent EGCs compete with companies that are not audited by PCAOB-registered firms. This could increase competition in product markets where EGCs have a less than dominant market share, which is likely the case as EGCs tend to be newer companies. However, we believe any impacts on competition in EGC product markets would likely be modest because audit fees reflect a small percentage—0.5%—of exchange-listed EGCs' revenues.[166]

In general, any new PCAOB standards and amendments to existing standards determined not to apply to the audits of EGCs would require auditors to design and implement differing requirements within their methodologies or policies and procedures with respect to audits of EGCs and non-EGCs, which would create the potential for confusion. This may not be practical in the context of the proposed amendments; while some of the proposed amendments may enable different approaches for audits of EGCs compared to audits of other companies (e.g., evaluating whether similar engagement deficiencies exist), other elements are necessarily firm-wide and cannot easily be differentiated for different types of audits (e.g., the EQCF role and the evaluation date). Even where differentiation is possible, maintaining

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164 *See, e.g.*, Raymond Chiang and P. C. Venkatesh, *Insider Holdings and Perceptions of Information Asymmetry: A Note*, 43 Journal of Finance 1041 (1988); Ravi Bhushan, *Firm Characteristics and Analyst Following*, 11 Journal of Accounting and Economics 255 (1989).

165 *See* EGC White Paper at Figures C.2 and C.3.

166 *See id.* at Figure 18. By contrast, audit fees reflect 0.1% of exchange-listed non-EGCs' revenues.

separate QC system components for EGC and non-EGC audits and separate methodologies may add cost or lead to confusion, and could run counter to the objectives of the QC system. These methodology and QC system differentiation costs would affect at least the 214 firms that audit both EGCs and non-EGCs and that, collectively, audit approximately 97% of EGCs.

Questions

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.

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.

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.

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.

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.

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.

VI. OPPORTUNITY FOR PUBLIC COMMENT

The Board is seeking comments on the proposed amendments to QC 1000 and on all the other matters discussed in this release. Among other things, the Board is seeking comment on the economic considerations relating to its proposal, including potential costs. To assist the Board in evaluating such matters, the Board is requesting relevant information and empirical data regarding the proposed amendments.

Written comments should be sent by email to comments@pcaobus.org or through the Board's website at www.pcaobus.org. Comments may also be sent to the Office of the Secretary, PCAOB, 1666 K Street, NW, Washington, DC 20006-2803. All comments should refer to PCAOB Rulemaking Docket Matter No. 057 in the subject or reference line and should be received by the Board no later than July 9, 2026.

The Board will consider all comments received. After the close of the comment period, the Board will determine whether to adopt final amendments. Any such final rules adopted will be submitted to the SEC for approval. Pursuant to Section 107 of Sarbanes-Oxley, proposed rules of the Board do not take effect unless approved by the SEC. For purposes of Section 107, standards are rules of the Board under Sarbanes-Oxley.

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On the 9th day of June, in the year 2026, the foregoing was, in accordance with the bylaws of the Public Company Accounting Oversight Board,

ADOPTED BY THE BOARD.

/S/ Phoebe W. Brown

Phoebe W. Brown
Secretary

June 9, 2026

APPENDIX 1 – PROPOSED AMENDMENTS TO QUALITY CONTROL STANDARD (QC 1000)

Language that would be deleted by the proposed amendments is ~~struck through~~. Language that would be added is underlined.

QC 1000, A Firm's System of Quality Control

* * *

The Firm's QC System

.05 A properly conducted *engagement* and the related report enhance the confidence of investors and other market participants in the company's information to which the firm's report relates. The objective of the firm is to design ~~and, if applicable~~, implement, and operate an effective QC system. An effective QC system protects investors by facilitating the consistent preparation and issuance of informative, accurate, and independent *engagement* reports in accordance with *applicable professional and legal requirements*. To accomplish this, an effective QC system consistently provides a firm with reasonable assurance that:

* * *

.06 A firm must design, implement, and operate an effective QC system in compliance with this standard at all times when the firm is required to comply with *applicable professional and legal requirements* with respect to any of the firm's *engagements*,[3] and thereafter through the following *evaluation date*.[4] ~~a QC system that complies with this standard. To design such a QC system, the firm must:~~

~~a. Assign QC-related roles and responsibilities (*see* paragraphs .10–.17);~~

~~b. Establish *quality objectives*, annually identify and assess *quality risks* to the achievement of those objectives, and design *quality responses* to address those risks (*see* paragraphs .18–.57);~~

~~c. Design a monitoring and remediation process (*see* paragraphs .58–.76); and~~

~~d. Document the design of the QC system (*see* paragraphs .81–.86).~~

[3] With respect to firm responsibilities subsequent to the issuance of an audit report, see, for example, AS 2901, *Responding to Engagement Deficiencies After Issuance of the Auditor's Report*; AS 2905, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*; AS 4101, *Responsibilities Regarding Filings Under Federal Securities Statutes*.

[4] *See* paragraph .77 (requiring evaluation of the effectiveness of the QC system as of ~~September 30~~the *evaluation date*).

.07 The requirement to design, implement, and operate the QC system applies as follows:

~~a. A firm must implement and operate an effective QC system at all times when the firm is required to comply with *applicable professional and legal requirements* with respect to any of the firm's *engagements*,[3] and thereafter through the following September 30.[4]~~

a~~b~~. During the time the firm's QC system is required to be operating effectively, the firm's QC system must operate over any audit, attestation, review, or other work performed under PCAOB standards by the firm, regardless of the level of the firm's participation in such work (i.e., even if the firm plays less than a substantial role).[5]

b~~c~~. A firm that is required to design, implement, and operate its QC system is also required to annually evaluate its QC system as of ~~September 30~~the *evaluation date* and report on that evaluation (*see* paragraphs .77-.80).

~~d. For any time that a firm is not required to implement and operate an effective QC system, this standard will apply to the firm only in regard to the design of the QC system (based on the *quality risks* the firm likely would face if it were to perform *engagements*) as provided in paragraph .06.~~

Note: Any obligations under QC 1000 that exist at the time a firm is no longer required to design, implement, and operate the QC system, such as obligations to evaluate and report on the QC system for previous periods, will continue.

[5] *See* PCAOB Rule 1001(p)(ii).

* * *

Roles and Responsibilities

* * *

.12 The firm must assign other roles and responsibilities with respect to the QC system to ~~*firm personnel*~~individual(s)[5A] who understand and are accountable for their roles and responsibilities and who have the experience, competence, authority, and time needed to enable them to carry out their assigned responsibilities.[6] Such roles should include the following:

a. Operational responsibility and accountability for the QC system as a whole;

b. Operational responsibility for the firm's compliance with ethics and independence requirements;

c. Operational responsibility for the monitoring and remediation process; and

d. If appropriate based on the nature and circumstances of the firm, operational responsibility for other components of the QC system.

Note: ~~Each of the roles identified in subparagraphs a.–c. above cannot be shared, but rather must be assigned to only one individual. However, d~~Depending on the nature and circumstances of the firm (including its size and structure) and its *engagements*, the firm (i) may assign one individual to more than one of the roles identified in paragraphs .11 and .12 and (ii) may divide responsibilities of a role identified in paragraph .12 among multiple individuals.

[5A] Such individuals are "associated persons" of the firm. *See* PCAOB Rule 1001(p)(i).

[6] *See* Note in paragraph .44a. of this standard for a description of competence.

* * *

.15 The individual(s) assigned operational responsibility and accountability for the QC system as a whole should:

a. Supervise, within the scope of their assigned responsibilities, the design, implementation, and operation of the firm's QC system in accordance with *applicable professional and legal requirements* and the firm's policies and procedures; and

b. Certify the firm's report to the PCAOB on its annual evaluation of the QC system (*see* paragraph .79).

.16 The individual(s) assigned operational responsibility for the firm's compliance with ethics and independence requirements should, within the scope of their assigned responsibilities:

a. Supervise the design, implementation, and operation of the firm's ethics and independence component (*see* paragraphs .30-.36); and

b. Communicate, on a timely basis, violations of ethics or independence requirements, including personal independence violations, to the individuals assigned (1) operational responsibility for the firm's monitoring and remediation process and (2) operational responsibility and accountability for the QC system as a whole.

.17 The individual(s) assigned operational responsibility for the monitoring and remediation process should, within the scope of their assigned responsibilities:

a. Supervise the design, implementation, and operation of the firm's monitoring and remediation process (*see* paragraphs .58-.76) and the annual evaluation of the QC system (*see* paragraphs .77-.78), including:

(1) The evaluation of the results of the monitoring activities;

(2) The evaluation of whether remedial actions are implemented as designed and operate effectively to remediate *QC deficiencies* and, if not, the taking of timely action until such *QC deficiencies* are remediated; and

(3) The firm's other policies and procedures with regard to monitoring and remediation.

b. Communicate, on a timely basis, to the individuals assigned (1) ultimate responsibility and accountability for the QC system as a whole and (2) operational responsibility and accountability for the QC system as a whole, a description of:

(1) Monitoring activities performed and the results of such activities, including, if applicable, monitoring activities performed by a network;

(2) Identified *engagement deficiencies*~~,~~ and *QC deficiencies*~~, and *major QC deficiencies*~~, including the nature, severity, and pervasiveness of such deficiencies; and

(3) Actions taken to address *engagement deficiencies*~~,~~ and *QC deficiencies*~~, and *major QC deficiencies*~~.

* * *

Governance and Leadership

* * *

Governance and Leadership Specified Quality Responses

.28 ~~If the firm issued audit reports with respect to more than 100 issuers during the prior calendar year, the firm's governance structure should incorporate an external oversight function for the QC system composed of one or more persons who are not partners, shareholders, members, other principals, or employees of the firm and 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 (an "External QC Function" or "EQCF"). The EQCF should have the experience, competence, authority, and time necessary to enable them to carry out the responsibilities assigned to the EQCF by the firm. The responsibilities of the EQCF should include, at a minimum, evaluating the significant judgments made and the related conclusions reached by the firm when evaluating and reporting on the effectiveness of its QC system.~~[Reserved]

* * *

Information and Communication

* * *

Information and Communication Quality Objectives

.53 The *quality objectives* established by the firm with respect to information and communication should include the following:

* * *

e. If a firm communicates firm-level or *engagement*-level information with respect to the firm's audit practice, *firm personnel*, or *engagements*, such as firm or *engagement* metrics, to external parties, such information is accurate and not misleading and, with respect to any such metrics that are communicated in writing and made publicly available by the firm, the communication provides an explanation~~explains~~ in reasonable detail of how the metrics were determined and, if applicable, how the method of determining them changed since the metrics were last communicated.

   Note: The communication may provide an explanation either within the communication itself or by referring to a publicly available explanation presented elsewhere, such as the firm's website.

* * *

g. If *other participants* are used in the firm's QC system or *engagements:*

* * *

Note: With respect to *other participants* that are firms, information to be obtained should include the conclusion of the most recent evaluation of the QC system[39] of the *other participant* firm.

[39] The most recent evaluation of the *other participant* firm's QC system refers to that firm's evaluation under paragraph .77 of this standard as of the most recent ~~"~~*evaluation date*~~"~~ (as defined in paragraph .~~77~~A4A), if such an evaluation was performed. If the *other participant* firm did not evaluate its QC system under paragraph .77 of this standard as of the most recent *evaluation date*, then this provision refers to the most recent QC evaluation performed by the *other participant* firm under any professional standard.

* * *

Monitoring and Remediation Process

* * *

Responding to Engagement Deficiencies

.68 When an *engagement deficiency* exists, the firm should:

a. For *engagement deficiencies* relating to in-process *engagements*, take action to address the deficiency in accordance with *applicable professional and legal requirements* (to the extent necessary, before the issuance of the related *engagement* report(s)), such that the *engagement* ~~report(s) are~~is free of significant engagement deficiencies~~appropriate in the circumstances~~;[40A]

* * *

d. For *engagement deficiencies* that resulted or could result in (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,* ~~E~~evaluate whether similar *engagement deficiencies* exist on:

(1) Other in-process *engagements*, or would arise if remedial action is not taken;

(2) Other completed *engagement*s, unless it is probable that the *engagement* report(s) are not being relied upon; and

(3) Work performed by the firm on other firms' *engagements*;

and if so, take actions described in paragraphs .68a.-c. above, as applicable.

[40A] A significant engagement deficiency exists when (1) the engagement team failed to obtain sufficient appropriate evidence or failed to perform interim review or attestation procedures necessary in the circumstances in accordance with the standards of the PCAOB, (2) the engagement team reached an inappropriate overall conclusion on the subject matter of the *engagement*, (3) the *engagement* report is not appropriate in the circumstances, or (4) the firm is not independent of its client. This concept aligns with "significant engagement deficiency" in AS 1220, *Engagement Quality Review* (*see* Notes to AS 1220.12, .17, .18B), but applies to all *engagements* as defined in this standard.

* * *

Evaluation of and Reporting on the QC System

Annual Evaluation of the QC System

.77 Once a firm has been subject to the requirement to design, implement, and operate a QC system under paragraph .06 for at least five consecutive months~~Annually~~, the firm must annually evaluate the effectiveness of its QC system, based on the results of its monitoring and remediation activities, and conclude, as of ~~September 30 (~~the ~~"~~*evaluation date*,[44]"~~),~~ that its QC system:

a. Is effective in achieving the reasonable assurance objective~~with no unremediated *QC deficiencies*~~; or

   Note: The firm's QC system is effective in achieving the reasonable assurance objective under paragraph .77a if, as of the *evaluation date*, there are no unremediated *QC deficiencies* other than those that, individually or in combination, are not severe.

b. Is effective in achieving the reasonable assurance objective except for ~~one or more~~ unremediated *QC deficiencies* that have a severe but not pervasive effect on the design, implementation, and operation of the QC system (and do not render the QC system not effective)~~ that are not *major QC deficiencies*~~; or

c. Is not effective in achieving the reasonable assurance objective~~ (one or more *major QC deficiencies* exists)~~.

Note: An unremediated *QC deficiency* is one for which remedial actions that completely address the *QC deficiency* have not been fully implemented, tested, and found effective.

For this purpose, implementation must be completed as of the *evaluation date* and testing and the determination of effectiveness must be completed no later than the date Form QC is due under paragraph .79 (or, if earlier, the date Form QC is filed).

[44] The selection of the firm's *evaluation date* may be influenced by the nature and circumstances of the firm and its *engagements*, including, for example, the firm's fiscal year-end or the timing of monitoring activities. If the firm changes its *evaluation date,* the firm is required to provide notice of such change on Form QC.

~~**Determining Whether Major QC Deficiencies Exist**~~

.78 In performing the evaluation and reaching the conclusion required by paragraph .77, the firm should evaluate the severity (i.e., the seriousness, including potential impact on the firm's ability to achieve the reasonable assurance objective) and the pervasiveness (i.e., the breadth of impact on the firm's QC system or across the firm's portfolio of *engagements*) of all unremediated *QC deficiencies*, individually and in combination, considering both quantitative and qualitative implications. In evaluating severity and pervasiveness, the firm should consider the following factors: ~~As of the *evaluation date*, the firm must evaluate unremediated *QC deficiencies* to determine whether *major QC deficiencies* exist. The firm's determination should be based on whether either of the presumptions described in paragraph .78a. arises and, when relevant, the factors listed in paragraph .78b.~~

~~a. A *major QC deficiency* would be presumed to exist if there is an unremediated *QC deficiency* or combination of unremediated *QC deficiencies* that:~~

~~(1) Relates to the firm's governance and leadership that affect the overall environment supporting the operation of the QC system; or~~

~~(2) Results in or is likely to result in one or more significant engagement deficiencies[44] in *engagements* that, taken together, are significant in relation to the firm's total portfolio of *engagements* (for example, because of the number of *engagements* or *firm personnel* affected or likely to be affected, the associated revenue or profit, the associated risks, or the relevant industry).~~

~~Note: A firm may rebut the presumption that a *major QC deficiency* exists only if the firm demonstrates, taking into account both factors listed in paragraph .78b. (including all of the listed examples in paragraph .78b.(1)), that the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* does not constitute a *major QC deficiency*.~~

~~b. The following factors are relevant (i) in rebutting a presumption under paragraph .78a., and (ii) for unremediated *QC deficiencies* that do not give rise to a~~

~~presumption under paragraph .78a., in determining whether a *major QC deficiency* exists:~~

~~(1) The severity and pervasiveness of the unremediated *QC deficiency* or combination of unremediated *QC deficiencies*, which may be evidenced by, for example:~~

~~(~~a.~~)~~ The number and nature of components or *quality objectives* directly or indirectly affected;

~~(~~b.~~)~~ The extent to which the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* relates to a component, *quality objective*, or *quality response* that affects the design or operation of other aspects of the QC system;

~~(~~c.~~)~~ The number and pervasiveness of root causes;

~~(~~d.~~)~~ The persistence of the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* over time;

e. Whether the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* has resulted or could result in significant engagement deficiencies;

f. Whether the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* has resulted or could result in the need for revisions to *engagement* reports, or is or could be associated with restatements of financial statements or reissuances of company-prepared reports that are the subject of audit or attestation *engagements*;[44A]

~~(e)~~g. With respect to the factors in subparagraphs d.-f., ~~T~~the number and significance (to the firm's portfolio of *engagements*) of *engagements* that are affected by the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* or are likely to be affected in the future in the absence of remediation, and the nature of the effect ~~if the *QC deficiencies* are not remediated~~; and

~~(f) The number of *engagements* that may have unsupported opinions unless additional procedures are performed; and~~

~~(g) The number of *engagements* for which the firm revised and reissued its *engagement* report(s) because, after additional procedures were performed, the financial statements or management's report on internal control over financial reporting was restated or revised; and~~

~~Note: In evaluating each unremediated *QC deficiency* or combination of unremediated *QC deficiencies*, the firm would consider both quantitative and qualitative implications.~~

~~(2)~~h. The ~~extent~~effects of ~~to which~~any remedial actions that have been implemented, tested, and found to be effective.

~~[44] A significant engagement deficiency exists when (1) the engagement team failed to obtain sufficient appropriate evidence in accordance with the standards of the PCAOB or failed to perform interim review or attestation procedures necessary in the circumstances, (2) the engagement team reached an inappropriate overall conclusion on the subject matter of the engagement, (3) the engagement report is not appropriate in the circumstances, or (4) the firm is not independent of its client. *See, e.g.*, Notes to AS 1220.12, .17, .18B.~~

[44A] Company-prepared reports subject to audit or attestation *engagements* include the report on internal control over financial reporting and broker-dealer compliance and exemption reports.

Reporting to the PCAOB

.79 The firm must report annually to the PCAOB on Form QC, in accordance with the instructions to that form, the results of the evaluation of its QC system no~~t~~ later than 60 days after the *evaluation date*~~November 30~~.

.80 The contents of the firm's reporting to the PCAOB must include the following:

a. The firm's conclusion that, as of the *evaluation date*, the firm's QC system:

(1) Is effective in achieving the reasonable assurance objective~~ with no unremediated *QC deficiencies*~~;

(2) Is effective in achieving the reasonable assurance objective, except for~~ one or more~~ unremediated *QC deficiencies* that have a severe but not pervasive effect on the design, implementation, and operation of the QC system (and do not render the QC system not effective)~~that are not *major QC deficiencies*~~; or

(3) Is not effective in achieving the reasonable assurance objective~~(one or more *major QC deficiencies* exists)~~.

b. If~~, the firm reports a conclusion under paragraph .80a.(2) or paragraph .80a.(3)~~as of the *evaluation date*, the firm has any unremediated *QC deficiencies*, a description of each unremediated *QC deficiency*~~, including each *major QC deficiency*,~~ consisting of:

(1) The requirements of this standard or the *quality objective(s)* to which it relates;

(2) The firm's basis for determining it was a *QC deficiency* as of the *evaluation date*; and

(3) A summary of the remedial actions taken and planned to be taken to address the *QC deficiency*, as well as the timing and the status of such actions, including a summary of actions taken or to be taken by the firm to address the risk that the *QC deficiency* resulted or could result in significant engagement deficiencies~~the issuance of unsupported *engagement* reports~~.

~~c. If a *major QC deficiency* is presumed to exist but the determination was made that there is no *major QC deficiency*, the basis for such determination.~~

* * *

Documentation

* * *

.84 ~~A complete and final set of documentation as required by paragraphs .81-.83 with respect to the 12-month[48] period ended the prior September 30 and any evaluation required as of that date should be assembled for retention not later than December 14 ("QC documentation completion date").~~No later than 14 days after Form QC is filed (or due to be filed, if earlier) ("QC documentation completion date"), the firm should complete the documentation required by paragraphs .81-.83 with respect to the period covered by the firm's annual evaluation and retain it in a manner that permits timely retrieval.

~~[48] In the first year that the firm is required to evaluate its QC system under paragraph .77, the period is from the date on which the firm becomes subject to such requirement to the next September 30.~~

* * *

.86 The firm must retain the documentation of its QC system required under paragraphs .81-.83 and paragraph .85 for five~~seven~~ years from the QC documentation completion date, unless a longer period of time is required by law.

APPENDIX A – Definitions

* * *

.A4A Evaluation date – The date selected by the firm as of which to evaluate its QC system under paragraph .77.

* * *

.A6 ~~Major QC deficiency – An unremediated *QC deficiency* or combination of unremediated *QC deficiencies*, based on the evaluation under paragraph .78, that severely reduces the likelihood of the firm achieving the reasonable assurance objective or one or more *quality objectives*.~~[Reserved]

* * *

.A8 QC deficiency – A *QC observation* that, based on the evaluation under paragraph .72, individually, or in combination with one or more other *QC observations*, evidences:

(1) That the likelihood of the firm not achieving the reasonable assurance objective or one or more *quality objectives* has not been reduced to an acceptably low level;

Note: The likelihood of not achieving the reasonable assurance objective or one or more *quality objectives* would be above an acceptably low level if, for example, a *quality objective* is not established, a *quality risk* is not properly identified or assessed, or a *quality response* is not properly designed or implemented or is not operating effectively and other *quality responses* do not achieve the relevant objective(s).

(2) Noncompliance with requirements of this standard, other than those under "Documentation"; or

(3) Noncompliance with requirements of this standard under "Documentation" that adversely affects the firm's ability to comply with any of the other requirements of this standard.

* * *

APPENDIX 2 –PROPOSED AMENDMENTS TO THE REPORTING RULE AND FORM QC

The Board is proposing amendments to new Rule 2203A and new Form QC. The relevant text of this rule and form is set forth below. Language that would be deleted by the proposed amendments is ~~struck through~~. Language that would be added is underlined.

Rule 2203A. Reporting on the Evaluation of the Firm's System of Quality Control

(a) If a registered public accounting firm is required to perform an evaluation of its QC system under paragraph .77 of QC 1000, *A Firm's System of Quality Control,* the firm must file with the Board a report on such evaluation and notification of any change in the firm's "evaluation date" (as defined in QC 1000.A4A) on Form QC, by following the instructions to that form.

(b) Unless directed otherwise by the Board, the registered public accounting firm must file electronically with the Board through the Board's Web-based system:

(1) ~~such~~each report on the evaluation of its QC system and exhibits thereto ~~electronically with the Board through the Board's Web-based system~~ no later than ~~November 30~~60 days following the ~~relevant "~~evaluation date~~" (as defined in QC 1000. 77).~~; and

(2) each such notification of a change in evaluation date no later than 30 days after the firm's decision to change the evaluation date.

* * *

Form QC - Report on the Evaluation of the Firm's System of Quality Control

GENERAL INSTRUCTIONS

* * *

3. When Report is Due and Considered Filed. Reports on the evaluation of the firm's QC system on this Form are required to be filed each year ~~on or before November 30~~ no later than 60 days following the *evaluation date*. A Form QC is considered filed when the Firm has submitted to the *Board* a Form QC in accordance with Rule 2203A that includes the signed certifications required in Parts III and V of Form QC.

   Reports on this Form are required to notify the Board of a change to the Firm's *evaluation date* and to be filed no later than 30 days after the firm's decision to change the *evaluation date*. A Form QC is considered filed when the Firm has submitted to the

Board a Form QC in accordance with Rule 2203A that includes completed Part I and the signed certification in Part V of Form QC.

4. Period Covered by this Report. The reporting period, which the Firm should enter in Item 2.1, is the period beginning ~~on October 1 of the year preceding the year in which Form QC is required to be filed (or, if a firm's obligation to implement and operate a QC system arises under QC 1000.07a. after October 1 of that year, the date on which that obligation arises), and ending September 30 of the year Form QC is required to be filed.~~ the day after the most recent previous *evaluation date*, except as provided in a. and b. below, and ending on the *evaluation date*.

   a. If a firm has not previously been required to evaluate its QC system under QC 1000, the reporting period begins on the date the firm first incurred an obligation to implement and operate a QC system under QC 1000.06.

   b. If a firm was previously required to evaluate its QC system under QC 1000, but such obligation lapsed because the firm ceased having any obligations under *applicable professional and legal requirements* with respect to one or more *engagements*, the reporting period begins on the date the firm subsequently incurred an obligation to implement and operate a QC system under QC 1000.06.

* * *

PART I – IDENTITY OF THE FIRM AND, IF APPLICABLE, BOARD NOTIFICATION OF CHANGE OF EVALUATION DATE

* * *

Item 1.2 Change to the *Evaluation Date*

a. Indicate, by checking the box corresponding to this item, whether the Firm is filing this Form QC to report a change to the Firm's *evaluation date*; and

b. State the Firm's new *evaluation date*; and

c. Briefly describe the Firm's rationale for making the change.

PART II – EVALUATION OF THE FIRM'S SYSTEM OF QUALITY CONTROL

* * *

Item 2.2 Overall Conclusion on the Effectiveness

Indicate, by checking the applicable box, the Firm's conclusion on whether, as of the *evaluation date*, the Firm's QC system:

a. Is effective in achieving the reasonable assurance objective~~with no unremediated *QC deficiencies*~~; or

b. Is effective in achieving the reasonable assurance objective except for ~~one or more~~ unremediated *QC deficiencies* that have a severe but not pervasive effect on the design, implementation, and operation of the QC system (and do not render the QC system not effective)~~ that are not *major QC deficiencies*~~; or

c. Is not effective in achieving the reasonable assurance objective~~ (one or more *major QC deficiencies* exists)~~.

Item 2.3 Reporting on Unremediated *QC Deficiencies*

If, as of the *evaluation date*, the firm has any unremediated *QC deficiencies*~~the Firm reports a conclusion under Item 2.2b. or Item 2.2c.~~, provide the number of unremediated *QC deficiencies*:

Note: For purposes of Items 2.3 and 2.4, an unremediated *QC deficiency* is one for which remedial actions that completely address the *QC deficiency* are not fully (i) implemented as of the *evaluation date* and (ii) tested and found effective as of the date Form QC is due under QC 1000.79 (or, if earlier, the date Form QC is filed).

Item 2.4 Reporting on an Unremediated *QC Deficiency*

a. Provide a description of the unremediated *QC deficiency*.

~~b. Indicate by checking the box whether the unremediated *QC deficiency* is:~~

~~1. A *major QC deficiency*~~

~~2. Not a *major QC deficiency*~~

~~c~~b. Indicate, by checking all boxes that apply, the area(s) the unremediated *QC deficiency* relates to:

1. Roles and responsibilities

2. The firm's risk assessment process

3. Governance and leadership

4. Ethics and independence
5. Acceptance and continuance of engagements
6. Engagement performance
7. Resources
8. Information and communication
9. Monitoring and remediation process
10. Evaluation of and reporting on the QC system
11. Documentation

~~d~~c. Furnish, as a correspondingly numbered item in Exhibit 2.4, the following:

1. The quality objective(s), or requirement(s) of QC 1000, to which the unremediated *QC deficiency* relates.
2. The Firm's basis for determining it was a *QC deficiency* as of the *evaluation date*.
3. A summary of the remedial actions taken and planned to be taken to address the *QC deficiency*, as well as the timing and the status of such actions, including a summary of the actions taken and to be taken by the Firm to address the risk that the *QC deficiency* resulted or could result in significant engagement deficiencies~~the issuance of unsupported opinions~~.

~~Item 2.5 Reporting on a Presumed *Major QC Deficiency*~~

~~If a *major QC deficiency* is presumed to exist, as described in QC 1000.78, but the determination was made that there is no *major QC deficiency*, furnish, as Exhibit 2.5, a narrative describing the firm's determination pursuant to the Note to paragraph .78a.~~

PART III – INDIVIDUAL(S) RESPONSIBLE FOR THE SYSTEM OF QUALITY CONTROL; CERTIFICATION

* * *

Item 3.2 Certification of the Report on the Evaluation of the Firm's QC System

Furnish, as Exhibits 3.2.a and 3.2.b, respectively, statements signed by each of the individuals identified in Item 3.1.a and 3.1.b in the following form:

I, [identify the certifying individual], who have been assigned [ultimate/operational] responsibility and accountability for [Firm]'s quality control system (QC system) as a whole, certify that:

1. I have reviewed this report on Form QC on the evaluation of [Firm]'s quality control system (QC system) as of [evaluation date]~~September 30~~, [year];

2. Based on my knowledge, the disclosures made in Part II of this form are complete and accurate in all material respects; and

3. [The Firm's other certifying officer(s) and] I [are/am] responsible and accountable for [Firm]'s QC system as a whole and have:

   (a) Designed, or caused to be designed under [my/our] supervision, the Firm's QC system to ensure that it meets the reasonable assurance objective specified in QC 1000, *A Firm's System of Quality Control;*

   (b) Evaluated the effectiveness of the Firm's QC system and presented in this report [my/our] conclusions about the effectiveness of the QC system as of [evaluation date]~~September 30~~, [year]; and

   (c) Disclosed, based on such evaluation, all unremediated QC deficiencies (as defined in QC 1000) of which I am aware.

Date:

[Signature]

[Title]

Note 1: Other than the insertion of the Firm name and the name and role of the signing individual, Exhibits 3.2.a and 3.2.b must be in the exact words contained in this instruction.

Note 2: If more than one individual is identified in Item 3.1.a or Item 3.1.b, Exhibits 3.2.a or 3.2.b, as the case may be, must be signed by each such individual. If the same individual is identified in Items 3.1.a and 3.1.b, he or she may sign a single certificate indicating both capacities.

Note 3: Exhibits 3.2.a and 3.2.b may be provided in a form (e.g., pdf) that shows a manual signature, or may be signed and retained in the same manner as provided in Rule 2204.

* * *

PART VII – EXHIBITS

To the extent applicable under the foregoing instructions or the *Board's rules*, each Form QC must be accompanied by the following exhibits:

Exhibit 2.4 Reporting on an Unremediated *QC Deficiency* in Item 2.4.1

~~Exhibit 2.5 Reporting on a Presumed *Major QC Deficiency* in Item 2.5~~

Exhibit 3.2.a Certification of the Report on the Evaluation of the Firm's QC System by the individual(s) assigned ultimate responsibility and accountability for the Firm's QC system as a whole

Exhibit 3.2.b Certification of the Report on the Evaluation of the Firm's QC System by the individual(s) with operational responsibility and accountability for the Firm's QC system as a whole

Note: Where an exhibit consists of more than one document, each document must be numbered consecutively (e.g., Exhibit 3.2.a.1, Exhibit 3.2.a.2, etc.), and the firm must provide a list of the title or description of each document comprising the exhibit.

APPENDIX 3 – PROPOSED OTHER AMENDMENTS

Language that would be deleted by the proposed amendments is ~~struck through~~. Language that would be added is <u>underlined</u>.

Form 1 - Application for Registration

1. The definitions in the *Board's rules* ~~and in QC 1000, A Firm's System of Quality Control,~~ apply to this form. Italicized terms in the instructions to this form are defined in the *Board's rules* ~~or QC 1000, as the case may be~~. See Rule 1001.

* * *

3. In addition to these instructions, the *rules* contained in Section 2 of the *Board's rules* govern applications for registration~~, and QC 1000 addresses the responsibility of a *registered public accounting firm* to design and, when applicable, implement and operate an effective QC system for its *engagements*~~. Please read these *rules*~~, QC 1000,~~ and the instructions carefully before completing this form.

* * *

~~Item 4.2 Design of the Firm's System of Quality Control~~

~~Indicate, by checking the applicable box, whether the *public accounting firm* has designed a QC system in accordance with QC 1000:~~

~~____ Yes.~~

~~____ No.~~

* * *

Form 2 - Annual Report Form

* * *

~~Item 3.1A The Firm's System of Quality Control~~

~~a. Indicate, by checking the applicable box, whether the firm has designed a QC system in accordance with QC 1000:~~

~~____ Yes.~~

~~____ No.~~

~~b. Indicate, by checking the applicable box, whether the firm was required, at any time during the reporting period, to implement and operate an effective QC system in accordance with QC 1000:~~

~~____ Yes.~~

~~____ No.~~

* * *

PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

Exhibit 2(a)(B)

Alphabetical List of Commenters on Proposed Rules in PCAOB Release No. 2026-002	
1	American Accounting Association, Auditing Standards Committee, Auditing Section
2	Baker Tilly US, LLP
3	BDO USA, P.C.
4	CBIZ CPAs P.C.
5	Center for Audit Quality
6	CFA Institute
7	Council of Institutional Investors
8	Crowe LLP
9	Deloitte & Touche LLP
10	Ernst & Young LLP
11	Forvis Mazars, LLP
12	Grant Thornton LLP
13	James Grosvenor
14	International Corporate Governance Network (ICGN)
15	KPMG LLP
16	George R. Kramer
17	MaloneBailey, LLP
18	Members of the IAG
19	Pennsylvania Institute of Certified Public Accountants
20	Plante & Moran, PLLC
21	PricewaterhouseCoopers LLP
22	RSM US LLP
23	Thomas H. Spitters, C.P.A.
24	St. Charles Consulting Group
25	Virginia Society of CPAs

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
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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.

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

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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July 9, 2026

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Re: PCAOB Rulemaking Docket Matter No. 057; 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's ("PCAOB" or "Board") supplemental request for comment on proposed amendments to QC 1000, *A Firm's System of Quality Control*, and related amendments to PCAOB Rule 2203A and PCAOB forms (the "SRC").

Baker Tilly US, LLP ("Baker Tilly," "we," or "our") currently audits slightly over 100 issuers and is subject to annual PCAOB inspections. Our organization is in the PCAOB's category of a non-affiliated firm ("NAF"), which is substantially different from a Global Network Firm ("GNF").

General Comments

We commend the Board for listening to stakeholder feedback and proposing targeted amendments to QC 1000 via the SRC. We continue to support the overall objective of QC 1000 and believe the proposed amendments help address several concerns raised previously regarding departures from, and inconsistencies with, other quality management standards issued by the AICPA and IAASB, as well as other significant implementation challenges. We expect the amendments will help reduce the complexity, subjectivity, and cost associated with implementing QC 1000.

We continue to believe the public interest is best served by quality control standards that are scalable and flexible, such that firms can tailor risks and responses to any assurance engagement the firm performs, rather than applying entirely different standards to certain components of a firm's practice. As we have previously shared with PCAOB staff, firms that applied the spirit of the AICPA and IAASB quality management standards made significant strides to modernize and improve their systems of quality management; the differences and incremental requirements of QC 1000 were proving more difficult and costly than originally anticipated. We believe the proposed amendments in the SRC reduce these differences, but some concerns remain, as articulated in more detail below.

Additionally, given the volume of information already on the PCAOB's website regarding QC 1000 (e.g., the original adopting release, staff guidance, staff presentations, QC 1000 Implementation Workshop materials, and

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the pending amended final adopting release), we believe there are risks of misinterpretation or confusion when the proposed amendments are adopted. We believe it will be important for the final adopting release to clarify what prior PCAOB content is and is not applicable to the implementation of the revised standard. We also recommend that the final adopting release contain the entire text of the amended QC 1000, with only relevant content from the original adopting release, so the final adopting release can stand on its own and not be limited to the amendments proposed in the SRC.

Similarly, and despite our general support for the proposed amendments, we believe implementation guidance will continue to be necessary for successful implementation of the revised QC 1000 standard. We understand that PCAOB staff have met with many firms, heard many questions, and may have provided some individualized answers to questions. Codifying those questions and answers in guidance available to all firms will enhance consistency and effectiveness of firms' implementation.

Comments Regarding Specific Aspects of the SRC

Requirement to Design, Implement, and Operate a QC System

We strongly support the proposed recission of the so-called "design-only" requirement. We believe this proposed change is appropriate and does not introduce any risk to investors as these registered firms are neither performing PCAOB engagements nor serving in a substantial role on PCAOB engagements. We have previously shared concerns with PCAOB staff regarding the trend of smaller firms withdrawing their PCAOB registrations and believe this change will alleviate these concerns and allow firms more flexibility to remain registered and apply the requirements of QC 1000 only when they choose to accept engagements within the scope of the PCAOB's jurisdiction.

Roles and Responsibilities

We strongly support the amendments to QC 1000.12. The amendment to allow divided responsibility is necessary and appropriate to ensure firms designate the most appropriate individuals for the specified roles and responsibilities, without making unnecessary changes to operating structures or responsibilities of roles that are often fulfilled by more than one individual. Similarly, enabling non-firm personnel to fulfill these roles is an important change to reduce the complexity of complying with this aspect of QC 1000 for certain firms and again ensure the most appropriate individuals are placed in these roles.

We do not believe these proposed amendments present any additional risk; to the contrary, we believe firms will be able to apply a more thoughtful and focused approach to aligning roles, responsibilities, and accountability for the fulfillment of those responsibilities, ultimately strengthening the design of the system of quality control.

Using the requirement of QC 1000.12b as an example, ethics and independence is a broad area for which we were challenged to identify a singular member of "firm personnel" to assume operational responsibility for the entire scope of requirements of paragraph .16. The proposed amendments would enable separation of responsibilities to the most qualified and appropriate individuals, along with removing definitional barriers regarding the scope of "firm personnel."

External QC Function

We strongly support the recission of the EQCF requirement. The EQCF requirement in its current form was not subject to full due process, was not scalable for NAF firms only moderately above the 100-issuer threshold, and has presented significant implementation challenges and costs, with unclear benefits. While external perspectives can be helpful and accretive to quality, we believe firms should have flexibility in how they seek such feedback, from whom, and how that feedback is considered and operationalized. Consequently, we do not support an alternative threshold for the EQCF requirement.

Monitoring and Remediation Process

We appreciate and support the proposed amendment to the definition of QC deficiency to make clear that, when firms have implemented more than one quality response to address the same quality risk, they can take those other quality responses (e.g., compensating responses) into account when determining whether a QC deficiency exists. This approach reflects the common reality of QC systems that often include multiple layered, interrelated quality responses designed to address the same quality risk. The set of quality responses, designed to work together, should be evaluated in terms of how well the set of responses worked together to provide a fair picture of the operation of the QC system.

We appreciate the amendments to QC 1000.68a that provide alignment with AS 1220, and the effort to focus firms on matters that must be corrected before an audit report is issued or before an engagement conclusion is communicated to the company.

We also support the proposed amendments to QC 1000.68d that narrow the circumstances under which a firm is required to evaluate whether similar engagement deficiencies exist when one is identified. This amendment appropriately focuses the effort on matters that are likely to have an effect on audit quality, making the standard more practical. However, we suggest adjusting or replacing the example given in the SRC (page 28) to illustrate the application of this paragraph to be more straightforward with all relevant facts presented so that it does not appear to be adding a new PCAOB interpretation into the QC standard.

Evaluation of and Reporting on the QC System

Evaluation Date and Minimum Period

We strongly support the proposed change to permit firms to choose their annual evaluation date. Many firms struggled with operationalizing a mandated September 30 date and this proposed change will provide firms the ability to select a date that is in alignment with their respective operations and other quality management processes, consistent with AICPA and IAASB requirements.

The SRC introduces a five-month period as the minimum period through which the QC system would be required to operate before the first annual evaluation. We do not object to this threshold.

However, we believe additional implementation guidance regarding the evaluation date may be necessary for circumstances not included in the SRC (e.g., changes necessitated by firm mergers or changes in firm operations). Implementation or transition guidance would also be helpful for those firms who would have chosen an evaluation date appropriate for their operations and earlier than September 30 for their first evaluation in 2027, but will only have that option if and when the proposed amendments become final. Such firms have been working toward a September 30, 2027 evaluation date, and changing course to an earlier date for 2027 this late

in the process may not be possible. Guidance on transitioning to a different evaluation date in the second year would be beneficial.

Post-Evaluation Date Events

We encourage the Board to address events occurring between the evaluation date and the reporting date in the revised standard or in guidance in the adopting release. Given that QC systems operate on a continual and iterative basis, and the required evaluation date and reporting date are static, firms would benefit from guidance, including examples, of how events occurring between the evaluation date and reporting date, and even after the reporting date, should be considered in drawing a conclusion of effectiveness of the QC system. Firms would also benefit from guidance on disclosing (e.g., on Form QC) events subsequent to the evaluation date and incorporating them into remediation plans and monitoring. We believe this would help firms better understand the PCAOB's expectations and develop QC system evaluation cycles that lead to swift resolution of issues without continual reassessment.

Evaluation Conclusion

We support the proposed evaluation framework and appreciate its closer alignment to existing quality management standards and structured process. We believe the three proposed conclusions are appropriate and are more likely to accurately reflect the status of a QC system's effectiveness, especially when the evaluation framework retains the factors to evaluate the severity and pervasiveness of a deficiency.

A binary conclusion would oversimplify an evaluation; therefore, we do not support the alternative evaluation framework discussed in the SRC.

Documentation

We believe the proposed amendments are an improvement over the requirements of the original standard, including the reduction of the retention period from seven years to five years, but we remain concerned about the scope and timing of the documentation requirements.

The extent and volume of documentation required to be retained pursuant to QC 1000 and the cost of retaining that information is substantial. While the proposed reduction to five years helps alleviate a portion of that cost burden, we would welcome further consideration of a period shorter than five years as a means of reducing compliance costs and practical challenges associated with retention requirements that do not align with firms' internal protocols or other regulatory requirements. For example, a three-year retention period may suffice to accomplish the Board's oversight objectives, as it would cover at least one PCAOB inspection cycle for both triennially and annually inspected firms.

Additionally, practical questions remain regarding the application of QC 1000's documentation requirements. We believe additional implementation guidance is necessary to clarify expectations for document retention given QC system-level documentation is significantly different than engagement documentation. For example, there is opportunity to clarify how the "experienced auditor" concept is expected to be considered in QC system documentation, which is focused on the design, implementation, operation, and monitoring of firm-wide policies and procedures rather than the performance of individual audit procedures. In addition, retaining evidence of response operation creates practical challenges, particularly for automated responses that may operate at a high frequency and may not generate evidence of every step in a process in a readily retainable format. These situations may require manual or custom exports and screenshots or customization of underlying code, if possible, solely to achieve the documentation retention requirements of QC 1000 that would not otherwise be considered necessary.

Further, while the first year of inspection may reveal whether a firm has met the PCAOB's documentation retention expectation, to promote consistency and transparency, expectations regarding the nature and extent of documentation should be communicated through the standard, adopting release, or other Board or Office of the Chief Auditor guidance, rather than evolving through individual inspection practices.

Proposed Amendments to Other PCAOB Forms

We believe the proposed amendments to Forms 1 and 2 are appropriate.

Other

Additional questions or challenges may arise as firms complete their implementation of QC 1000. We encourage the PCAOB to remain engaged with firms during the final months of implementation and afterwards, and take note of challenges revealed in the first year of inspections. We encourage the PCAOB to continue to provide guidance on topics where it would be beneficial so that firms are best equipped in maintaining a QC system that complies with PCAOB's standard, thereby fulfilling the PCAOB's investor protection mission.

* * *

We thank you for the opportunity to present our views and appreciate your consideration. We would be pleased to discuss these comments further with you. Should you have any questions, please contact Erica Forhan (Erica.Forhan@bakertilly.com) or Damon Busse (Damon.Busse@bakertilly.com) in our Assurance Professional Practice Group.

Sincerely,

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Re: PCAOB Rulemaking Docket Matter No. 057; PCAOB Release No. 2026-002 – Supplemental Request for Comment on Proposed Amendments to QC 1000, A Firm's System of Quality Control, and Related Rule and Forms

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Dear Office of the Secretary:

BDO USA, P.C. ("BDO" or "the Firm") appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the Board) 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 (Supplemental Request for Comment or SRC)*. We also appreciate the Board's responsiveness to stakeholder feedback during the implementation of QC 1000 and its willingness to propose targeted amendments that enhance the standard's clarity, scalability, and operability while preserving its objective of protecting investors.

We support the Board's objective of enhancing quality control systems in a manner that promotes audit quality and protects investors.

Consistent with our prior comments, we continue to believe that improvements to audit quality are best achieved through a framework that emphasizes clarity, scalability, and alignment with global standards, rather than increased prescriptiveness. For ease of reference, our comments are organized according to the relevant questions included in the Supplemental Request for Comment. We have focused our responses on those questions where we believe additional stakeholder input may be most helpful to the Board's evaluation of the proposed amendments.

Requirement to Design, Implement, and Operate a QC System (Response to Questions 1-3)

We support the proposed rescission of the "design-only" requirement and believe it is appropriate for the reasons described in the SRC.

In response to the Board's questions regarding whether a modified or partial design requirement or alternative trigger should be retained, we do not support introducing such approaches. These alternatives would reintroduce complexity and operational burden without a clear corresponding benefit to audit quality.

As a practical matter, establishing a consistent and operable trigger point prior to accepting a PCAOB engagement is inherently challenging. Engagement scope and participation often evolve

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throughout the acceptance process, including in situations involving other auditors or changes in significance of the balances audited or hours performed. Accordingly, a clearly defined "on-ramp" is not readily operational in practice.

We do, however, believe additional guidance regarding transition expectations when a firm becomes subject to QC 1000 or ceases to issue an opinion or play a substantial role would be beneficial.

We note that this concern is not new. In response to the Board's 2022 proposal, commenters raised concerns regarding firms that are registered with the PCAOB but are not currently performing engagements under PCAOB standards, including the practical challenges that may arise when a firm transitions into performing PCAOB engagements or begins playing a substantial role. For example, commenters suggested that firms complying with ISQM 1 or SQMS 1 could be subject to a more tailored transition approach and that firms crossing relevant thresholds should be evaluated based on a specified cutoff or measurement date, similar in concept to SEC filer status determinations.

We also note that this concept is consistent with the Board's current request for comment. In connection with the SRC, Board Member Laughton specifically observed that the Board is seeking comment on alternatives to full rescission of the design-only requirement, including whether inactive firms should be required to design a QC 1000-compliant system closer in time to when they engage in PCAOB-related activities, such as pursuing an engagement.[1] We believe our recommendation builds on that concept by offering a practical framework that would provide firms with a clear compliance pathway while avoiding the operational challenges of a trigger that may not be known sufficiently in advance.

Accordingly, we encourage the Board to consider whether compliance with QC 1000 for firms that become subject to the standard after December 15, 2026, could be tied to an established evaluation period and measurement date rather than a specific triggering event. Many PCAOB-registered firms that are not currently required to design, implement, and operate a QC 1000-compliant system already operate systems of quality management and annual evaluation cycles under ISQM 1 or SQMS 1. Leveraging those existing evaluation cycles could provide a more practical, predictable, and scalable transition framework.

Under such an approach, a firm would determine at the beginning of its selected evaluation cycle whether it is required to comply with QC 1000 during that period. If the firm performs, or has accepted responsibility to perform, an engagement under PCAOB standards or play a substantial role during that cycle, it would design, implement, operate, and monitor its QC system throughout that evaluation period and evaluate the effectiveness of that system as of its selected evaluation date.

[1] https://pcaobus.org/news-events/speeches/speech-detail/statement-on-proposed-amendments-related-to-qc-1000---pursuing-a-more-moderate-and-sustainable-course

We believe this approach would provide firms with greater certainty, better leverage existing quality management processes, and avoid situations where firms are expected to transition effectively overnight from not being subject to QC 1000 to having a fully designed, implemented, operating, monitored, and evaluable system of quality control.

This consideration is particularly important for firms within global networks that may only periodically become subject to PCAOB requirements through participation in multinational group audits. Expanding and maintaining a pool of qualified PCAOB-registered firms capable of participating in complex group audit structures is important to audit quality. A transition framework that is practical and operational can help achieve that objective without diminishing accountability or investor protection.

Roles and Responsibilities (Response to Questions 4-7)

We support the proposed flexibility to assign roles and responsibilities described in paragraph .12 to any qualified individual, whether firm personnel or an other participant, and to divide responsibilities of a role across multiple individuals. These changes appropriately reflect how firms operate in practice and support the use of specialized expertise while still maintaining the core objectives of the requirement.

In response to the Board's question regarding whether the proposed amendments to paragraphs .12 and .15-.17 should be limited based on firm size or other factors, we do not believe such limitations are appropriate. These flexibilities should be available to all firms, provided accountability is clearly established.

This flexibility is important for firms of all sizes, but for different reasons. Smaller firms may rely on other participants to obtain specialized skills, expertise, and objectivity. Larger firms may divide responsibilities across multiple individuals to enhance capacity, leverage specialized expertise, and strengthen oversight. Preserving this flexibility allows firms to tailor their quality management structures to their size and complexity while continuing to achieve the underlying objectives of effective governance and audit quality.

Overall, we believe these changes appropriately enhance scalability and operational effectiveness without introducing unnecessary structural constraints.

External QC Function (EQCF) (Response to Questions 8-12)

We support the proposed removal of the EQCF requirement. Removing the prescriptive requirement provides firms with greater flexibility to design governance structures that are appropriately tailored to their size, complexity, and circumstances, including determining whether and how independent perspectives are incorporated into oversight activities.

Importantly, removing the EQCF requirement does not diminish the focus on quality. The proposed quality objectives for governance and leadership continue to require firm leadership to demonstrate a commitment to quality, establish clear accountability, support quality through

strategic decisions and actions, and allocate resources in a manner that enables an effective system of quality control.

We do not support retaining the requirement for a subset of firms based on issuer audit thresholds, nor do we support introducing alternative prescriptive oversight mechanisms. We believe a principles-based approach is preferable to a mandatory governance construct. The proposed removal appropriately addresses prior implementation concerns and that firms are best positioned to determine appropriate governance structures based on their size, complexity, and risk profile. Many firms, including ours, already incorporate independent voices into their governance and oversight processes and may continue to do so where it enhances the effectiveness of their quality management systems.

We agree that the proposed removal would reduce implementation costs, governance restructuring efforts, and challenges associated with identifying qualified independent individuals. We do not believe these costs are offset by a commensurate audit quality benefit because firms already employ a variety of governance and oversight structures that can appropriately address relevant quality risks.

Overall, we believe that removing the EQCF requirement enhances scalability and flexibility while maintaining a strong focus on accountability, governance, and audit quality outcomes.

Information and Communication (Metrics) (Response to Questions 13-14)

We support the proposed narrowing of the requirement in paragraph .53e to public written communications that include firm metrics. In our view, the proposal appropriately focuses on publicly disclosed metrics and allowing firms to provide explanatory information through external sources where these are generally one-way communications.

In response to the Board's question regarding investor usefulness, we do not believe these changes reduce transparency. Rather, they appropriately focus requirements on information that is most relevant to users. It also preserves the Board's objective of ensuring that public users of firm metrics have sufficient context to understand the information presented, while avoiding unnecessary compliance burden associated with providing duplicative explanations in nonpublic communications where dialogue and follow-up are readily available.

We recommend that the Board provide practical implementation guidance, including illustrative examples, regarding how firms may design and operate controls to comply with the revised requirement. Such guidance could reduce implementation uncertainty, facilitate more efficient compliance, and promote greater consistency across firms of varying sizes and structures.

Monitoring and Remediation Process

a. Evaluating Whether Similar Engagement Deficiencies Exist (Response to Questions 15-17)

We support the proposed limitation to paragraph .68(d) to focus the requirement on evaluating whether similar engagement deficiencies exist so it applies to those that resulted, or could result

in, a failure to obtain sufficient appropriate evidence to support the conclusion reached on an engagement, or an inappropriate overall conclusion on the subject matter of an engagement.

However, we believe additional clarification is necessary to ensure this requirement can be applied consistently and in a manner that is operational.

We support the Board's objective of identifying deficiencies before they result in unsupported engagement conclusions. However, we believe additional clarification is needed regarding the phrase "could result." Given QC 1000's reasonable assurance framework, which is based on reducing risk to an appropriately low level rather than eliminating all conceivable risk, we recommend that the Board (1) revise the proposed text from “could result” to “reasonably could result,” (2) clarify through practical implementation guidance that the phrase is intended to capture deficiencies that create a meaningful risk that sufficient appropriate evidence was not obtained, rather than remote or theoretical possibilities, and (3) provide illustrative examples and evaluation factors to promote consistent application. Without this suggested change to the requirement and added clarification, firms may apply the requirement inconsistently and exert a level of effort and cost that may not be meaningful because virtually any possibility of an engagement deficiency could be viewed as potentially resulting in insufficient audit evidence under some set of circumstances.

We also note that certain examples included in the proposal do not clearly reflect the intended application of the requirement. In particular, the example related to the failure to confirm a cash balance has created confusion. PCAOB auditing standards require auditors to obtain audit evidence from external sources for cash held by third parties; however, sufficiency of audit evidence obtained is inherently based on a risk-based and holistic assessment of the audit evidence obtained.

An engagement team’s failure to perform a specific audit procedure does not necessarily mean that sufficient appropriate evidence was not obtained. Auditing standards recognize that audit conclusions are based on the totality of audit evidence obtained and evaluated in the context of the engagement as a whole. Accordingly, where the omitted procedure relates to a matter that is not material, or where the relevant assertion is otherwise supported through alternative audit procedures, the engagement team may nevertheless have obtained sufficient appropriate evidence to reduce audit risk to an appropriately low level to support its conclusions.

As a result, the example may be interpreted as establishing a threshold that is not clearly aligned with the reasonable assurance framework that underpins PCAOB auditing and quality control standards.

This has created uncertainty regarding whether the Board intends to capture individual execution issues on a standalone basis, or only those deficiencies that indicate a meaningful risk that the engagement team failed to obtain sufficient appropriate evidence or otherwise support the conclusions reached on the engagement.

We recommend that the Board refine the existing example and provide additional scenarios that clearly distinguish between engagement execution issues on a standalone basis and deficiencies that indicate a meaningful risk that the engagement team failed to obtain sufficient appropriate evidence or otherwise support the conclusions reached.

b. Definition of QC Deficiency (Response to Question 18)

We support the clarification allowing firms to consider compensating controls when determining whether a QC deficiency exists. This approach appropriately reflects how systems of quality control operate in practice and avoids over-identification of deficiencies where risks are effectively mitigated.

Evaluation of and Reporting on the QC System

a. Evaluation Date (Response to Questions 19, 25)

We appreciate and support the proposal to allow firms to select their own annual evaluation date for their QC system because of the many challenges noted by audit firms, including ours, and acknowledged by the Board in the SRC.

We also support the proposal to require firms to notify the PCAOB of changes to the evaluation date. However, additional clarification regarding timing conventions (e.g., calendar days versus business days) would support consistent implementation.

We further believe the Board should clarify how information identified after the evaluation date should be considered when evaluating the system of quality control. Specifically, we recommend clarifying that information obtained after the evaluation date should affect the evaluation conclusion only to the extent that it provides evidence regarding conditions that existed as of the evaluation date. Conversely, information relating solely to conditions, events, or activities arising after the evaluation date should be addressed through the firm's ongoing monitoring and remediation process and considered in subsequent evaluation periods.

For example, findings identified through preissuance reviews, internal inspections or other internal quality review activities performed after the evaluation date on engagements that were not complete as of the evaluation date generally would not affect the evaluation conclusion as of that date. Similarly, inspection findings, comment forms, or other feedback received from the PCAOB or other regulators after the evaluation date should not automatically require revision of the evaluation conclusion and would affect that conclusion only to the extent the feedback provides evidence of conditions that existed as of the evaluation date but were not appropriately considered in the firm's evaluation.

We believe this approach would promote consistency in application, avoid unnecessary reassessment of conclusions based on subsequently arising matters, and appropriately distinguish between information that provides evidence about the effectiveness of the system as of the evaluation date and information that should be addressed through future monitoring and remediation activities.

b. Timing of First Evaluation (Response to Question 20)

We support allowing firms to select their own evaluation date and believe firms should perform their initial evaluation of the system of quality control as of that selected date.

However, we question whether the proposed five-month minimum operating period is necessary to achieve the Board's objectives. As proposed, firms may otherwise select an evaluation date that results in an initial evaluation period extending beyond twelve months, suggesting that the Board has already concluded that a longer operating period may be appropriate to support a meaningful evaluation of a newly implemented system of quality control.

This approach may also create practical challenges for firms seeking to align their QC 1000 evaluation process with evaluations performed under ISQM 1 and SQMS 1. For example, if a firm selects March 31 as its annual evaluation date, the proposed five-month requirement could result in the firm's first QC 1000 evaluation occurring as of March 31, 2028, resulting in an initial QC 1000 evaluation period of approximately 15.5 months. However, ISQM 1 and SQMS 1 contemplate annual evaluation periods that generally do not exceed twelve months. In that scenario, the firm would likely be required to perform an ISQM 1 or SQMS 1 evaluation as of March 31, 2027, while the corresponding QC 1000 evaluation would not occur until March 31, 2028. As a result, the firm would effectively be required to evaluate the same period under different evaluation cycles, creating complexity, reducing comparability, and potentially requiring firms to maintain separate evaluation processes during the transition period.

As an alternative, the Board could permit firms to perform their initial evaluation as of their selected evaluation date, consistent with their normal quality control processes, while requiring the first Form QC filing only for the first evaluation period ending after September 30, 2027. Under this approach, firms would still be required to perform and document their initial evaluation on a timely basis but would not be required to establish a separate transition reporting cycle solely to satisfy the five-month minimum operating period requirement.

The challenges associated with the proposed five-month requirement are particularly evident for firms that become subject to QC 1000 after its effective date. As discussed above, we believe a framework tied to a firm's established evaluation cycle and measurement date would provide a more predictable and operational transition mechanism. Such an approach would leverage existing quality management processes already operating within firms, better align with annual evaluation concepts under ISQM 1 and SQMS 1, and avoid the practical challenges associated with establishing separate transition periods each time a firm becomes subject to QC 1000. We also believe this approach would support broader participation by qualified PCAOB-registered firms in complex group audits by reducing unnecessary implementation complexity while maintaining the Board's quality objectives.

We do not believe this approach would reduce the Board's visibility into firms' implementation of QC 1000. The Board currently obtains information regarding firms' systems of quality control through inspections, implementation outreach, annual data requests, and other regulatory

interactions. The Board could continue to obtain information regarding a firm's initial evaluation, implementation progress, significant findings, and remediation activities through these existing mechanisms prior to the firm's first Form QC filing. We believe this approach would provide the Board with timely insight into implementation while allowing firms to evaluate their systems over a complete operating cycle, improving consistency across firms and aligning more closely with the principles underlying ISQM 1 and SQMS 1.

c. Evaluation Conclusions (Response to Questions 21, 26)

We support the three proposed conclusions in paragraph .77 and do not support a binary model.

We believe the proposed framework provides more meaningful information to stakeholders regarding the effectiveness of a firm's QC system and better reflects the realities of how QC systems operate in practice. QC systems exist on a spectrum of effectiveness, and a three-tier framework appropriately recognizes varying degrees of severity and impact rather than requiring an overly simplistic pass/fail conclusion. Further, alignment with ISQM 1 and SQMS 1 in this area is important to promote consistency, comparability, and understandability across global quality management frameworks, particularly for firms operating in multiple jurisdictions.

d. Evaluating the Severity and Pervasiveness of Unremediated QC Deficiencies (Response to Questions 22, 27)

We support the inclusion of additional proposed factors and other revisions in paragraph .78 to guide evaluation of severity and pervasiveness. We do not believe additional mandatory factors are necessary at this time. Instead, practical implementation guidance and illustrative examples would likely be more effective in promoting consistent application while preserving appropriate judgment.

e. Removal of "Major QC Deficiency" (Response to Question 23)

We support the proposed removal of the concept of a "major QC deficiency" as it simplifies the framework and improves alignment with other quality management standards.

Reporting to the PCAOB (Response to Questions 24-25)

We support the proposed changes to Form QC timing and generally support the conforming amendments.

We continue to have concerns regarding the confidentiality of information submitted through Form QC, particularly information relating to identified deficiencies, root causes, remediation strategies, governance matters, and other aspects of a firm's system of quality control. While we understand that Form QC is nonpublic, additional clarity regarding applicable confidentiality protections, information sharing protocols, and the circumstances under which such information may be disclosed would provide firms with greater certainty regarding the treatment of highly sensitive quality management information.

We also recommend clarification of certain operational aspects of reporting requirements, including timing conventions and their interaction with evaluation and remediation processes, to support consistent implementation.

Documentation (Response to Questions 28-29)

We support the proposed documentation-related changes, including the removal of the requirement to assemble a "complete and final set of documentation," the ability to retain documentation within its original system of record, and the shortened retention period. Collectively, these proposed changes appropriately reduce operational complexity, administrative burden, and compliance costs, while continuing to provide the PCAOB with access to information necessary to achieve its regulatory objectives.

However, we believe there is an opportunity to further refine the retention requirements in a manner that continues to support the Board's inspection mandate while improving efficiency.

The Board has indicated that documentation requirements are intended, in part, to support its oversight activities. In practice, inspections occur within the proposed five-year retention window. As such, a single retention period applied uniformly across all QC system documentation may extend beyond what is necessary for this purpose.

We therefore encourage the Board to consider a more risk-based approach to the retention period. Documentation supporting the firm's evaluation of its system of quality control, including evidence of identified deficiencies and remediation efforts, could be retained for a longer period (e.g., five years), while broader system documentation could be subject to a shorter retention period (e.g., three years).

We also note that quality control documentation is inherently dynamic. Systems of quality control are continuously updated to reflect changes in professional standards, the firm's risk assessment, evolving business practices, and ongoing technological advancements. As a result, documentation that is several years old may no longer reflect the current design, risks, or responses within the system and may have limited relevance in evaluating its effectiveness. Retaining all documentation for extended periods may increase complexity without a corresponding benefit to audit quality or oversight.

Additional practical implementation guidance would also be beneficial regarding the "experienced auditor" standard and to clarify that documentation requirements do not imply re-performance of procedures.

Other PCAOB Forms (Response to Questions 30-31)

We support the proposed conforming amendments to Form 1, and Form 2 described in Appendix 3 of the SRC.

In response to the Board's question regarding disclosure of applicable quality control frameworks, we believe such disclosure may be appropriate within firm-related registration filings. Providing

this information would enhance transparency and clarify the frameworks under which a firm's system of quality control is designed and evaluated, particularly where firms operate under multiple complementary frameworks.

Additional Feedback

We believe the following principles remain critical not only to the successful implementation of QC 1000 and related rules, but also to future PCAOB standard-setting activities. These themes are consistent with those discussed in BDO's May 15, 2026, comment letter on PCAOB Release No. 2026-001, Request for Public Comment on PCAOB Strategic Priorities[2]. Specifically, we encourage the Board to:

- Continue to incorporate risk-based and materiality-focused concepts that prioritize matters based on their significance and potential impact on investor protection and audit quality.
- Continue to evaluate opportunities to harmonize PCAOB requirements with analogous quality management and auditing frameworks, including ISQM 1, SQMS 1, and International Standards on Auditing, where such alignment can be achieved without compromising the Board's statutory mandate.
- Clearly articulate the rationale for retaining differences from other frameworks, including the investor protection benefits expected to result from those differences.
- Maintain a scalable approach that recognizes the significant differences among firms in size, structure, geographic footprint, and complexity while continuing to achieve the Board's quality objectives.
- Continue engaging with stakeholders throughout both the standard-setting and implementation processes to identify operational challenges, unintended consequences, and opportunities to improve effectiveness.
- Provide timely and practical implementation guidance, including illustrative examples and good practices in sufficient detail to promote consistent application while preserving appropriate professional judgment.

We believe continued emphasis on these principles will promote standards that are durable, scalable, and capable of being applied consistently over time. Doing so will enhance comparability across firms, reduce unnecessary implementation complexity, and enable investors, audit committees, issuers, and auditors to respond with greater confidence and certainty, all in the furtherance of the ultimate goal of investor protection.

Conclusion

We appreciate the Board's responsiveness to stakeholder feedback and its willingness to propose targeted amendments to enhance the standard's clarity, scalability and operability while preserving its objective of protecting investors.

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[2] https://assets.pcaobus.org/pcaob-dev/docs/default-source/about/administration/strategic-plan-comments-2026/58_bdo.pdf?sfvrsn=ec9dd9bf_2

We also appreciate the opportunity to share our perspectives on the SRC. If you would like to discuss our comments further, please contact Michael Stevenson (mstevenson@bdo.com), Marcy Johnson (marcy.johnson@bdo.com) or Lillian Ceynowa (lceynowa@bdo.com) regarding our submission.

Respectfully submitted,

BDO USA, P.C.

cc:

PCAOB

Demetrios (Jim) Logothetis, Chairman

George Botic, Board member

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July 9, 2026

Ms. Phoebe W. Brown
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Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 057, Supplemental Request for Comment: Proposed Amendments to QC 1000, *A Firm's System of Quality Control*, and Related Rule and Forms

Dear Ms. Brown:

CBIZ CPAs P.C. ("CBIZ") appreciates the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB" or "Board") supplemental request for comment on targeted amendments to QC 1000, *A Firm's System of Quality Control*, and related amendments to the QC reporting rule and PCAOB forms ("targeted amendments"). CBIZ is a mid-sized accounting firm that currently provides audit- and internal control over financial reporting-related services to more than 100 issuer audits, and we are committed to constructive engagement that advances investor protection and audit quality. We commend the PCAOB's willingness to continue engaging with stakeholders as firms work toward implementation of this important standard and rule.

We support the PCAOB's mission to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports. We also agree that an effective system of quality control is foundational to audit quality. In our view, the targeted amendments reflect a thoughtful and constructive response to implementation feedback and should help improve the clarity, operability, and scalability of QC 1000 while preserving its core quality objectives. Chairman Logothetis stated that the Board's goal is to produce a "rigorous, clear, and consistent framework" while ensuring that implementation is "scalable, efficient, cost-effective, and contributes to audit quality."[1] We support that objective and believe the targeted amendments generally advance it.

Overall, CBIZ supports finalization of the targeted amendments. We believe they improve clarity and operational feasibility in several key areas, enhance scalability and flexibility, and address certain cost-benefit concerns without undermining audit quality. At the same time, we respectfully offer several recommendations that we believe would further improve consistency, clarity, and alignment with the Board's audit quality objectives.

Roles and Responsibilities

We support the Board's proposal to provide increased flexibility in assigning specified roles and responsibilities within the QC system, including permitting responsibilities to be assigned to individuals outside of firm personnel and allowing responsibilities to be divided among multiple individuals.

[1] PCAOB Issues Proposed Amendments to QC 1000 and Seeks Public Comment

As it relates to the potential alternatives discussed by the Board, we do not believe this flexibility should be limited based on the number of issuer audits a firm performs. In complex organizations, individuals with the requisite experience, competence, and authority to assume operational responsibility for the QC system may not have the capacity to personally review all supporting documentation or independently perform all work necessary to support the annual evaluation conclusion. In practice, those individuals appropriately rely on the detailed knowledge and work of other responsible parties across the system. This is particularly true in highly integrated quality management environments where governance is supported through cross-functional committees and specialized leaders.

External QC Function ("EQCF")

We understand the Board's original objective in introducing the external QC function, namely enhancing independent oversight, and reinforcing accountability within the QC system. Our firm has incorporated an oversight committee structure as a quality response intended to achieve similar objectives by promoting independent perspectives to challenge and strengthen accountability for QC outcomes. However, we also experienced practical challenges with the ambiguity of the original EQCF requirement, particularly in defining the appropriate scope of activities and distinguishing advisory oversight from operational involvement.

In our view, QC 1000 accomplishes the goals of strengthening trust in governance, reinforcing accountability, and supporting a sustained commitment to quality through the existing quality objectives that address 1) governance that weighs quality in resource allocation, 2) leadership accountability, and 3) monitoring and remediation. As such, we support the proposed rescission of the EQCF requirement and believe this would better position firms to design oversight mechanisms that are tailored to their nature and circumstances while still advancing the broader objective of appropriate governance and accountability. We commend this pragmatic response to eliminate requirements that may duplicate existing safeguards.

Evaluation of and Reporting on the QC System

Evaluation Date

We support the targeted amendment permitting firms to select their own annual evaluation date rather than requiring evaluation as of September 30. This change should allow better alignment with firms' internal monitoring cycles, inspection timelines, and operational reporting processes.

At the same time, we believe additional guidance would be helpful on how firms should consider information identified between the evaluation date and the reporting date, and in some cases after the reporting date, when such information bears on the effectiveness of the QC system as of the selected date. In our view, flexibility as to the evaluation date should not be interpreted as eliminating the need for continued assessment of inspection results, monitoring outputs, or other relevant findings as they become available. Clarification in the final release or related implementation guidance on these expectations would promote more consistent application across firms.

Evaluation Conclusion

We believe the three-tiered approach to the evaluation conclusion better supports informed decision-making, meaningful communication to stakeholders, and a more faithful representation of how QC systems operate in practice. We do not support the alternative binary approach to the evaluation conclusion. In our view, a binary framework would reduce transparency into the condition of the QC system, limit the ability to communicate the nature and severity of identified deficiencies, and reduce alignment with other quality management frameworks that use differentiated conclusions based on severity and pervasiveness.

Monitoring and Remediation

We appreciate the Board's efforts to refine the monitoring and remediation provisions, including the proposed changes addressing when firms are required to evaluate whether similar engagement deficiencies exist. The targeted amendments narrow that requirement by focusing on identified engagement deficiencies that could result in either a failure to obtain sufficient appropriate audit evidence to support the conclusion reached on an engagement or an inappropriate overall conclusion on the subject matter of an engagement. We support the Board's effort to make this area more operable and more closely focused on deficiencies of greatest significance.

Conforming Interpretive Material and Additional Guidance

Conforming Interpretive Material

We recommend that, as part of finalizing the targeted amendments, the Board update or reissue related interpretive and release text that conforms to the final amended standard and rule. We are supportive of the targeted amendments as outlined in this letter, and we believe that some uncertainty in implementation has arisen not from the rule text alone, but from the explanatory discussion surrounding the 2024 adoption and related implementation materials. The Board's targeted amendments expressly state that the amendments are intended to improve coherence with other quality management standards and achieving that objective will be enhanced if firms have a clear understanding of which prior interpretive discussion remains applicable and which discussion has been superseded or modified.

Updated or reissued interpretive guidance that clearly identifies how firms should read the amended requirements considering the original release text would be useful. This would be particularly helpful in areas where the amendments change the practical operation of the standard and/or rule or where prior explanatory text may no longer reflect the Board's intended approach.

Additional Guidance

Evaluating the Severity and Pervasiveness of Unremediated QC Deficiencies

We understand the Board's general approach to remediation activities that can be designed, implemented, and tested for operating effectiveness prior to the evaluation and reporting dates. However, where frequency constraints preclude such testing, it is unclear how firms should assess the effect of those remediation efforts in evaluating remaining QC deficiencies. We recommend that the Board clarify whether, and to what extent, firms may consider the design and implementation of

remediation activities in these circumstances. Additional guidance on this point would better align the standard's operation with other established quality management frameworks and would promote more consistent and decision-useful evaluations.

Monitoring and Remediation

Further guidance would be beneficial regarding the judgments necessary to apply the proposed provisions in paragraph .68(d). This would help firms evaluate how to distinguish deficiencies that warrant broader similar-deficiency analysis from those that, while important, may not reasonably bear on the sufficiency of audit evidence or the appropriateness of the overall conclusion. Clarification in this area would improve consistency in application and reduce the risk that firms arrive at materially different judgments in comparable circumstances.

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CBIZ appreciates the PCAOB's willingness to revisit targeted areas of QC 1000 in response to stakeholder input and implementation experience. We view the targeted amendments as a constructive step that should improve clarity, scalability, and operability while preserving the standard's essential objective of strengthening firms' systems of quality control in support of audit quality and investor protection. We support finalization of the targeted amendments and respectfully offer the recommendations above to further assist firms in implementing the standard and rule effectively and consistently. The Board's continued openness to stakeholder input and practical implementation considerations will, in our view, contribute meaningfully to the successful execution of this foundational standard.

If you have any questions or would like to discuss our views further, please contact Chief Quality Officer Adam Clark (Adam.Clark@cbiz.com) or National Director of System Quality Management Jocelyn Gunter (Jocelyn.Gunter@cbiz.com).

Very truly yours,

CBIZ CPAs P.C.

CBIZ CPAs P.C.

By email: comments@pcaobus.org

CAQ

July 9, 2026

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

Re: PCAOB Rulemaking Docket Matter No. 057; 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:

The Center for Audit Quality (CAQ)[1] appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or Board) supplemental request for comment on proposed amendments to QC 1000, *A Firm's System of Quality Control*, and related amendments to PCAOB Rule 2203A and PCAOB forms (Supplemental Request for Comment or SRC). We also appreciate the Board's openness to stakeholder feedback during the implementation period following adoption of QC 1000 and the Board's willingness to expose targeted amendments intended to improve the clarity, scalability, and operability of the standard while preserving its investor-protection objectives.

We continue to support the objective of QC 1000. A firm's system of quality control (QC system) is foundational to audit quality, and a rigorous, risk-based, and well-operating QC system can help promote consistent execution of quality audits. At the same time, requirements that are unclear, insufficiently scalable, or difficult to operationalize may divert resources from activities that most directly support audit quality. Accordingly, we support these targeted refinements that will improve coherence with other quality management standards, reduce unnecessary implementation complexity, and maintain accountability for achieving the reasonable assurance objective of the QC system.

[1] The Center for Audit Quality (CAQ) is a nonpartisan public policy organization serving as the voice of US public company auditors and matters related to the audits of public companies. The CAQ promotes high-quality performance by US public company auditors; convenes capital market stakeholders to advance the discussion of critical issues affecting audit quality, US public company reporting, and investor trust in the capital markets; and using independent research and analyses, champions policies and standards that bolster and support the effectiveness and responsiveness of US public company auditors and audits to dynamic market conditions. This letter represents the observations of the CAQ based upon feedback and discussions with certain of our member firms, but not necessarily the views of any specific firm, individual, or CAQ Governing Board member.

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CAQ

Executive Summary

The proposed amendments are balanced and responsive to many implementation challenges our member firms have experienced. In particular, we support rescinding the design-only requirement for PCAOB registered firms that do not perform PCAOB engagements; providing additional flexibility in assigning and dividing specified QC roles; rescinding the External QC Function (EQCF) requirement; narrowing and clarifying certain communication requirements relating to metrics; refining the evaluation of engagement deficiencies and the definition of QC deficiency; allowing firms to select their annual QC system evaluation date; revising the evaluation conclusions to align more closely with other quality management standards while retaining a structured evaluation process; clarifying documentation retention requirements and reducing the retention period to five years; and maintaining the current effective date.

We continue to encourage the Board to provide additional written implementation guidance, including potential FAQs, to support consistent application of QC 1000. Firms have engaged in ongoing discussions with Board staff regarding implementation questions, and those conversations may provide valuable insights into areas where additional clarification could be helpful. Publishing FAQs that reflect common questions and observations arising through implementation would help promote consistency across firms and ensure broader access to interpretive guidance. We welcome the opportunity to support the Board's efforts. Providing additional opportunities for practitioner input and two-way dialogue, including before the final release, would further facilitate effective and consistent implementation of the standard.

As the Board finalizes these amendments, develops implementation guidance, and designs an inspection approach that places greater emphasis on firms' QC systems, it is important to continue to focus on the underlying economic analysis and take a disciplined approach to standard setting and inspection, similar to the position expressed by the SEC. In recent statements, SEC Chairman Atkins has emphasized that regulation should be disciplined, rooted in materiality, and calibrated to avoid unnecessary burdens, including by scaling requirements based on the size and maturity of the entity subject to them. He likewise has described the SEC's recent filer-status proposal as part of a broader effort to "right-size" regulatory requirements through the lens of materiality and to extend accommodations in a way that reflects a balancing of investor protection and burden reduction. We encourage the Board to apply these same principles as it completes this project so that implementation, guidance, and inspection practices remain focused on matters most relevant to audit quality and investor protection.

Responses to Certain Questions Within the Proposal

<u>A. Requirement to Design, Implement, and Operate a QC System</u>

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

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?*

CAQ

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?*

QC 1000 requires all firms to design a QC system that complies with the standard, regardless of whether the firm is subject to applicable professional and legal requirements with respect to an "engagement" as defined in QC 1000. We support the proposed rescission of this so-called "design-only requirement".

From the outset, we have not supported this requirement.[2] As stated in PCAOB Release No. 2022-006 ("the 2022 PCAOB Proposing Release"), risk to investor protection is minimal if firms are not performing or playing a substantial role in engagements for issuers.[3] As the 2022 PCAOB Proposing Release also states, many firms registered with the PCAOB have never performed an engagement in accordance with PCAOB standards and may not plan to perform such engagements in the future.[4] Furthermore, nearly all of these firms are subject to the recently adopted IAASB or AICPA QC standards (International Standard on Quality Management 1 (ISQM 1) and/or the AICPA's Statement on Quality Management Standards No. 1 (SQMS 1)).

We do not believe there are activities that should trigger a QC-system design requirement. The existing requirements of QC 1000 related to Client Acceptance and Continuance, as well as PCAOB Auditing Standard 2101, *Audit Planning*, sufficiently require a firm to assess its readiness and ability to comply with QC 1000 before undertaking an engagement subject to PCAOB standards. Because such firms are likely subject to ISQM1, SQMS1, or both, these firms would have a framework to respond to the new risk of a PCAOB engagement and would then be required to transition to adopting QC 1000.

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?*
5. *Are the proposed conforming amendments to paragraphs .15-.17 sufficiently clear? If not, why not?*
6. *Would the proposed amendments to paragraphs .12 and .15-.17 support audit quality? Why or why not?*
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?*

We support the proposed amendments to paragraph .12 and the related conforming amendments to paragraphs .15–.17. Permitting specified roles and responsibilities to be assigned to individuals who are not firm personnel, as well as permitting responsibilities of a role to be divided among multiple individuals, is appropriate and can support audit quality when implemented with clear accountability, sufficient capacity, competence and authority, and effective coordination.

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[2] CAQ comment letter to the PCAOB dated February 1, 2023 in response to the Proposal dated November 18, 2022, page 13, response to Question 5.
[3] PCAOB Release No. 2022-006, page 34.
[4] PCAOB Release No. 2022-006, page 49.

CAQ

Requiring that only one individual hold the ethics and independence role would require some firms to change their existing operational structure to align roles with those required by paragraph .12, which poses unnecessary operational challenges and disruptions for firms without a commensurate benefit. We support the proposed flexibility, which is consistent with the feedback we previously shared during the development of the standard.[5] As firms began implementing QC 1000, the operational challenges discussed in those letters were confirmed.

Further, some firms outside the U.S. who are registered with the PCAOB utilize resources from outside their registered firm, but from within the global firm's network with appropriate contractual arrangements in place, to perform certain of the functions specified in paragraph .12, such as the monitoring and remediation and ethics and independence roles. Some firms outside the U.S. that have smaller PCAOB audit practices have found that using others from outside the registered firm to perform these roles has had a positive impact on audit quality as it brings sufficiently competent and experienced individuals with relevant subject matter expertise to the firm. As a result of the requirement that individuals serving in the paragraph .12 roles meet the definition of "firm personnel," some firms would need to undertake additional unnecessary effort to identify appropriate resources within each network member firm, including organizational changes, education, and training. In addition, firms may need to identify new arrangements (including membership in new legal entities) with network personnel to assist in these roles in order to meet the definition of "firm personnel" as required by QC 1000. Further, local laws and regulatory requirements, which vary by jurisdiction around the world, can create additional complexities.

For all these reasons, the proposed amendment would provide welcome and needed flexibility, which is important for firms of varying sizes and structures. We do not support providing this amendment only on a scaled basis. Smaller firms may need to rely on qualified external resources to obtain specialized expertise or to address capacity constraints. Larger firms may benefit from dividing complex responsibilities among individuals with specialized knowledge and sufficient capacity. In both cases, it is appropriate that the relevant consideration is whether the firm has established a clear structure for responsibility, accountability, escalation, and oversight—not whether the responsibilities are held by a single individual or solely by firm personnel.

[5] CAQ comment letters to the PCAOB dated February 1, 2023 and July 23, 2025.

CAQ

C. External QC Function

8. *Are there additional costs and benefits of the proposed removal of the EQCF requirement that should be considered?*
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?*
10. *Is there an alternative threshold that would be appropriate? If so, what is that threshold and why would it be appropriate?*
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?*
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?*

We support the proposed removal of the EQCF requirement. While independent perspectives can be valuable, a mandatory EQCF requirement imposes significant implementation challenges and costs, including identifying individuals with sufficient expertise, independence, and availability, including sufficient time to understand and evaluate the firm's QC system. The incremental audit quality benefits of a mandatory EQCF requirement are uncertain, particularly when QC 1000 already requires governance, leadership accountability, monitoring, remediation, evaluation, and reporting processes designed to promote the overall effective operation of the QC system.

Firms' existing monitoring processes already deliver strong, objective oversight. Because the Form QC report is non-public and PCAOB inspections provide comprehensive regulatory scrutiny, the EQCF requirement largely duplicates existing safeguards.

In our July 2, 2024 comment letter to the SEC, we did not support the approval of the final QC 1000 standard as adopted by the PCAOB on May 13, 2024 (Final Standard) due to our concerns related to the EQCF requirement.

We also expressed concerns regarding:

i. The documentation requirements to demonstrate the EQCF's evaluation of the firm's conclusions.
ii. The extent of information the EQCF would need to be provided to enable them to satisfy their oversight requirements.
iii. The liability for those serving in the EQCF role, which could cause those who are otherwise qualified to be unwilling to perform this role.

In our letter to the Board dated July 23, 2025,[6] we acknowledged the PCAOB's effort to provide more clarity on the EQCF requirement through its comment letter to the SEC[7] and other resources on the PCAOB website. We also expressed that challenges related to implementing the EQCF requirement remained. The PCAOB had suggested that firms can "integrate the EQCF into their current practices without the need for significant restructuring or additional resources, thereby minimizing the financial and operational burden

[6] CAQ letter to PCAOB dated July 23, 2025.
[7] PCAOB Comment Letter to SEC Regarding QC 1000, dated August 16, 2024.

CAQ

of compliance."[8] However, this role differs from firms' existing advisory boards (for those that have chosen to establish one) and necessitated the identifying and hiring of new individuals, which takes time and resources.

As implementation of QC 1000 began, many of our member firms experienced challenges for the reasons described above. Some firms were challenged in identifying candidates willing and able to perform the EQCF function. As of the writing of this letter, to our knowledge, not all firms currently subject to the requirement have been able to contract with individual(s) to perform this function.

We do not support retaining the EQCF requirement only for firms above an alternative issuer threshold, such as more than 500 issuers. A threshold-based approach could reduce the number of firms affected, but it would not resolve the underlying concerns regarding operability, cost, availability of qualified individuals, and uncertain incremental benefit. Nor do we support adopting the independent oversight function in the form initially proposed. The Board should instead allow firms to determine, based on their risk assessment and circumstances, whether and how to obtain independent or external input into the QC system.

D. Information and Communication

13. *Are the proposed amendments to paragraph .53e sufficiently clear and appropriate? If not, why not?*
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 the Board's effort to narrow and simplify paragraph .53e and appreciate the proposed clarification relating to metrics that firms communicate about their audit practice, firm personnel, or engagements. Applying detailed metric-related controls to every external communication—such as informal communications with regulators, audit committees, or other stakeholders—could be impracticable and may not meaningfully enhance audit quality. We agree that firms should have appropriate policies and/or procedures addressing metrics that are communicated publicly and that may affect stakeholder understanding of audit quality.

We encourage the PCAOB to confirm in its final release or accompanying guidance that the requirements of paragraph .53d are intended to apply only to those communications prescribed by applicable professional and legal requirements. Such confirmation would provide an important anchor for consistent application across the profession. Additional guidance would help firms design controls that are proportionate to the nature, use, and significance of the metrics communicated. As it relates to any communications with regulators, firms would continue to be subject to the Board's ethics rules such that information provided would not be intentionally misrepresented.

We also support allowing firms to provide explanations of metrics on their websites, provided that those explanations are clear, balanced, accessible, and sufficiently specific to help users of these metrics

[8] Ibid, page 16.

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understand the context, limitations, methodology, and period covered by the metrics. Explanatory material can enhance, rather than diminish, the utility and comprehensibility of publicly reported metrics when it is presented in a transparent and non-misleading manner.

E. Monitoring and Remediation Process

15. *Are the proposed amendments to paragraphs .68a and .68d sufficiently clear and appropriate? Why or why not?*
16. *What, if any, additional direction is needed regarding paragraph .68d?*
17. *Would the proposed amendments to .68d reduce the complexity, subjectivity, or costs associated with evaluating engagement deficiencies across other engagements? Please explain.*
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 support the proposed amendments to paragraphs .68a and .68d. Requiring firms to evaluate whether similar engagement deficiencies exist only when the identified deficiency resulted or could result in a failure to obtain sufficient appropriate evidence to support the conclusion reached on an engagement, or an inappropriate overall conclusion on the subject matter of an engagement, appropriately focuses the requirement on matters most likely to affect audit quality. This approach should reduce complexity, subjectivity, and cost associated with evaluating engagement deficiencies across other engagements while preserving a robust remediation process for significant matters.

Examples illustrating how to apply the requirements of paragraph .68d are generally very helpful. In the example on page 28, it was not initially clear to us why there was an engagement deficiency. We read the example to suggest that the engagement deficiency resulted because the engagement team did not send cash confirmations (even though the account was not significant). When cash is a significant account, we agree there would be an engagement deficiency if confirmations were not sent. However, when cash is not a significant account, there would not be an engagement deficiency if confirmations were not sent.

Through discussions with PCAOB staff, it is our understanding that the engagement deficiency in the example on page 28 results because an engagement team chose to confirm cash and did not follow up on exceptions in accordance with AS 2310, *The Auditor's Use of Confirmation.* In the example, the cash account was not a significant account. Despite this, the engagement team is required to follow up on exceptions once confirmations are sent. Based on this fact pattern, we would not consider this engagement deficiency to be a significant engagement deficiency. We believe the final release text should clarify this example.

We also support the proposed amendment to the definition of QC deficiency to make clear that firms may take other quality responses, including compensating responses, into account when determining whether a QC deficiency exists. This clarification is important because QC systems often include multiple, interrelated quality responses to address the same quality risk. Evaluating one quality response in isolation could overstate the significance of an issue and fail to reflect how the QC system operates as a whole.

CAQ

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?*
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?*
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?*
22. *Are the factors to evaluate the severity and pervasiveness of unremediated QC deficiencies sufficiently clear and appropriate? Why or why not?*
23. *Is the proposed removal of "major QC deficiency" from QC 1000 appropriate? Why or why not?*
24. *What, if any, additional direction is needed regarding the possible conclusions on the effectiveness of the firm's QC system in paragraph .77?*
25. *Are the proposed conforming amendments to Rule 2203A and Form QC appropriate? Why or why not?*
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?*
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?*

We support permitting firms to choose their own annual evaluation date. Allowing firms to align the evaluation date with their fiscal year, governance cycle, monitoring cycle, or other quality management processes can promote more effective evaluation and monitoring. We also do not object to the proposed five-month minimum operating period before the first evaluation as of a firm-selected date. However, additional guidance may be helpful in circumstances when firms may need to change their evaluation date (i.e., in the event of a merger).

We support the proposed evaluation framework and the three proposed conclusions in paragraph .77. The framework appears to better align with other existing quality management standards while retaining a structured process for evaluating unremediated QC deficiencies. We also support retaining factors to evaluate severity and pervasiveness, as such factors can promote consistency and discipline in the evaluation process. The Board should, however, consider whether to provide additional direction (e.g., written implementation guidance) and examples to help firms apply those factors, particularly in circumstances involving multiple deficiencies, deficiencies affecting firm-level processes, deficiencies identified late in the evaluation cycle, or occurring between the evaluation date and the date of filing Form QC.

We support removing the term "major QC deficiency" from QC 1000. Eliminating that term should reduce unnecessary complexity and better align the evaluation conclusions with the reasonable assurance objective of the QC system.

CAQ

We do not believe the alternative considered by the Board of a binary effective/not effective conclusion would be more appropriate. A binary framework may oversimplify the evaluation of QC systems and may not provide sufficient information about deficiencies that are severe but not pervasive enough to warrant a conclusion that the system is not effective. The Board's proposed framework, if clearly explained, should better reflect the range of circumstances firms may encounter while maintaining accountability for timely remediation. Further, the proposed framework more closely aligns with other quality management standards.

We encourage the Board to address events occurring between the evaluation date and the reporting date. Firms would benefit from guidance on whether and how such events should be considered in the evaluation conclusion, disclosed in Form QC, or addressed through subsequent remediation and monitoring activities. Clear direction would reduce inconsistency and help firms avoid duplicative or overly conservative evaluation processes.

G. Documentation

28. Are the proposed amendments to paragraph .84 sufficiently clear and appropriate? If not, why not?
29. Is the proposed amendment to retain documentation for five years sufficiently clear and appropriate? If not, why not?

We support the proposed reduction of the documentation retention period from seven years to five years. However, five years is still a period that may unnecessarily drive costs. During a 5-year time period, systems are likely to be updated and licensing will need to be maintained for the purpose of retaining records. Five years generally exceeds many company and firm internal policies. To the extent a shorter period such as three years would not impede the Board's ability to execute its responsibilities, including inspections, a further reduced time period would be more cost effective.

Regardless of the retention period ultimately adopted, we encourage the Board to monitor implementation experiences through its inspection program and consider whether additional guidance related to documentation would be beneficial. To promote consistency and transparency, expectations regarding the nature and extent of documentation should be communicated through the standard, adopting release, or other Board or Office of the Chief Auditor guidance, rather than evolving through individual inspection practices. Any guidance should emphasize that the extent of documentation to be retained will require judgment and should be sufficient to demonstrate compliance without requiring firms to create excessive documentation that does not contribute to audit quality.

Further, we encourage the Board to memorialize in the adopting release the guidance provided during recent implementation discussions with PCAOB staff (i.e., dry run sessions) that the reperformance standard is not the Board's intent.

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H. Additional Commenter Feedback on QC 1000

30. Are the proposed amendments to Form 1 and Form 2 in Appendix 3 appropriate? If not, why not?
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 generally support the proposed amendments to Form 1 and Form 2 in Appendix 3. We also believe it may be appropriate for a firm applying for registration to identify which quality management standard or standards its QC policies are based on, provided the requirement is clear, limited, and not used to imply that a firm is subject to QC 1000 before it performs engagements for issuers within the scope of the standard. Such information could help the Board understand the firm's quality management framework while preserving the proposed rescission of the design-only requirement.

I. Economic Analysis

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.
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.
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.
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.
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.
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.

We agree that the proposed amendments have the potential to reduce costs associated with designing, implementing, and operating a QC 1000-compliant system while maintaining the standard's audit quality objectives. We previously submitted estimated cost data to the Board that demonstrated the significant costs resulting from key differences between QC 1000 and ISQM 1.[9] The proposed amendments better align the two standards. Therefore, the most significant potential cost reductions would relate to rescinding the design-only requirement, rescinding the EQCF requirement, allowing greater flexibility in

[9] See CAQ letter to the PCAOB date March 20, 2026 which included estimated cost data from certain of our member firms.

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specified QC roles, narrowing certain communication requirements, and simplifying documentation retention requirements.

The targeted amendments proposed to the documentation and retention requirements will reduce compliance costs for all firms, regardless of size. The extent of cost savings will vary by firm size, structure, existing quality management framework, PCAOB engagement profile, and progress toward implementation. Smaller firms and firms with limited PCAOB engagements may experience proportionally greater benefits from rescission of the design-only requirement and added flexibility in assigning roles. Larger firms may benefit from the removal of prescriptive requirements that are difficult to operationalize at scale, such as the EQCF requirement, and from clarifications that reduce duplicative or low-value compliance activities.

We do not have firm-specific cost data to quantify the impact of the proposed amendments. However, we encourage the Board to consider both direct implementation costs and opportunity costs, including the diversion of quality management personnel from activities that more directly support audit quality. In our view, the proposed targeted amendments are preferable to alternatives that retain prescriptive requirements without a clear incremental benefit.

J. Other Comments

While not subject to the Board's SRC, as it relates to Ethics and Independence Specified Quality Responses, we take the opportunity here to suggest clarification related to the requirement in paragraph .34:

> b. Maintaining and making available the list of restricted entities to firm personnel and others performing work on behalf of the firm who are subject to independence requirements;
>
> Note: This includes updating and communicating, at least monthly (and more frequently, if appropriate), additions to the list of restricted entities to firm personnel and others performing work on behalf of the firm whose relationships and arrangements with such additional restricted entities may reasonably be thought to bear on the independence of the firm.

We are aware that some firms have sophisticated automated systems such that automated notifications of changes to the list of restricted entities are sent real-time to firm personnel who are subject to independence requirements with respect to such entities. Assuming that the objective of paragraph .34b is met, we encourage the Board to clarify (either in the standard or in the adopting release) that a distinct monthly communication is not intended and that various means to communicate and notify applicable firm personnel are acceptable. This clarification supports a principles-based approach and the use of technological advances.

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Conclusion

We appreciate the Board's consideration of these comments and its continued engagement with stakeholders as firms implement QC 1000. We support the Board's objective of maintaining a rigorous and effective QC standard while improving clarity, scalability, and operability. We would be pleased to discuss our comments or provide additional input as the Board considers final amendments and related written implementation guidance. Please address questions to Dennis McGowan (dmcgowan@thecaq.org), Vanessa Teitelbaum (vteitelbaum@thecaq.org), or Star Yuan (syuan@thecaq.org).

Sincerely,

Vanessa Teitelbaum, CPA
Senior Director, Professional Practice
Center for Audit Quality

cc:

PCAOB
Demetrios (Jim) Logothetis, Chairman
George Botic, Board member
Mark A. Calabria, Board member
Steven D. Laughton, Board member
Brent Simer, Chief of Staff
Barbara Vanich, Chief Auditor

SEC
Kurt Hohl, Chief Accountant
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August 31, 2026

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

Re: PCAOB Rulemaking Docket Matter No. 057

Dear Chair Logothetis:

CFA Institute[1], in consultation with its Corporate Disclosure Policy Council ("CDPC")[2], appreciates the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB" or "Board") *Supplemental Request for Comment: Proposed Amendments to QC 1000, A Firm's System of Quality Control, and Related Rule and Forms* ("Revision of QC 1000", "Supplemental Request" or "Supplemental Request for Comment").

CFA Institute is providing comments on the Supplemental Request consistent with our objective of promoting fair and transparent global capital markets and advocating for investor protection. An integral part of our efforts toward meeting those goals is ensuring that corporate financial reporting and disclosures and the related audits provided to investors and other end users are of high quality. Our advocacy position is informed by our members, who invest both locally and globally.

[1] With offices in Charlottesville, VA; New York; Washington, DC; Hong Kong SAR; Mumbai; Beijing; Abu Dhabi; and London, CFA Institute is a global, not-for-profit professional association of more than 200,000 members, as well as 157 member societies around the world. Members include investment analysts, advisers, portfolio managers, and other investment professionals. CFA Institute administers the Chartered Financial Analyst® (CFA®) Program. For more information, visit www.cfainstitute.org, follow us on LinkedIn, or subscribe to our YouTube channel.

[2] The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is composed of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners' perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

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OVERARCHING OBSERVATIONS

The Final Rule: Years in the Making – CFA Institute has commented throughout the development of QC 1000, *A Firm's System of Quality Control ("QC 1000")*, and our support has been consistent. We supported (May 2020 response) modernization of the PCAOB's quality control standards in response to the Board's December 2019 concept release; we asked the Board to prioritize modernization of the interim quality control standards drawn from the profession in 2003 in our January 2022 letter to the newly appointed Board; we urged the SEC to approve the final standard in 2024 because it delivers precisely that modernization; and in September 2025 we opposed a blanket delay of the new standard's effective date. After more than six years of rulemaking and implementation activity, revisiting fundamental provisions of the standard now, when investor views do not appear to have not changed, diminishes the credibility of the PCAOB's due process.

We recognize that the composition of the Board has changed substantially since QC 1000 was adopted: nearly the entire Board has turned over, one appointed member was just seated – approximately six months after appointment and after this Supplemental Request was issued – and the newer members have served only briefly prior to the release of the Supplemental Request. What has not changed is the evidence.

Our investor perspective, as reflected in our comment letters and member surveys, remains consistent with the views we have expressed throughout the rulemaking process that produced QC 1000. The Supplemental Request identifies no direct evidence on the investor-protection effects of rescinding the provisions investors specifically supported during the development of the safeguards in QC 1000. When fundamental provisions are revisited so soon after adoption, without new evidence and following implementation concerns and requests from the audit firms and firm-related organizations across the profession, stakeholders may reasonably question whether the outcome reflects new evidence or a change in policy preferences. The strongest response to that concern is to demonstrate, with evidence, the case for each proposed change.

Given that most Board members are new to their roles, we believe the case for fuller comment periods, direct investor outreach, and advisory group engagement is even stronger, not weaker.

A Compressed Comment Period, Concurrent with Major SEC Proposals – Additionally, as we recently noted to the PCAOB staff and in our comment letter to the SEC, the 20-business-day comment period overlapping substantially with key proposals such as the Commission's semiannual reporting proposal, which would permit optional semiannual reporting, does not allow for sufficient time for investors to respond in a meaningful way to this proposal.

This is made more difficult by the fact that this proposal is written in technical audit terminology rather than in a manner readily consumable by investors (i.e., discussing the effects of these changes). The document is 103 pages with 37 numbered questions. The compressed period also did not allow time for roundtables, member surveys or advisory group discussions that would ordinarily inform meaningful investor input on changes of this significance. Taken together, a

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condensed period, a release written in the language of auditors rather than investors and no discussion of investor engagement in the proposal diminishes the credibility of the Board's due process with the very constituency its mission directs it to protect.

Investor Outreach and Engagement – Investors are the end users of audited financial statements and the constituency the PCAOB is charged to protect; the Board's outreach should reflect that distinct role. We ask the Board to identify any direct outreach it has conducted with investors or investor organizations before or in connection with the Supplemental Request. This is particularly important in relation to the External QC Function ("EQCF")[3], which reflects the independent-oversight mechanisms CFA Institute supported in our May 2020 comment letter and forms part of the QC 1000 framework we urged the SEC to approve in July 2024. We do not find that the PCAOB has made a compelling case that investors requested the changes presented in this Supplemental Request. As we told the Board in January 2022, outreach should be active rather than passive and should explain proposed changes in terms of their effects on audits, financial statements and the companies in which investors put capital at risk.

Our Response is Limited in Scope Because of the Shortened Due Process Period – Given the 20-business-day comment period, our response addresses each of the areas covered by the Supplemental Request's 37 questions, but the depth of our commentary varies. We comment in detail on the amendments we believe carry the greatest potential consequence for investors and address other items more briefly than a standard comment period would allow. We would welcome the opportunity to supplement these comments if the Board extends the comment period or provides the additional economic analysis requested herein.

We have summarized the most significant concerns by groups of questions in the table that follows in the body of this letter. The **Appendix** contains our summary of the economic analysis.

The Economic Analysis – We believe it would be useful for the PCAOB to publish a summary of its economic analysis in a form understandable to investors, with a particular focus on the changes in the analysis since the adoption of the rule in May 2024. Investors need to understand what, if anything, was incorrect in the prior economic analysis or what new evidence now supports a different conclusion. In the **Appendix** we have included a brief, more investor-friendly summary of the approximately 30-page economic analysis in the Supplemental Request. We provide commentary on the economic analysis in the body of this letter as well as in the **Appendix**.

[3] External QC Function ("EQCF"): If the firm issued audit reports with respect to more than 100 issuers during the prior calendar year, the firm's governance structure should incorporate an external oversight function for the QC system composed of one or more persons who are not partners, shareholders, members, other principals, or employees of the firm and 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. *Source:* PCAOB, *QC 1000, A Firm's System of Quality Control*, para. 28.

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OBSERVATIONS ON THE PROPOSED AMENDMENTS

The proposed amendments are framed principally as measures to streamline implementation and reduce costs for auditors. However, closer consideration shows that several would have significant investor-protection consequences and are inconsistent with provisions investors supported in QC 1000 as adopted in May 2024. We summarize those concerns and their relative priority in the table below.

CONCERN-TO-QUESTION INDEX

#	INVESTOR CONCERN	MOST RELEVANT QUESTIONS	PRIORITY
1	Loss of Independent Oversight of the Largest Firms (External QC Function)	Q8 – Q12	**Very High**
2	Accountability for QC Roles Amid Greater Flexibility	Q4 – Q7	**High**
3	Narrowed Trigger for Detecting Systemic Engagement Deficiencies	Q15 – Q17, also relevant to Q22	**High**
4	Compensating Responses May Mask Genuine QC Deficiencies	Q18, also relevant to Q22 and Q23	**High**
5	QC Evaluation Rigor and Comparability	Q21 and Q24, Q26 and Q27	**High**
6	Comparability and Usefulness of Public Audit-Quality Metrics	Q13 and Q14	**Moderate**
7	Preserving the PCAOB's Oversight Visibility and Adequacy of Form QC	Q25, also relevant to Q30 and Q31	**Moderate**
8	Documentation Retention, the Inspection and Enforcement Record	Q28 and Q29	**Moderate**
9	Comparability Risk from Firm-Selected Evaluation Dates	Q19 and Q20, also relevant to Q25	**Low**
10	Readiness of Firms Before Taking on Issuer Engagements	Q1 – Q3, also relevant to Q30 and Q31	**Low**
11	Cost, Scalability, Smaller Firms, EGCs and Audit Fees	Q32 – Q37, with links back to Q2, Q7 – Q10, Q17, Q19, Q20, Q28 and Q29	**Cross-Cutting (not separately ranked)**

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#	ISSUE	DESCRIPTION	RELATED PCAOB QUESTIONS
1	**LOSS OF INDEPENDENT OVERSIGHT OF THE LARGEST FIRMS (EXTERNAL QC FUNCTION)**	Investors cannot directly observe the work of the auditor, even after the fact. As such, investors cannot verify the quality of an auditor's work, which is why an independent perspective from outside the firm matters most at the largest firms where the greatest number of investors are at risk. CFA Institute has viewed, and continues to view, the EQCF as the clearest structural safeguard against the commercial and network pressures and interests that can affect a firm's own judgments about its quality-control system. ***We are concerned that rescinding the EQCF requirement removes that safeguard while, at the same time, the audit firms and the PCAOB seek to move the focus of, by placing greater emphasis on, audit inspections to the firm rather than the engagement level[4] and private-equity ownership and commercial pressure in the audit profession are increasing, not decreasing.*** The key question is whether PCAOB inspections, internal governance, audit committee oversight, and existing advisory mechanisms provide a sufficient substitute. We do not think they do. The Supplemental Request notes that nine of the 13 annually inspected firms already have an independent individual serving in an advisory role. That advisory role is not equivalent to EQCF, which carries a defined responsibility to evaluate the firm's QC conclusions. However, the prevalence of such arrangements suggests that many of the firms most likely to be affected already use external advisers and that the incremental burden of establishing the mandated function may be less substantial than the proposal implies. Retaining both independent QC oversight and robust engagement-level inspections also serve firms and individual partners by helping identify and contain problems before an engagement-level failure becomes a broader reputational or financial event for the firm.	**Q8 – Q12**

[4] See Demetrios Logothetis, Chairman, PCAOB, Supplemental Request for Comment: Proposed Amendments to QC 1000, A Firm's System of Quality Control, remarks at the PCAOB Open Board Meeting (9 June 2026).

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#	ISSUE	DESCRIPTION	RELATED PCAOB QUESTIONS
		Our opposition to rescission rests on a record that predates QC 1000. In our May 2020 response to the Concept Release related to this docket, we said that the governance and leadership objectives of a QC system are most likely to be achieved if firm leaders are held accountable through independent oversight of that system. In our January 2022 letter to the newly appointed PCAOB Board, we asked for structural mechanisms to promote independent oversight of a firm's QC system and to mitigate commercial interests over audit quality. The EQCF is the provision of QC 1000 that gives effect to those requests. The Supplemental Request provides no direct evidence either of the investor-protection consequences of rescinding the EQCF or of the cost savings that rescission would produce. On the consequences of rescission (i.e., what removing the EQCF would do to audit quality and to the Board's oversight) the PCAOB acknowledges it is not aware of any evidence with direct relevance to the consequences or cost savings. On cost, the only data offered is compensation benchmarks: UK independent non-executive director pay and S&P 500 non-employee director compensation, which the Board itself concedes are imperfect proxies for the EQCF role. A benefit case without evidence, paired with a proxy-based cost case, is not an economic analysis on which a safeguard should be rescinded. The practical effect of rescission would leave judgments about the largest firms' QC systems entirely to the firms themselves – restoring the very self-assessment the EQCF was adopted to guard against. The tone from the top on ethical issues affects firms' credibility and their ability to convince investors they can do the right thing when left to their own judgment. Recent ethical failures at firms such as KPMG Australia[5,6] highlight the need for an external perspective inside audit firms.	

[5] See KPMG's May 2026 statement (KPMG Australia investigation into whistleblower allegations) and June 2026 statement (Acknowledgement of today's announcement by the Commonwealth Department of Finance) as well as discussion of events at:'Egregious and Inexplicable': KPMG's Day of Reckoning | The Bloomberg Australia Podcast - YouTube.

[6] KPMG Australia is a PCAOB registered firm. https://pcaobus.org/resources/auditorsearch/firms/?firmid=1020&registrationid=1020

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#	ISSUE	DESCRIPTION	RELATED PCAOB QUESTIONS
		The EQCF requirement applies only to firms that issue audit reports for more than 100 issuers – approximately a dozen firms. The Board's own figures show the concentration at stake. The five audit firms that audit more than 500 issuers are responsible for auditing companies that account for approximately 98% of U.S. public market capitalization (Supplemental Request, Section III.C). We are concerned that rescinding the EQCF requirement would remove that safeguard at a time when the PCAOB is considering placing greater emphasis on firm-level rather than engagement-level inspections, while evolving ownership structures and continuing commercial pressures heighten the importance of independent oversight. If the Board nonetheless concludes that some relief is necessary, the better of its two alternatives is to retain the EQCF as adopted for firms auditing more than 500 issuers (Q9): the defined, independent evaluation of the firm's self-assessment would survive intact at the five firms where nearly all U.S. public market capitalization sits. We would not support the other alternative, reverting to the oversight function as originally proposed in 2022 (Q11). That role carried no defined duty to evaluate the firm's QC conclusions – the very check the EQCF was adopted to provide. Retention for the largest audit firms under Q9 remains a second-best outcome, and outright rescission would be the worst of all. The economic case offered for rescission does not withstand scrutiny. The CAQ represents the audit profession, and its submission is based on estimates supplied by firms subject to the requirement. Those estimates should be closely scrutinized and independently validated, particularly given the methodological limitations. We address that submission further under Observations on the Economic Analysis below. It seems a stretch to suggest that eliminating the cost of the individuals performing the EQCF, spread across thousands of audits, would meaningfully reduce audit fees. Any such saving would need to pass from the firm to the audited company and then to investors – a multi-step pass-through for which the Board offers no evidence. We therefore ask the Board to compute and publish, for each of the largest firms, the cost of EQCF per audit performed. We	

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#	ISSUE	DESCRIPTION	RELATED PCAOB QUESTIONS
		expect that figure to be modest. Publishing it – together with the number of firms affected and the market capitalization they audit – would allow investors to weigh the claimed burden against the value of independent oversight.	
2	**ACCOUNTABILITY FOR QC ROLES AMID GREATER FLEXIBILITY**	CFA Institute supports giving firms flexibility to assign QC roles to the most qualified individuals and to divide responsibilities where doing so improves the work performed. We believe, however, that there remains a need for an ultimate point of accountability. We do not, however, support assigning QC roles to personnel outside the firm, and we make a distinction the proposal does not: independent oversight of the QC system – the board-level role performed by the External QC Function – can and should sit outside the firm, but the management and operational QC roles addressed by these amendments should remain within it. Individuals outside the firm may have conflicting interests, and because these responsibilities are not their full-time job, they cannot provide the day-to-day ownership the roles require. Our preference is for QC responsibility that is centralized and appropriately delegated, not dispersed. When everyone owns something, no one owns something. The Board's own economic analysis concedes both risks we identify. It acknowledges that where responsibilities are divided, subcomponents may inadvertently never be assigned, and that an individual outside the firm may have incentives that are not aligned with the firm's interests. Investors need assurance that accountability is not diffused when responsibilities are divided. Our specific request is that whenever a QC role is divided among multiple individuals, the firm's reporting to the PCAOB identifies three things: 1) who holds ultimate responsibility and accountability for the QC system as a whole; 2) who is accountable for each function, such as ethics, independence, monitoring, and remediation; and 3) the scope of each individual's assigned responsibilities, so that no part of any role is left unassigned. This is particularly important given the PCAOB's stated intention to pilot a QC 1000-focused inspection approach in 2027, with a full rollout in 2028[7]. As required under Sarbanes-	**Q4 – Q7**

[7] See note 4.

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#	ISSUE	DESCRIPTION	RELATED PCAOB QUESTIONS
		Oxley, Part II of a PCAOB inspection report – which contains criticisms of, and potential defects in, a firm's system of quality control – is not included in the public portion of the report when first issued. If the firm does not address those criticisms to the Board's satisfaction within 12 months of the report's issuance, Part II is issued publicly to include such deficiencies (Supplemental Request, footnote 156, page 77).	
3	**NARROWED TRIGGER FOR DETECTING SYSTEMIC ENGAGEMENT DEFICIENCIES**	The proposed amendment would limit the requirement to look for similar deficiencies on other engagements to only those deficiencies that resulted or could result in a failure to obtain sufficient appropriate evidence to support the conclusion reached, or an inappropriate overall conclusion on the subject matter of the engagement. We understand the Board's interest in reducing the cost of evaluations unlikely to change an audit outcome. Our concern, however, is that a deficiency that appears immaterial on the engagement where it was first identified can still be a symptom of a firm-wide QC weakness. A narrower trigger reduces the number of opportunities a firm has to find that pattern before it results in an audit failure. We are also concerned by the Board's stated intention to place greater emphasis on firm-level rather than engagement-level inspections. Investors invest at the engagement level, and firm-level inspection findings on quality control (Part II) are not publicly disclosed unless the firm fails to remediate them satisfactorily within 12 months. Accordingly, the shift moves inspection results into a space (i.e., the firm level) investors cannot see the results. Narrowing firm-level deficiency detection at the same time compounds the problem: the Board proposes to rely more heavily on firm-level conclusions while weakening the very evaluation that supports them, which raises questions about whether those conclusions can be relied upon. Two further points: First, the Board's own engagement-level inspection data shows a 19% Part I.A deficiency rate among randomly selected engagements in 2024 (Supplemental Request, page 73) and, as we observed in our September 2025 letter, deficiency rates are not materially better than in the early years of the inspection program more than twenty years ago. This is not the moment to narrow the lens through which firms look for systemic problems.	**Q15 – Q17, also relevant to Q22**

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#	ISSUE	DESCRIPTION	RELATED PCAOB QUESTIONS
		Second, monitoring and remediation works as a feedback loop. A deficiency found in one engagement should prompt the firm to ask whether the same problem exists in other engagements and why it occurred, with the answers feeding back into the firm's risk assessment. We have supported that discipline since our 2016 letter to the IAASB and our May 2020 letter (both letters urged that QC standards embed root cause analysis of identified deficiencies and act on the findings). Narrowing the trigger breaks the feedback loop. A deficiency no longer requires a similar deficiency evaluation. Those questions are asked less frequently or systematically, reducing opportunities to identify recurring patterns – resulting in fewer opportunities for systemic improvement. Separately, we support the Board's stated intention, confirmed in Section III.H of the Supplemental Request, to retain the requirement to inspect at least one completed engagement for each engagement partner on a cyclical basis; it is one of the few mechanisms that directly links QC oversight to individual engagement-level accountability.	
4	**COMPENSATING RESPONSES MAY MASK GENUINE QC DEFICIENCIES**	The proposed amendment to the definition of a QC deficiency would allow a firm to conclude that no deficiency exists where other quality responses – when considered together – achieved the relevant objective, even if one specific response failed. We do not object to the principle that overlapping controls should be considered realistically. We are concerned, however, that without a documented, inspectable basis for concluding that a "compensating response" actually operated effectively, this amendment risks becoming a way to explain away deficiencies rather than a genuine test of whether investors remain protected. QC 1000.82 already requires the firm to document its evaluation of QC observations and the basis for each determination of whether a QC deficiency exists. We ask the Board to confirm that this requirement applies with full force to a conclusion that compensating responses achieved the relevant objective, and to specify what documented evidence suffices, so that the judgment remains subject to meaningful PCAOB inspection. Documentation also distinguishes a response designed to address the risk from an unrelated procedure that happened to address the risk; a firm that happened to cover an assertion through an unrelated procedure has not demonstrated that its QC system worked. Without these requirements, the amendment weakens rather than clarifies the definition of a QC deficiency.	**Q18, also relevant to Q22 and Q23**

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5	**QC EVALUATION RIGOR AND COMPARABILITY**	The proposal would revise the three possible conclusions a firm can reach about its QC system's effectiveness. The proposal does two distinct things. First, the amendment itself keeps a three-tier structure but redraws every boundary in an audit firm's favor: 1) an unqualified "effective" conclusion would become available even where unremediated QC deficiencies exist, provided none is judged severe; 2) the middle tier would be retained, but recast in ISQM 1 terms as deficiencies having a "severe but not pervasive effect"; and 3) the "major QC deficiency" concept would be eliminated, together with the presumptions that automatically escalate governance-and-leadership and portfolio-significant deficiencies, and the demanding standard required to rebut them (QC 1000.77-.78 as proposed). Second, and separately, the Board asks whether it should instead adopt a binary effective/not-effective framework (Q26), which would remove the middle tier altogether. **Existing Categories (QC 1000.77)** / **Proposed Categories** Effective with no unremediated QC deficiencies → Effective available even with unremediated QC deficiencies judged not severe Effective except for one or more unremediated QC deficiencies that are not major QC deficiencies → Retained under the amendment: Effective except for unremediated QC deficiencies with a severe but not pervasive effect (proposed .77b). Removed only under the separate binary alternative (Q26) Not effective deficiencies so severe and pervasive that the system does not provide reasonable assurance → Not effective We believe the existing three-tier structure allows a firm to identify a QC system with severe but not yet pervasive unremediated deficiencies, conveying meaningfully more information than a binary conclusion would. The middle category operates as an early-warning signal: it allows such a	**Q21 and Q24, Q26 and Q27**

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		problem to be identified, escalated and remediated before the system fails. For that reason, we would oppose the binary alternative on which the Board seeks comment (Q26). The release itself cites the IAASB staff's view that a purely binary conclusion "did not promote a sufficiently thoughtful consideration" of QC system effectiveness and acknowledges that a binary approach could reduce both the rigor of the evaluation and the information the conclusion conveys to the firm and the PCAOB. We agree. Firm-level QC deficiencies matter even more, not less, if the PCAOB places greater emphasis on firm-level inspections, and we have never viewed the initially non-public treatment of Part II inspection findings as sufficient for investors. We are concerned about recharacterizing deficiencies as less severe as it means serious QC problems may receive less prominent escalation and result in less informative severity signaling. That concern is not hypothetical: the Board's own economic analysis acknowledges that the proposed changes would broaden the conditions under which firms can reach favorable conclusions and could weaken firms' incentive to remediate, since remediation would no longer change the conclusion reported. We acknowledge, and support, the retention of the requirement to report all unremediated QC deficiencies on Form QC regardless of the conclusion reached. The conclusion is the signal on which the Board relies in performing its oversight of the audit firm. Investors depend on that oversight. As such, we do not support it being softened. Any change to this framework should be judged by whether it preserves that early warning signal. We ask the Board to: ▪ reject the binary alternative (Q26); ▪ retain a conclusion structure in which an unqualified "effective" means no unremediated QC deficiencies; ▪ retain the escalation presumptions in some form; and ▪ clarify how serious QC issues that fall short of overall ineffectiveness will be escalated and communicated if the "major QC deficiency" concept is removed. To the extent the changes are justified by closer alignment with ISQM 1 and SQMS 1, we repeat the caution from our May 2020	

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		letter: ***standards of high quality are more important than uniform standards***, and alignment is not, by itself, a sufficient basis for reducing the information a firm's evaluation conveys to the Board and to investors.	
6	**COMPARABILITY AND USEFULNESS OF PUBLIC AUDIT-QUALITY METRICS**	We refer the Board to our comment letters to the PCAOB related to the Firm and Engagement Metrics proposed rule (August 2024, Docket 041) and to the SEC during its consideration of the final rule (January 2025, final rule and February 2025, supplement). Overall, the existing firm-level audit quality metrics are neither comparable nor particularly decision-useful for investors. Investors invest at the engagement level – they do not invest in the audit firm. Investors accordingly want meaningful engagement-level metrics, and this revision misses the point with respect to investor protection. The amendment has two parts. It confines the explanation requirement to metrics the firm makes publicly available, and it permits the explanation to be given by reference to the firm's website. We do not object to the first part. Recipients of non-public communications, such as regulators and audit committees, can request explanations themselves (Q13). Our concern is the second part (Q14). While we do not object to allowing firms to explain publicly disclosed metrics by reference to their own website rather than repeating the explanation every time the metric is communicated, an explanation that was accurate on the day it was published is of little use to an investor comparing metrics two or three years later. Simplification of posting should not come at the expense of transparency or comparability over time within a single firm. We therefore ask the Board to require that any report containing a publicly disclosed metric include, in the report itself, a hyperlink to the explanation of how that metric is calculated, maintained on the firm's own website. That hyperlink must remain stable, archived and year specific. An investor should be able to return to a report from, say, 2020, follow the link, and see the methodology as it stood at that time. When a metric or its methodology changes from one year to the next, the change must be prominently identified in the base report itself – not only at the linked explanation – together with a description of the change and a presentation of the comparable prior year metric. As we have consistently said to the SEC, comparability is the lifeblood of investment analysis.	**Q13 and Q14**

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		The position articulated here is broadly consistent with our 2016 letter to the IAASB on transparency reporting about audit quality. Our May 2020 letter urged the Board to complete its audit quality indicators project, and our 2018 member survey (report) found that disclosure of audit quality indicators was among the factors investors rated most important to the value of an audit.	
7	**PRESERVING THE PCAOB'S OVERSIGHT VISIBILITY AND ADEQUACY OF FORM QC**	Form QC is not made public, but it is the principal mechanism through which the PCAOB itself maintains visibility into a firm's QC system between inspections. Form QC is new with QC 1000; no equivalent existed under the interim standards, and its contents may be shared with the SEC and used in enforcement proceedings, which is precisely why it matters to investors despite its non-public status. Measured against that, the conforming amendments to Rule 2203A and Form QC are a mixed picture. We support what is retained and extended: the proposal requires firms to report the number and a description of every unremediated QC deficiency – the requirements or quality objectives to which it relates, the firm's basis for the determination, and the remediation actions taken and planned with their status regardless of the conclusion reached, including under an unqualified "effective" conclusion, and adds notification of any change in evaluation date within 30 days with the firm's rationale. Two structured elements would, however, be lost with the removal of the "major QC deficiency" concept: the requirement to flag whether each unremediated deficiency is major, and the narrative required where a major deficiency is presumed but determined not to exist. Both give the PCAOB a severity signal it would no longer receive. We ask the Board to preserve equivalent signals under the revised framework (Q25): firms should indicate, for each unremediated QC deficiency, whether the firm assessed it as severe, and should explain the basis for any determination that severe deficiencies do not, individually or in combination, render the QC system not effective. We do not support any weakening of Form QC reporting.	**Q25, also relevant to Q30 and Q31**

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8	**DOCUMENTATION RETENTION, THE INSPECTION AND ENFORCEMENT RECORD**	We do not object to allowing firms to retain QC documentation within their original systems of record, provided it remains promptly retrievable. As to the retention period, however, we believe the Board must reconsider the proposed reduction from seven years to five, or to explain why QC documentation should be retained for a shorter period than the audit documentation to which it relates. PCAOB AS 1215[8] and SEC Rule 2-06 of Regulation S-X[9] each require engagement documentation to be retained for seven years; under a five-year QC period, engagement workpapers would remain available to inspection and enforcement for up to two years after the QC records that contextualize them – monitoring results, root cause analyses and remediation evidence – could have been lawfully destroyed. At a minimum, the retention period must remain long enough for the PCAOB to identify deficiency patterns that only become visible across more than one inspection cycle. Take a triennially inspected firm inspected in 2027, 2030 and 2033. If the 2033 inspection identifies a monitoring failure and the inspectors need to establish whether the same failure existed two cycles earlier, the firm's 2027 records would already have been destroyable from 2032 under a five-year period but would have survived to 2034 under a seven-year period. The same gap impacts enforcement, where investigations may begin several years after the conduct. QC documentation relevant to an identified deficiency, or to an open inspection or enforcement matter, should therefore be retained until the matter is resolved. With a change in emphasis from engagement-level to firm-level inspections, we find it unusual to reduce the retention period of the level most likely to be inspected and relied upon.	**Q28 and Q29**

[8] AS 1215, Audit Documentation, paragraph .14 ("The auditor must retain audit documentation for seven years from the date the auditor grants permission to use the auditor's report in connection with the issuance of the company's financial statements (report release date), unless a longer period of time is required by law").

[9] 17 C.F.R. § 210.2-06, which requires an accountant to retain for seven years all records relevant to an audit or review, including memoranda, correspondence and analyses, not only workpapers.

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9	**COMPARABILITY RISK FROM FIRM-SELECTED EVALUATION DATES**	Allowing firms to select their own annual QC evaluation date, rather than a single Board-set date, would better align the evaluation with each firm's fiscal year and other quality-management cycles. The Supplemental Request's own analysis confirms this reflects existing practice: most firms disclosing an evaluation date under EU transparency rules, including most annually inspected firms, already evaluating as of a date other than September 30, typically aligned with their fiscal year-end. We do not object. Our residual concern is narrower. Timing should not become a tool for managing findings: a firm should not be able to use its initial selection, or a later change of date, to defer capturing known or anticipated inspection findings within an evaluation period. The proposal contains useful guardrails – reporting periods run consecutively from one evaluation date to the next, so no period escapes evaluation altogether, and any change of date must be reported on Form QC within 30 days, together with the firm's rationale. We ask the Board to commit to scrutinizing those rationales and to state in any adopting release that a change of date made to defer recognition of known or anticipated findings would itself evidence a QC deficiency. We also note that the proposed five-month minimum before a firm's first evaluation (Q20), combined with a free choice of date, could defer some firms' first evaluation well into 2028 on the Board's own example; the Board should set an outer limit so that every firm completes its first evaluation within a reasonable period of becoming subject to the standard. We regard this as a lower-priority item: our interest rests with the nature and description of the findings an evaluation produces, and the conclusions it supports, rather than with its date.	**Q19 and Q20, also relevant to Q25**

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10	**READINESS OF FIRMS BEFORE TAKING ON ISSUER ENGAGEMENTS**	We do not object to rescinding the requirement that a firm design a QC system when it neither performs nor intends to perform PCAOB engagements. Requiring firms to build compliance infrastructure for work they may never undertake imposes cost without a corresponding investor benefit. Rescission does, however, create a timing question the proposal leaves open. Under the amendments, the obligation to have a QC system arises only once a firm performs or is required to perform an engagement under PCAOB standards – by which point it may already be performing issuer work. A QC system cannot be designed and made operational overnight, and the first investors served by a newly active firm should not bear the risk of a system still under construction. We therefore ask the Board to specify an earlier trigger – for example, when a firm bids for or is appointed to issuer or broker-dealer work (the subject of Question 3) – by which a compliant QC system must be designed and operating, well in advance of the firm commencing that work. We also answer Questions 30 and 31 affirmatively: a firm's registration application on Form 1 should disclose which quality management standard, if any, its existing QC policies follow. If the design-only requirement is rescinded, this low-cost disclosure preserves basic visibility – for the Board and for investors – into the QC foundation a registered firm will build on if it later accepts issuer or broker-dealer work.	**Q1 – Q3, also relevant to Q30 and Q31**

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11	**COST, SCALABILITY, SMALLER FIRMS, EGCs, AND AUDIT FEES**	The Board is seeking data on the costs firms have incurred and expect to incur, whether those costs are likely to flow through to audit fees and whether smaller firms and Emerging Growth Companies (EGCs) are affected disproportionately. We support the Board's objective of removing costs that do not serve audit quality. We ask the Board to demonstrate, rather than assume, that any cost savings will reach the companies and investors who ultimately bear audit costs. Cost savings retained by firms should not be assumed to constitute investor benefits, and the two should not be equated in the final economic analysis without evidence of pass-through to audit fees. We also ask the Board to disclose the methodology behind any cost estimates it relies on in that analysis, given the unresolved methodological disputes already in the public comment file for this docket (addressed further under Observations on the Economic Analysis below). The references in the proposal to smaller firms, audit fees, and Emerging Growth Companies could be read to suggest that retaining QC 1000's requirements would impair capital formation. QC 1000's requirements, and their costs, operate at the level of the firm, not the level of its clients; connecting them to capital formation for any category of client requires evidence at each step of that chain, which the proposal does not provide. The Supplemental Request provides counts of firms by the number of issuers they audit; it does not pair those counts with the market capitalization audited by each category or show where EGC audits actually sit across the categories. If the Board believes size-based effects are real, it should complete that picture, so that the cost-benefit case can be evaluated on a properly segmented basis rather than by generalized reference to smaller firms and EGCs. That is the request we make throughout this letter: demonstrate, with evidence.	**Q32 – Q37, with links to Q2, Q7 – Q10, Q17, Q19, Q20, Q28 and Q29**

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OBSERVATIONS ON THE ECONOMIC ANALYSIS

In the **Appendix** we have included a brief, more investor-friendly summary of the approximately 30 page economic analysis in the Supplemental Request for Comment. Below we summarize our views on that economic analysis.

The PCAOB's economic analysis is, by its own admission, largely qualitative. Quantifying the benefits of quality-control requirements is genuinely difficult, because those requirements are designed to reduce the likelihood of failures that may not otherwise be visible. That said, the Board made its decision in May 2024, after full notice-and-comment rulemaking supported by an economic analysis. We are not convinced this economic analysis makes a compelling case that the decision was wrong: the only firm-level implementation cost estimates analyzed are those supplied by the Center for Audit Quality – an organization representing the audit profession – and no attempt is made to weigh what investors would give up and the costs to investors of such revisions.

From our review of the economic analysis, we see gaps, omissions or problems that raise questions for investors and need to be considered by the Board, as follows:

- ***Effects of Rescinding the EQCF –*** There is no direct evidence on the effect of rescinding the External QC Function, as the Supplemental Request itself acknowledges. The only cost information provided is compensation benchmarks for a role that the largest firms already staff (i.e., with individuals performing a similar function and whose compensation the firms already pay). Many of the costs in establishing the EQCF or similar advisory functions have likely already been incurred, yet they are presented as though they are new, and the analysis never identifies what rescission of the EQCF requirement would actually save for each firm going forward. Spread across the thousands of audits each of these firms performs the amount is likely immaterial. And such EQCF represents the single clearest structural safeguard investors have over the firms auditing nearly all of U.S. public market capitalization.

- ***Investor Benefit from the Savings*** – There is no quantification of whether the hypothetical cost savings the Board expects firms to realize will flow through to lower audit fees for the companies whose investors ultimately bear those costs, as opposed to being retained by firms.

- ***What Is the Impact of These Changes on Audit Quality for Investors*** – More importantly, the economic analysis does not provide a quantitative assessment of the impact on audit quality and the costs for investors. The Supplemental Request restates the investor-protection rationale for which QC 1000 was adopted and names the economic tradeoff – reduced firm costs against the risk of weakened QC effectiveness and audit quality, but it never measures that tradeoff, or even assesses it qualitatively, provision by provision. An analysis that catalogues the savings to firms while assigning no value to the protections given up is not a cost-benefit analysis; it is a cost inventory.

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- ***Measurement-Driven Improvement in QC Conclusions*** – The revised evaluation framework or threshold makes favorable conclusions easier to reach. Over time, Form QC filings may therefore show improvement that reflects the change in the measuring stick rather than any change in audit quality. The analysis nowhere addresses the cost to PCAOB oversight of that loss of information.

- ***The PCAOB Should Perform Its Own Cost Estimates and Not Rely Solely on the Audit Profession's Submissions*** – This is the problem beneath all the above: each of these questions must ultimately be answered with cost evidence. However, the only estimate, provided in the public record, of the audit firms' implementation and operating costs comes from the profession being regulated. These data are supplied by the CAQ in its March 2026 cost-data submission, based on estimates from nine member firms (Supplemental Request, page 57, footnote 111). The CAQ is an audit-profession advocacy organization, and cost estimates supplied by regulated firms in opposition to a requirement should be closely scrutinized and independently validated. The Board's only independent contribution to cost is the compensation benchmark data for the EQCF role, which the Board itself describes as an imperfect proxy.

  The CAQ reported average one-time QC 1000 implementation costs of $18.9 million and ongoing costs of $12.1 million, but the participating firms used differing methodologies (Supplemental Request, note 111, page 57[10]) and assumptions that were not disclosed – a limitation the CAQ itself acknowledges. Such differences make the estimates impossible to compare or evaluate. At least one comparison in that submission also appears to overstate the incremental burden. The CAQ asserts that QC 1000 costs are approximately 224% of what firms spend on ISQM 1 (Supplemental Request, note 111, page 57) but the two sides of that comparison do not measure the same thing. For QC 1000, the CAQ counts both the one-time implementation costs and the ongoing annual costs; for ISQM 1, it counts only the ongoing costs, leaving out what firms originally spent to implement ISQM 1. Comparing everything on one side with only part of the other inevitably makes QC 1000 look far more expensive than a like-for-like comparison would.

  More fundamentally, these figures measure the wrong thing. They are the costs of implementing QC 1000 as adopted – costs that, for the largest firms, have already been substantially incurred or committed. The rescission proposed herein cannot recover those sunk costs. The economic case for these amendments can rest only on avoidable future costs, netted against the investor protections given up. The Supplemental Request neither isolates the avoidable portion nor attempts that netting. Investors cannot evaluate a cost-benefit case built on estimates the Board itself questions. We ask the PCAOB to perform and publish its own cost estimates that are comparable and methodologically transparent before finalizing any amendment justified primarily on cost grounds.

[10] See also: https://thecaq.wpenginepowered.com/wp-content/uploads/2026/03/caq_letter-to-PCAOB_QC-1000_insights-and-costs.pdf

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- ***Other Considerations (Smaller Audit Firms, Smaller Issuers and Scalability) –*** Throughout the economic analysis, the Board conflates several different things: what happens to small audit firms; what happens to small issuers; the market capitalization those issuers represent; and the market capitalization of small issuers audited by small audit firms. The analysis shifts between these categories without building the bridge into scalability, so that the Board and investors are not talking the same language – the Emerging Growth Company discussion is the clearest example. It is discussed at length for a population representing well under one percent of U.S. market capitalization, with no link drawn from these firm-level amendments to EGC capital formation.

  Any final economic analysis must address all dimensions – the firms, the issuers, the market capitalization at stake and the market capitalization audited by small firms. The economic analysis must be segmented accordingly because the amendments affect each segment differently.

  Two principles from our earlier letters bear repeating in the context of needing a segmented economic analysis.
  - First, as we said in our May 2020 letter, scalability should not mean that investors accept a lower or less consistent standard of audit quality from smaller firms; users of financial statements expect the same quality of audit regardless of the size of the audit firm or of the audited company.
  - Second, as we observed in our September 2025 letter, the impact of standards on smaller firms and smaller companies is frequently overstated by the auditing profession as a means of delaying PCAOB standard setting and rulemaking. The audit market is an oligopoly by design; little information exists to evaluate audit quality, which creates herding toward the Big 4 in auditor selection, yet the smallest firms are invoked as the reason not to move forward.

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OUR CONCLUSION

CFA Institute has supported strong, enforceable quality control standards for more than a decade, from our 2016 letter to the IAASB through the adoption of QC 1000 in May 2024 and our opposition to its delay in September 2025. A little more than two years after adoption, and before the standard has taken effect, the Board proposes in a consultation providing only a 20-business-day comment period – and without documented investor outreach – to remove or weaken several of its most important investor-protection-focused provisions – the External QC Function; the breadth of the similar-deficiency evaluation; the rigor of the evaluation conclusions; and the severity signals reported on Form QC without new evidence that the judgments the Board made in 2024 were wrong.

Consistent with the positions set out in this letter, we do not object to the amendments that reduce compliance cost without reducing audit quality. Those amendments include:

- rescinding the **design-only requirement** (i.e., subject to the readiness trigger and Form 1 disclosure we request) for audit firms not currently performing public company audits (Concern #10);
- **retaining QC documentation in firms' original systems of record** (i.e., provided records remain promptly retrievable) (Concern #8);
- use of f**irm-selected evaluation dates** (i.e., with safeguards against timing changes that avoid inspection findings) (Concern #9); and
- **website-based metric explanations** (i.e., with requirements that they be kept accurate and current over time, with stable, archived and year specific in-report hyperlinks and prominent identification of changes and presentation of comparable historical metrics) (Concern #6).

On **documentation retention**, we request that the Board reconsider the reduction to five years, which would leave QC records eligible for destruction two years before the engagement workpapers they contextualize. This seems inconsistent with the legal requirements to retain audit workpapers for seven years (Concern #8).

Our opposition is strongest where, in most instances, we believe the economic analysis supporting a change is weakest, as noted below.

- The Board acknowledges it has no direct evidence on the cost to audit firms of **the EQCF function** nor the effects of rescission to investors. On the cost side, it relies on incomplete information from the auditing profession. Further, there is no analysis of the impacts of rescission of the EQCF function on investors. The Board notes, however, in the Supplemental Request that the five largest of the affected firms alone audit approximately 98% of U.S. public market capitalization (Supplemental Request, page 22). Accordingly, it seems repealing the EQCF function requirement for the largest firms – which already have, similar but not the same, functions and existing costs – would not meet a cost-benefit test when considering the concentration of market capitalization audited by the largest firms (Concern #1).
- CFA Institute supports **giving firms flexibility to assign QC role**s to the most qualified individuals and to divide responsibilities where doing so improves the work performed.

CFA Institute

That said, there remains a need for an ultimate point of accountability. We do not support assigning QC roles to personnel outside the firm – other than the EQCF. Our preference is for QC responsibility that is centralized and appropriately delegated, not dispersed. When everyone owns something, no one owns something. The Board's own economic analysis concedes both risks we identify. It acknowledges that where responsibilities are divided, subcomponents may inadvertently never be assigned, and that an individual outside the firm may have incentives that are not aligned with the firm's interests. Investors need assurance that accountability is not diffused when responsibilities are divided (Concern #2).

- On the **narrowed deficiency triggers**, the analysis offers no data or analysis on which deficiencies would stop being checked for similar deficiencies on other engagements at the audit firm. With a 19% Part I.A deficiency rate on randomly selected 2024 audit firm inspections (Supplemental Request, page 73) we struggle to see how narrowing the lens through which systemic issues would be identified is justified – particularly when the PCAOB has noted its preference to move its emphasis from engagement-level to firm-level inspections where deficiencies are not publicly disclosed (Concern #3).
- As it relates to **compensating responses**, the proposed amendment to the definition of a QC deficiency would allow a firm to conclude that no deficiency exists where other quality responses – when considered together – achieved the relevant objective, even if one specific response failed. We do not object to the principle that overlapping controls should be considered realistically. We are concerned, however, that without a documented, inspectable basis for concluding that a "compensating response" actually operated effectively, this amendment risks becoming a way to explain away deficiencies rather than a genuine test of whether investors remain protected (Concern #4).
- On the **revised evaluation framework**, the Board's own evidence related to EU transparency reports undercuts its proposal. When firms grade themselves, the grades come out better than the inspections do; making favorable conclusions easier to reach will only widen that gap. We ask the Board to: reject the binary alternative; retain a conclusion structure in which an unqualified "effective" means no unremediated QC deficiencies; retain the escalation presumptions in some form; and clarify how serious QC issues that fall short of overall ineffectiveness will be escalated and communicated if the "major QC deficiency" concept is removed (Concern #5).

On **cost, scalability, smaller firms, EGCs and audit fees,** the discussion, analysis and relationship to capital formation are unclear (Concern #11).

If the Board nonetheless proceeds, it should conduct direct investor outreach and publish the segmented, methodologically transparent economic analysis this letter describes before finalizing any amendment. Our request is the same throughout: the PCAOB needs to demonstrate the case for change with evidence.

CFA Institute

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Thank you for your consideration of our views and perspectives. We would welcome the opportunity to meet with you to provide more detail on our letter. If you have any questions or seek further elaboration of our views, please contact Sandra J. Peters at sandra.peters@cfainstitute.org or Manoj Mahanama at manoj.mahanama@cfainstitute.org.

Sincerely,

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APPENDIX

INVESTOR-FOCUSED SUMMARY OF THE ECONOMIC ANALYSIS

The PCAOB's economic analysis argues that the proposed amendments would reduce compliance costs and improve scalability. This appendix summarizes that analysis section by section; the investor notes within each section tie the Board's analysis back to the positions and problems set out in the body of this letter.

1. BASELINE AND ANALYTICAL APPROACH
The PCAOB uses QC 1000 as already adopted and SEC-approved as the baseline, not the pre-QC 1000 status quo. That matters because the economic question is not "Does QC 1000 impose costs?" but rather "Would these amendments reduce costs or change benefits relative to adopted QC 1000?" The Board says the amendments could allow many firms to avoid some design and implementation costs but notes that implementation costs may already have been incurred and likely could not be recovered. The PCAOB reiterates the original investor-protection rationale for QC 1000: better compliance with professional and legal requirements, a more integrated QC system, stronger accountability, and enhanced PCAOB inspection and enforcement. It also recognizes the economic tradeoff: reducing firm costs could benefit audited companies through lower audit fees but weakening QC-system effectiveness could harm audit quality and financial reporting quality. **Investor note**: The Board asserts that reduced firm costs could benefit audited companies through lower audit fees but does not quantify this pass-through anywhere in the release. The body of this letter treats this as one of the central unfilled gaps in economic analysis.
2. FIRM POPULATION AFFECTED
The staff's population analysis covers 1,489 PCAOB-registered firms as of March 31, 2025, excluding firms with withdrawal-pending or suspended status (Supplemental Request, pages 54 and 61). Of those, 755 are classified as "full-implementation" firms and 734, or 49%, are classified as "design-only" firms. The "design-only" category is central to the analysis because the proposal would rescind the requirement that these firms design a QC 1000-compliant system before they perform PCAOB engagements. Only 12 of the 1,489 firms in the sample issued audit reports for more than 100 issuers during the 2025 reporting period: 5 issued reports for more than 500 issuers, and 7 issued reports for 101-500 issuers. This matters because the EQCF requirement applies only to firms above the 100-issuer threshold, and any alternative 500-issuer threshold would affect only the five largest firms. **Investor note**: The Board proposes to eliminate the EQCF precisely where it matters most yet provides incomplete market capitalization for these categories. The analysis should pair each firm-size category with both the number of issuers audited and their market capitalization. In the body of this letter, under the Observations on the Economic Analysis, we request such stratification.

3. RELATIONSHIP TO ISQM 1 AND SQMS 1
A key economic assumption is that many firms already operate, or are preparing to operate, under other quality management standards such as ISQM 1 or SQMS 1. The PCAOB therefore treats some QC 1000 costs as incremental to systems firms may already have. It cites staff analyses indicating that many U.S. firms are in the AICPA peer review program and many non-U.S. firms are affiliated with audit networks or are in jurisdictions with ISQM 1 or similar quality management standards. The PCAOB discusses cost estimates from the CAQ 2026 letter but treats them cautiously. The CAQ reportedly provided estimated cost data from nine member firms (which the CAQ states collectively audit 99.6% of U.S. market capitalization) and reported average estimated one-time QC 1000 costs of $18.9 million and ongoing costs of $12.1 million, but the PCAOB says the use of different and undisclosed methodologies makes the estimates difficult to evaluate (Supplemental Request, note 111, page 57). It also notes that one CAQ percentage comparison may be inflated because it includes one-time QC 1000 costs in the numerator but not comparable one-time ISQM 1 costs in the denominator. **Investor note:** The Board's analysis relies on two assumptions that investors should treat with caution. First, reliance on the AICPA peer review program as evidence of existing quality management is inappropriate; peer review is a profession-run process whose track record does not approach PCAOB-grade independent oversight, and it cannot carry the mitigating weight the analysis assigns it. Second, although the Board appropriately identifies methodological limitations in the CAQ's cost estimates including differing and undisclosed methodologies and an inflated comparison between QC 1000 and ISQM 1 costs, it nevertheless relies on those estimates because no independent cost evidence is available.
4. REGISTRATION ACTIVITY AND WITHDRAWAL CONCERNS
The PCAOB examines whether QC 1000 is causing firms to withdraw from registration. It finds an uptick in withdrawal requests in 2025: 154 withdrawal requests were filed, more than any year since 2020, and 7% of those 154 requests (roughly 11 firms) cited QC 1000 as a reason. (Supplemental Request, page 58.) The trend was more pronounced for design-only firms: 10% of design-only withdrawal requests cited QC 1000, compared with 3% of full-implementation firm withdrawal requests. At the same time, the PCAOB says registration applications have not declined in recent years and were highest in 2024, the year QC 1000 was adopted. The Board therefore does not conclude that QC 1000 has broadly depressed new registration activity, though it acknowledges applications could decrease after QC 1000 becomes effective. **Investor note:** The withdrawal narrative is small in absolute terms – approximately 11 firms, mostly design-only and does not, by itself, justify amendments affecting the largest firms that audit nearly all U.S. market capitalization.

5. RESCINDING THE DESIGN-ONLY REQUIREMENT

The PCAOB's main cost-reduction argument concerns design-only firms, but it does not quantify any savings. These firms make up nearly half the registered-firm population, but the PCAOB says their current role in the issuer and broker-dealer audit market is relatively limited. Design-only firms did not lead or play a substantial role in any engagements during the 2019-2025 reporting periods, although 35 design-only firms, or 5%, provided at least 5% of total audit hours on audits of 51 issuers during the 2025 reporting period.

The proposed amendment would reduce or eliminate QC 1000 design costs for these firms. It could also encourage firms to remain PCAOB-registered or re-register, potentially increasing audit-market supply and competition. The PCAOB notes that roughly 8% of firms classified as design-only in 2020 later reported a lead or substantial role at least once over the following five reporting periods, suggesting that some design-only firms later enter the PCAOB audit market.

Investor note: The investor-protection risk is that firms that do not voluntarily design a QC 1000 system may be less prepared if they later accept PCAOB engagements. The PCAOB says this risk may be mitigated because firms seeking to compete for PCAOB engagements would have incentives to design a QC 1000-compliant system voluntarily, and many may already have systems based on ISQM 1 or SQMS 1.

The Board does not quantify the savings. It notes that roughly 8% of firms classified as design-only in 2020 later took on a lead or substantial role. That proportion is small, which supports the Board's view that these firms play a limited role today, but it is not zero, and it is the firms in that 8% for whom a readiness requirement matters. The analysis should be based on both the number of issuers audited and their market capitalization.

We do not object to the rescission but, consistent with our May 2020 letter, scalability should not mean investors accept a lower or less consistent standard of audit quality from smaller firms. That is why the body of this letter asks for a clear trigger point before a firm accepts issuer or broker-dealer work and for Form 1 disclosure of the quality management standard underlying a firm's existing QC policies.

6. ROLES AND RESPONSIBILITIES

The PCAOB says allowing certain QC roles to be assigned to non-firm personnel or divided among multiple individuals could reduce restructuring costs and improve effectiveness where responsibilities require specialized expertise. This could be especially helpful for small firms. The staff found that 4% of full-implementation firms have only one accountant, and 13% have two to 10 accountants.

The PCAOB also acknowledges risks: responsibilities could be omitted, duplicated, or poorly coordinated; external personnel may have incentives that are not aligned with the firm; and non-firm personnel may be less familiar with the firm. The Board says these risks are mitigated by requirements that assigned individuals understand and be accountable for their roles and have the experience, competence, authority, and time needed to perform them.

Investor note: Investors are less concerned with which individual performs an operational quality control role as long as the individual is not external to the firm and accountability remains clear, complete, and inspectable. Where responsibilities are divided, the Board should ensure there is always a clearly identified individual with ultimate accountability and that the allocation of responsibilities is transparent to the PCAOB. As discussed in the body of this letter, flexibility should improve expertise – not dilute ownership or accountability.

7. EXTERNAL QC FUNCTION

The proposed rescission of the External QC Function is one of the most economically significant changes for the largest firms. The PCAOB says the requirement has proven more difficult and costly than originally anticipated, citing concerns about liability, a limited pool of qualified and conflict-free individuals, and implementation challenges. Eliminating the requirement would reduce costs of hiring, retaining, and compensating external QC individuals.

The PCAOB provides compensation benchmarks. For U.K. independent non-executives at PCAOB-registered audit firms, annual remuneration ranged from $25,935 to $387,288, with an average of $141,691. For Big 4 firms, the average was $180,850; for other firms, $110,364. The PCAOB also cites market research showing average 2025 S&P 500 non-employee director compensation of $336,352, while noting that this is an imperfect proxy for the EQCF role.

The major investor-protection concern is that eliminating the EQCF could remove an independent check on commercial pressures in decision-making concerning the QC-system. The PCAOB acknowledges this risk but says it may be mitigated by governance and leadership quality objectives and by the fact that 9 of 13 annually inspected firms already have an independent individual serving in an advisory role, though such a role does not carry the EQCF's defined responsibility to evaluate the firm's QC conclusions. Importantly, the PCAOB states that it is not aware of evidence directly bearing on the impact of rescinding the EQCF requirement; it relies instead on compensation data and indirect academic research on board independence.

Investor note: The Board itself states it is not aware of evidence directly bearing on the impact of rescinding the EQCF and relies instead on non-employee director compensation data that the Board itself acknowledges is an imperfect proxy. This is the single largest evidentiary gap in the Board's economic case, and the body of this letter opposes rescission on that basis. Using the Board's own benchmarks, the cost of an EQCF function at each of the largest firms – roughly the compensation of a small number of non-executive directors – is immaterial against the thousands of audits each performs. 9 of 13 annually inspected firms already involve an independent individual in an advisory capacity, which does not carry the EQCF's defined evaluation responsibility, suggesting the marginal cost of the mandate is modest; and the Board concedes it has no evidence of the impact of rescission. Given the EQCF is a modest cost, largely already borne, its removal from QC 1000, without meaningful evidence of benefit, begs the question: why make this change?

8. INFORMATION AND COMMUNICATION / METRICS

For metrics communications, the PCAOB's economic argument is that simplifying the requirements should reduce costs when firms disclose written metrics to external parties on a non-public basis. The Board expects limited negative effects because recipients may already understand the metrics or may be able to request additional information directly from the firm. It also suggests the lower cost of disclosure could encourage firms to provide more non-public written metrics.

Investor note: The key limitation is that this part of the analysis is focused mainly on non-public communications, not broader public audit-quality transparency. The logic runs backwards. If a firm already explains its publicly disclosed metrics, providing the same explanation to a non-public recipient would generally involve low incremental cost; and an amendment the Board expects to encourage more non-public written metrics moves audit-quality information away from investors, not toward them.

9. MONITORING AND REMEDIATION

The proposed amendment would require firms to evaluate whether similar engagement deficiencies exist only when the identified deficiency could result in a failure to obtain sufficient appropriate evidence or an inappropriate overall conclusion. The PCAOB says this would reduce costs because firms would perform similar-deficiency evaluations in fewer cases. It also acknowledges that some engagement deficiencies could go undetected, and fewer identified deficiencies means fewer occasions on which root cause analysis is performed.

The PCAOB's mitigating argument is that the narrowed requirement focuses firms on deficiencies more directly related to audit quality, and that firms must still operate monitoring and remediation processes capable of timely detecting engagement deficiencies. For context, staff estimated that the 2024 Part I.A deficiency rate was 19% among randomly selected engagements, with an average of four unique Part I.A deficiencies per inspected engagement in those cases (Supplemental Request, page 73).

The proposal also revises the QC deficiency definition to permit consideration of compensating quality responses. The PCAOB says this should reduce uncertainty and remediation costs by causing fewer QC observations to qualify as QC deficiencies, while posing negligible risk where other responses address the relevant quality risk.

Investor note: This section describes two separate changes, and both need the same discipline. On the narrowed trigger, confining the look-across to deficiencies capable of affecting the evidence or conclusion means that recurring compliance failures, which the Board itself gives as examples, would no longer prompt a firm to check whether the same problem exists elsewhere. On compensating responses, the amendment is acceptable only if the firm documents an inspectable basis for concluding that other responses actually achieved the quality objective, as QC 1000.82 already requires. In both cases the risk is the same: fewer questions asked internally and fewer deficiencies are likely to be detected.

10. EVALUATION DATE AND QC SYSTEM CONCLUSIONS

The PCAOB proposes allowing firms to choose their own annual QC evaluation date rather than requiring a September 30 evaluation date. The economic benefit is lower cost and better alignment with firms' fiscal years or other quality management frameworks such as ISQM 1. In a staff sample of firms with EU transparency reports, 79% used an evaluation month other than September, including 86% of annually inspected firms in the sample (Supplemental Request, page 74).

The PCAOB also proposes revising the QC evaluation conclusions to align more closely with other quality management standards. The Board says this could reduce confusion and allow firms to leverage ISQM 1 or SQMS 1 evaluation processes. But it acknowledges the amendment would likely broaden the circumstances in which firms could reach favorable conclusions about QC-system effectiveness.

The PCAOB reviewed 25 firms' EU transparency reports: 21 concluded their QC systems were effective, 4 concluded they were effective except for certain matters, and 0 concluded they were not effective. The PCAOB notes that some of these firms had Part II deficiencies in their most recent PCAOB inspection reports, but cautions that ISQM 1 criteria, timing, and scope may differ from PCAOB inspection criteria.

Investor note: On the evaluation date, we do not object; the Board's own sample shows most firms already evaluate at a date other than September 30, and our only concern is that a firm should not be able to select or change its date so as to defer capturing known findings.

On the evaluation conclusions, the Board's sample is the empirical basis for our concern in the body of this letter: 21 of 25 firms concluded their systems were effective and none concluded otherwise (Supplemental Request, page 76), notwithstanding that some had quality control criticisms in the non-public part of their most recent PCAOB inspection reports. There is also a tension in the Board's own reasoning. It proposes to align PCAOB evaluation conclusions with ISQM 1 while cautioning that ISQM 1 criteria, timing and scope differ too much from PCAOB inspections for the comparison to be meaningful. If ISQM 1 results are not comparable evidence, they are not a basis for alignment either.

11. DOCUMENTATION

The PCAOB says simplifying QC documentation retention requirements would reduce costs related to IT systems, data gathering, data transfer, and retention. It does not expect these changes to negatively affect QC-system effectiveness or PCAOB oversight.

The proposal would also reduce the QC documentation retention period from seven years to five years. The PCAOB acknowledges that a shorter period would reduce information available to firms and the PCAOB, potentially affecting firms' ability to analyze QC performance over time. But it concludes that older QC documentation is less salient and that shortening the period by two years should not significantly impair firm monitoring or PCAOB oversight.

Investor note: The systems to gather, transfer and retain this documentation are being built to meet the adopted standard; the prospective savings from shortening retention are marginal, while the mismatch with the seven-year requirement for engagement documentation under AS 1215 and SEC Rule 2-06 is real and lasting, as we explain in our response on documentation retention above.

12. DIFFERENTIAL EFFECTS BY FIRM SIZE

The PCAOB expects the amendments to affect firms differently as noted below:

- Eliminating EQCF would benefit only larger firms.
- Rescinding the design-only requirement would primarily benefit design-only firms, which generally have smaller PCAOB practices.
- Other changes, such as flexible role assignments, flexible evaluation dates, and narrowed similar-deficiency evaluations, would apply to all firms.

Some cost savings are fixed in nature and may matter more to smaller firms because they have fewer engagements over which to spread fixed QC costs.

The PCAOB notes that design-only firms have fewer accountants than full-implementation firms: a median of 30 accountants, compared with 123 for full-implementation firms. Other cost savings, such as reduced similar-deficiency evaluation work, may scale with audit-practice size and therefore benefit larger and smaller firms more proportionately.

Investor note: As we observed in our September 2025 letter, the impact of standards on smaller firms and smaller companies is frequently overstated by the auditing profession as a means of delaying PCAOB standard setting; we ask the Board to contextualize the population of affected firms and the market capitalization of the entities they audit in any final economic analysis.

13. EMERGING GROWTH COMPANIES
The PCAOB identifies 2,599 EGCs as of the measurement date (Supplemental Request, pages 80-81), including 1,458 exchange-listed EGCs with total U.S. market capitalization of $406 billion. Those exchange-listed EGCs represented about 26% of all exchange-listed companies but only 0.7% of U.S. total market capitalization; 41% of EGCs reported no revenue or identified as shell companies. The PCAOB says 260 registered firms audited EGCs; 214 of those firms audited both EGC and non-EGC issuers and collectively audited about 97% of EGCs. Fifteen firms issued audit reports for more than 100 issuers and audited about 50% of EGCs. **Investor note:** The Board is right that a reduction in audit quality could matter more for EGCs, which tend to be smaller and to have shorter reporting histories, so information asymmetry is greater. That is an argument for maintaining audit quality at these companies, not for relaxing it. The EGC discussion instead appears in support of the amendments, without any link drawn between these firm-level changes and EGC capital formation, and against a population representing 0.7% of U.S. market capitalization. As we say in the body of this letter, invoking small companies is not a substitute for evidence.

Council of Institutional Investors®
The voice of corporate governance

Via Email

July 9, 2026

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

Reference: PCAOB Rulemaking Docket Matter No. 057, Supplemental Request for Comment: Proposed Amendments to QC 1000, A Firm's System of Quality Control, And Related Rule and Forms

Dear Secretary Brown and Members of the Public Company Accounting Oversight Board (PCAOB or Board):

The Council of Institutional Investors (CII)[1] respectfully submits this letter in response to the PCAOB's "request for comment on potential amendments to certain provisions of QC 1000[2] and related amendments to the QC reporting rule PCAOB forms" (Supplemental Request).[3]

CII is a nonprofit, nonpartisan association of U.S. public, corporate and union employee benefit funds, other employee benefit plans, state, and local entities charged with investing public assets, and foundations and endowments with combined assets under management of approximately $5.6 trillion. Our member funds include major long-term shareowners with a duty to protect the retirement savings of millions of workers and their families, including public pension funds with more than 15 million participants – true and real "Main Street" investors through their pension funds. Our associate members include non-U.S. asset owners with about $6.6 trillion in assets, and a range of asset managers with more than $90 trillion in assets under management.

[1] For more information about the Council of Institutional Investors (CII), including its board and members, please visit CII's website at http://www.cii.org.
[2] QC 1000, A Firm's System of Quality Control, PCAOB (effective on Dec. 15, 2026), https://pcaobus.org/oversight/standards/qc-standards/details/qc-1000--a-firms-system-of-quality-control.
[3] Supplemental Request for Comment: Proposed Amendments to QC 1000, A Firm's System of Quality Control, And Related Rule and Forms, PCAOB Release No. 2026-002 (June 9, 2026), https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket-057/2026-002-qc-src.pdf.

In 2023, CII commented on the PCAOB's Release No. 2022-006, *A Firm's System of Quality Control and Other Proposed Amendments to PCAOB Standards, Rules, and Forms*[4](2023 Letter).[5] In the 2023 Letter:

> We applaud[ed] the Board for prioritizing the QC project and we generally support the Board's efforts to provide a framework for the firms to perform high quality audits. At the same time, we are disappointed that the proposed framework fails to adequately incorporate CII recommendations derived from our membership approved policies. . .. In order to correct these critical omissions . . . we respectfully request that the Board revise the [proposed amendments] . . . to include, at a minimum, the following three items:
>
> 1. To require firms that issue auditor reports with respect to more than 100 issuers establish a QC committee of their board composed entirely of at least three persons independent of the firm and the firm publicly report at least annually meaningful information about how the QC committee carries out its responsibilities.
> 2. To require that the monitoring and remediation process provide for use of quantitative performance metrics.
> 3. To require public reporting regarding QC matters.[6]

In 2025 CII commented on the Securities and Exchange Commission's "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"[7] (2025 Letter).[8] In the 2025 Letter we stated:

> We believe the PCAOB, while not adopting all the comments contained in our comment letter in response to the proposal that resulted in QC 1000, issued a final standard that significantly improves upon the previous PCAOB interim standard. The interim standard had not been updated for decades, and had been written by the American Institute of Certified Public Accountants Auditing Standards Board long before Congress created the PCAOB in the Sarbanes-Oxley Act of 2002 (SOX). We believe QC 1000 as written will better protect the interests of investors,

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[4] A Firm's System of Quality Control and Other Proposed Amendments to PCAOB Standards, Rules, and Forms, PCAOB Release No. 2022-006 (Nov. 18, 2022), https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket046/2022-006-qc.pdf?sfvrsn=b89546e2_4.

[5] Jeffrey P. Mahoney, General Counsel, CII to Ms. Phoebe W. Brown, Office of Secretary, Public Company Accounting Oversight Board (Jan. 19, 2023), https://www.cii.org/Files/Correspondence/January%2019%202023%20CII%20letter%20to%20PCAOB.pdf.

[6] *Id.* at 4-5 (footnotes omitted).

[7] 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, Exchange Act Release No. 100,803, 90 Fed. Reg. 42,649 (Sept. 2, 2025), https://www.govinfo.gov/content/pkg/FR-2025-09-03/pdf/2025-16826.pdf.

[8] Letter from Jeffrey P. Mahoney, General Counsel, CII to Vanessa A. Countryman, Secretary, Securities and Exchange Commission (Sept. 18, 2025), https://www.sec.gov/comments/pcaob-2025-01/pcaob202501-659987-1969374.pdf.

> consistent with the mandate set forth in SOX and our aforementioned membership-approved policy.
>
> As indicated, we do not object to [postponing the effective date of QC 1000] . . .. We currently have no basis for disagreeing with the Board's decision "that an additional year is sufficient time for firms that have encountered implementation challenges to overcome those challenges." *We, however, would strongly oppose efforts to use the [postponement] . . . as a basis for "targeted revisions to the QC 1000" unless those revisions [include] . . . those recommendations contained in CII's comment letter that were not adopted in QC 1000.*[9]

In a footnote to the 2023 Letter, we described those recommendations:

> CII recommendations in response to the "A Firm's System of Quality Control and Other Amendments to PCAOB Standards, Rules, and Forms" that were *not* adopted by the Public Company Accounting Oversight Board (PCAOB) include: (1) *requiring for larger firms a "QC committee" composed entirely of at least three persons independent of the firm. . ..* (2) requiring that the monitoring and remediation process provide for the use of quantitative performance metrics. . .. and (3) requiring public reporting regarding quality control matters.[10]

We note that not only does the Supplemental Request fail to even discuss two of CII's three proposed recommendations referenced in the 2023 Letter,[11] but the proposed amendments actually *rescind* the QC 1000 requirement for having *any* independent QC function (EQCF).[12] As a result, we cannot support the proposed amendments.

The stated basis for the recission is the EQCF in QC 1000 is the PCAOB's concern "that the benefits of the requirement may not justify the costs, except potentially for the largest U.S. global network firms."[13] We strongly disagree. While we recognize the concerns about potential costs, liability, and implementation, we believe some form of independent challenge is critical to an effective EQCF.

It is our understanding that the QC 1000 requirement for larger PCAOB audit practices to have an EQCF would have been applicable to only five accounting firms. If our understanding is correct, we believe that fact alone should be sufficient for the Board to reject the proposed removal of the EQCF requirement.

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[9] *Id.* at 2-3 (emphasis added and footnotes omitted).
[10] *Id.* at 2 n.6 (emphasis added).
[11] *See* PCAOB Release No. 2026-002 at 21 n.56 & n.57 ("An investor group endorsed the view expressed by the PCAOB in proposing the requirement that such an oversight function could reduce negative impacts of commercial considerations on decision making by firms to improve incentives to implement QC systems that more fully meet the interests of investors and financial statement users [and] [t]he same investor-related group also recommended requiring larger firms to have a 'QC Committee' composed of at least three persons independent of the firm.").
[12] *See* PCAOB Release No. 2026-002 at 22 ("we are proposing to rescind the EQCF requirement").
[13] *Id.*

In addition, we believe there are at least two potential flaws with PCAOB's analysis of the costs and benefits of the EQCF requirement. First, the PCAOB may have understated the potential benefits of the EQCF requirement by failing to consider the impact of the ongoing trend of private equity firms investing in accounting firms.

In 2022, then Acting Chief Accountant of the Securities and Exchange Commission Paul Munter, observed that private equity investments in accounting firms "could create incentives that conflict with the auditor independence rules [and] [a]ccounting firms that enter into transactions with private equity firms should therefore proactively guard against any potential issues, including appearance issues, regarding the accounting firm's priorities and motives that could compromise its ethical responsibilities and compliance with independence requirements."[14] And just last month, George R. Botic, PCAOB Board Member stated:

> Recently, we have seen significant evolution in the accounting profession impacting firms' systems of quality control. Examples include changing firm ownership structures [and] expanding numbers of firm mergers and acquisitions . . .. These changes, in my view, underscore the need for PCAOB to provide a robust quality control framework.[15]

In addition, we observe that since 2024 two of the larger PCAOB practices that would be within the scope of the EQCF requirement became recipients of capital from private equity firms.[16] And just days ago, two more of the 20 largest accounting firms that conduct public company audits (now 10 of the 20 largest) announced deals with private equity firms.[17]

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[14] Paul Munter, Acting Chief Accountant, Statement, Auditor Independence and Ethical Responsibilities: Critical Points to Consider When Contemplating an Audit Firm Restructuring (Aug. 29, 2022), https://www.sec.gov/newsroom/speeches-statements/munter-statement-auditor-independence-ethical-responsibilities-082922.

[15] George R. Botic, Board Member, PCAOB Open Board Meeting: Inviting Broader Stakeholder Perspectives on Proposed Amendments to QC 1000, A Firm's System of Quality Control (June 9, 2026), https://pcaobus.org/news-events/speeches/speech-detail/inviting-broader-stakeholder-perspectives-on-proposed-amendments-to-qc-1000--a-firm-s-system-of-quality-control.

[16] *See* Mark Maurer, Grant Thornton Is Now the Biggest Accounting Firm to Get Private-Equity Backing, Wall Street J., Mar. 31, 2024, https://www.wsj.com/articles/grant-thornton-is-now-the-biggest-accounting-firm-to-get-private-equity-backing-f77243d5 ("The New Mountain-led group's investment constitutes a 60% stake in Grant Thornton's U.S. unit and centers on the nonaudit business, people familiar with the matter said [and] . . . the new majority owners will also have a contractual relationship with the audit business through a management services agreement between the two entities, the people said."); Courtney Vien, BDO Chose an ESOP As An Alternative to Private Equity Funding, CFO Brew, Mar. 20, 2025, https://www.cfobrew.com/stories/2025/03/20/bdo-chose-an-esop-as-an-alternative-to-private-equity-funding (The employee stock ownership plan was "financed with $1.3 billion in private credit from Apollo Global Management among others . . . .").

[17] Courtney Vien, 10 Of the Top 20 CPA Firms Are Backed by Private Equity, CFO Brew, June 26, 2026, https://www.cfobrew.com/stories/10-of-the-top-20-cpa-firms-are-backed-by-private-equity ("In recent weeks Crowe (No. 12) and Eide Bailly (No. 18) both announced deals with PE funds, the Wall Street Journal reported; Crowe sold a majority stake to KKR, in a deal worth around $3 billion, while Eide Bailly, valued at around $1.8 billion, sold a majority share to Reverence Capital Partner.").

We note that the May 2026 letter of the Members of the Investor Advisory Committee of the PCAOB in response to the Board's request for public comment on the PCAOB's strategic plan states:[18]

> [A]s discussed at the September 2024 IAG meeting, important issues have emerged about how private markets have impacted audit firm ownership structures and funding arrangements. Given the growing . . . importance of private capital, a priority for the Board's next strategic plan should include some consideration of how private markets may impact on the Board's initiatives and goals.[19]

In this circumstance, we believe the consideration of the risks that private equity investments present to audit independence,[20] including the potential trade-offs between audit quality and commercial decisions, increases the benefits of a QC 1000 EQCF requirement.

Second, we believe the PCAOB may have overstated the potential costs of the EQCF requirement. While acknowledging the narrow responsibilities of an individual serving the EQCF,[21] the PCAOB estimated the costs by considering the compensation of a "non-employee director at S&P 500 public companies"[22] and the "remuneration for individual independent nonexecutives (INEs) under the U.K.'s audit firm governance rules."[23] We believe using either of those costs as benchmarks significantly overstates the costs of the EQCF.

For all the above reasons we cannot support the proposed amendments contained in Supplemental Request in absence of an independent EQCF requirement.

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[18] Request for Public Comment, PCAOB Strategic Priorities, PCAOB No. 2026-001 (Mar. 31, 2026), https://assets.pcaobus.org/pcaob-dev/docs/default-source/about/administration/documents/strategic_plans/pcaob-no2026-001-rfc-sp.pdf?sfvrsn=b6ef3170_2.

[19] Letter from Members of the Investor Advisory Group to Phoebe W. Brown, Secretary, PCAOB, ***Reference: PCAOB No. 2026-001, Request for Public Comment – PCAOB Strategic Priorities*** 4 (May 13, 2026), https://assets.pcaobus.org/pcaob-dev/docs/default-source/about/administration/strategic-plan-comments-2026/28_miag.pdf?sfvrsn=6ab7d737_2.

[20] *See* CII, Policies on Corporate Governance, 2.13 Auditor Independence (updated on Mar.12, 2026), https://www.cii.org/corp_gov_policies (includes seven separate provisions, including a provision that contains language emphasizing the importance of "the level of transparency and robustness of the audit firm with . . . investors, including with respect to audit quality indicators, governance practices and underlying principles, and the financial stability of the audit firm").

[21] *See* PCAOB Release No. 2026-002 at 71 ("For example, directors at S&P 500 public companies are members of a board with broad responsibilities over the company while the EQCF is focused on significant judgments made and the related conclusions reached by the firm when evaluating and reporting on the effectiveness of its QC system.").

[22] *Id.*

[23] *Id.* at 69.

We appreciate the opportunity to provide CII's investor-focused perspective in response to the Supplemental Request. Please contact me (jeff@cii.org) if you have any questions about the content of this letter.

Sincerely,

Jeffrey Mahoney
General Counsel

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July 9, 2026

By email: comments@pcaobus.org

Ms. Phoebe Brown
Office of the Secretary
PCAOB
1666 K Street NW
Washington, DC 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 057

Dear Ms. Brown:

Crowe LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the Board) supplemental request for comment on potential amendments to certain provisions of QC 1000, *A Firm's System of Quality Control*, (QC 1000) and related amendments to the quality control (QC) reporting rule and PCAOB forms. We commend the Board for its responsiveness to feedback received throughout the standard-setting and implementation process.

We remain committed to the highest standards of quality in our work. A strong QC system, grounded in comprehensive, risk-based QC standards that can be effectively and consistently applied throughout the firm, is foundational to audit quality and will enhance our ability to achieve that commitment to quality. Overall, we support the targeted amendments the PCAOB has proposed to QC 1000 and the related QC reporting rules, including rescinding the "design-only" requirement, providing flexibility in filling certain specified roles in the QC system by allowing assignment to non-firm personnel and divided responsibility, revising the definition of a QC deficiency, and allowing for flexibility in the annual evaluation date, among others. We believe the proposed amendments help strike an appropriate balance between designing a QC standard that achieves the important quality objectives, while addressing implementation and practical challenges in a manner that does not adversely affect audit quality.

In particular, we support removing the requirement for an external QC function (EQCF). A mandatory EQCF imposes significant implementation challenges and costs, including identifying individuals with sufficient expertise, independence, and availability, without a clearly identified commensurate benefit to firms with larger PCAOB audit practices. As noted in the supplemental request for comment, QC 1000 includes appropriate quality objectives within the governance and leadership component that will result in a firm designing and implementing quality responses that enable the effective oversight and operation of the QC system and direct the firm's culture, decision-making processes, organizational structure, and leadership. To the extent a firm determines it is necessary or appropriate to design a quality response that involves an external third-party providing input into, oversight over, or an evaluation of the significant judgments made as part of the firm's QC system, the firm is able to do so in a manner that takes into consideration the facts and circumstances of that firm and how its governance would benefit. We do not believe it is necessary to impose an EQCF requirement on any firm, regardless of size, as QC1000 is a scalable standard which allows firms to create governance structures that align with the nature and extent of the structure and risk of the firm.

As we and other firms finalize our implementation of QC 1000, additional questions or challenges may arise. We encourage the PCAOB to continue to engage with firms during the remainder of the implementation period and to be alert to challenges that come to light after implementation as firms' QC systems are inspected for the first time. We ask that the PCAOB consider guidance at any time leading up to or following implementation to address the questions or challenges that arise so firms are best positioned to implement a thorough QC system that complies with the PCAOB's standard. All relevant stakeholders – from firms to audit committee members to investors – will benefit from clear guidance that aligns all parties on the requirements of QC 1000.

We appreciate the opportunity to provide comments on the PCAOB's supplemental request for comment. We would be pleased to discuss our comments with the Board or its staff. If you have questions, please contact Matthew Schell at matthew.schell@crowe.com or Jennifer Kary at jennifer.kary@crowe.com.

Sincerely,

Crowe LLP

Deloitte.

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July 9, 2026

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

Re: PCAOB Rulemaking Docket Matter No. 057

We appreciate the opportunity to respond to the supplemental request for comment from the Public Company Accounting Oversight Board (the "PCAOB") on PCAOB 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* (the "Supplemental SRC" or the "Release"). We also want to acknowledge the PCAOB's implementation support efforts during the implementation period, through which PCAOB staff gained an understanding of implementation challenges and questions regarding the requirements of QC 1000. We believe the proposed amendments reflect the insights gained through those efforts and demonstrate the PCAOB's commitment to ensuring QC 1000 establishes appropriately rigorous requirements for audit firms' systems of quality control in a manner that does not impose costs beyond what is necessary.

We support the modernization of PCAOB standards and have been actively engaged with the PCAOB throughout the development and implementation of QC 1000. We also broadly support the proposed targeted amendments, which we believe appropriately respond to implementation challenges identified since QC 1000 was adopted and, as the PCAOB noted in the Release, address requirements that may impose costs beyond what is necessary to achieve its regulatory goals. The proposed amendments address several provisions that, in our view, imposed significant operational complexity, diverged unnecessarily from other quality management standards, and risked producing consequences that were contrary to the audit quality objectives the standard is designed to achieve. We are supportive of the PCAOB's approach in targeting these specific areas while preserving the core framework and investor-protection objectives of QC 1000.

The following reflects our perspectives on each of the proposed amendments.

Roles and Responsibilities

We support the proposed amendments to paragraph .12 that would permit specified roles and responsibilities to be assigned to non-firm personnel and divided among multiple individuals. Two aspects of the current requirements create particular challenges in practice.

First, QC 1000 currently mandates that a single individual serve as both ethics and independence leader, combining responsibility for two important and distinct areas of oversight. Ethics and independence are

disciplines that benefit from the dedicated focus of individuals with different skills and areas of expertise, and in both U.S. and non-U.S. firm structures, these roles have intentionally been assigned to different individuals to drive the highest quality outcome. The proposed amendment, which would allow these responsibilities to be held by separate individuals, better reflects how firms are organized in practice and enables each area to receive the dedicated, specialized focus it warrants and helps firms achieve the distinct objectives for each area.

Second, the current requirement in paragraph .12 that individuals in specified roles be "firm personnel" who "function as employees" does not account for clustered firm structures that are common among non-U.S. member firms within a global network, in which a single individual serves in a leadership role such as monitoring leader or independence leader across multiple registered firms in that network. These cluster structures were established, in part, to allow the sharing of resources with specialized skills, including with respect to PCAOB audits, in a manner that drives consistent audit quality. The proposed amendment, by allowing firms to designate individuals serving across registered firms within a network in paragraph .12 roles, enables firms to place the most experienced and qualified individuals in those positions which is accretive to audit quality.

External Quality Control Function

We support the proposed rescission of the External Quality Control Function ("EQCF") requirement. Most large firms already have robust structures and processes in place to obtain external input on audit quality and governance, including external advisory councils. These firm-led structures, combined with the independent oversight provided by PCAOB inspections and peer reviews, provide meaningful outside perspectives on the design and operation of firms' quality control systems.

The prescriptive EQCF requirements as written in QC 1000 go beyond what the original proposed standard suggested would satisfy the PCAOB's objective of firms obtaining independent external perspectives on system of quality control matters and have created practical challenges. While the original QC 1000 adopting release stated that costs would be mitigated for larger firms, because each has existing outside input, we have determined that our existing external advisory council structure does not satisfy the requirements of the final standard. The size and complexity of a large firm's system of quality control means that individuals serving in part-time external roles will inevitably face practical constraints on the depth of engagement they can achieve, which in turn limits the incremental value such a function can provide beyond the oversight already available through existing channels. Moreover, treating EQCF members as Other Participants and Associated Persons imposes substantial additional costs, including the provision of liability insurance. Given the meaningful oversight already provided through existing channels, the incremental benefit of a separately constituted EQCF with the current prescriptive responsibilities is not apparent. Rescinding the EQCF requirement would allow firms to continue leveraging and evolving their existing external governance structures in a manner best suited to their organizational context, while continuing to support audit quality and maintaining the substantive outside input that the EQCF was intended to promote.

Evaluation Date

We support the proposed amendment that would allow firms to select their own annual QC system evaluation date rather than the prescribed September 30 date. The fixed evaluation date for all firms does not account for the reality that firms may have adopted different evaluation dates under other quality management standards for operational and regulatory reasons.

As a concrete example, EU transparency report regulations require EU registered firms to include an evaluation of their system of quality management in their annual transparency report within four months of their fiscal year end, which for our network firms is primarily May 31. The September 30 evaluation date in QC 1000 is therefore inconsistent with those regulatory requirements, resulting in the need to support two separate evaluation cycles within a twelve-month period. The practical costs of that duplication are significant: QC monitoring testing and reporting must be performed twice; network monitoring and reporting related to network services is required to support both evaluations; and evaluation and assessment effort is effectively doubled, while the benefit to audit quality of the prescribed September 30 date is not apparent. Allowing firms to align their QC evaluation cycle with their existing operational and regulatory reporting calendar would eliminate this duplication, reduce costs, and support a more integrated evaluation process.

QC Deficiency Definition

We support the proposed revisions to the definition of QC deficiency and the related changes to the evaluation framework. A firm's system of quality control is designed to address quality risks through a combination of quality responses, and it is appropriate to consider those responses holistically rather than evaluating each in isolation. The proposed amendment allowing firms to take compensating quality responses into account when determining whether a QC deficiency exists better reflects how a risk-based system of quality control operates in practice.

We are supportive of the proposed amendments to paragraph .68 and believe certain aspects of its application would benefit from practical implementation guidance. With respect to paragraph .68d, we believe the nature and extent of the procedures required to evaluate whether similar engagement deficiencies exist should be more explicitly grounded in the root cause of the engagement deficiency identified and an assessment of whether that root cause suggests a potential QC deficiency. An evaluation anchored to root cause would provide a more meaningful and risk-based framework for determining the scope of further procedures. Practical implementation guidance, including examples, would be particularly valuable in helping firms apply the amended requirements of paragraph .68d in a consistent and practical manner.

We also note that the example in the Release referencing cash confirmations would benefit from clarification as to the nature of the underlying engagement deficiency. As currently written, it is not clear whether the engagement deficiency is the failure to perform confirmation procedures or some other circumstance, and the example as described may be read as inconsistent with the requirements of AS 2310 *The Auditor's Use of Confirmation* with respect to non-significant accounts. Additional clarity would help ensure the example effectively illustrates the concept intended without creating confusion about the interaction with existing confirmation standards.

Evaluation Framework

We support the proposed alignment of QC 1000 evaluation conclusions more closely with those in other quality management standards which we believe would meaningfully reduce the complexity of managing evaluations under two differing frameworks and potential confusion to stakeholders. Under the current standard, differences in conclusion types and definitions between QC 1000 and other quality management standards create challenges whereby different conclusions could be reached under the same set of circumstances. For example, firms subject to public disclosure requirements in other jurisdictions are required to include an evaluation of their system of quality management under other quality management standards in their annual transparency reports, which are public documents. Where the conclusions under QC 1000 and other quality management standards differ under the same set of circumstances,

there is a risk that the disclosure of the firm's evaluation conclusion under other quality management standards could be considered misleading and if a firm voluntarily chose to disclose the results of its assessment under QC 1000 as well as the other standard, to the extent those differed, it could be confusing to stakeholders. The proposed amendment, while retaining a structured evaluation process and preserving the reporting of unremediated deficiencies through Form QC, directly addresses this risk.

Documentation Requirements

We are supportive of the proposed simplification of the documentation requirements, including the reduction of the retention period from seven to five years. Given the breadth and volume of documentation required to be retained pursuant to QC 1000 the cost of retaining that information is substantial and the proposed reduction to five years helps alleviate a portion of that cost burden. To the extent a shorter period would not impede the Board's ability to execute its responsibilities, including inspections, we would welcome further consideration of a period shorter than five years as a means of reducing compliance costs.

At the same time, we note that practical questions around the application of the documentation requirements remain, and we believe that appropriately detailed implementation guidance from the PCAOB will be important to help firms apply the requirements in a manner proportionate to the nature and complexity of their QC systems. Specific topics where practical implementation guidance would be particularly helpful include the expectations as to how the "experienced auditor" concept included in QC 1000 translates to documentation about a firm's QC system. That concept is borrowed from the documentation standards for individual audit engagements, where it is anchored to the execution of audit procedures in accordance with professional standards and related firm methodologies. There is opportunity to clarify how that concept is meant to translate to QC system documentation, which is focused on the design, implementation, operation, and monitoring of firm-wide policies and procedures rather than the performance of individual audit procedures. In addition, the required retention of evidence of response operation creates practical challenges, particularly for automated responses that may operate at a high frequency and may not generate evidence in a readily retainable format, requiring manual or custom exports and screenshots. We believe these remaining interpretative and application questions can be addressed through implementation guidance, which may include frameworks or examples to ensure all stakeholders have a common understanding of how to apply the documentation requirements of QC 1000 in a variety of circumstances.

Information and Communication

We support the proposed amendment to paragraph .53e, which limits the requirement to disclose how a metric was calculated to those metrics shared publicly. We continue to believe that implementation guidance on the broader application of paragraph .53e would be beneficial to the profession. We encourage the PCAOB to consider providing a framework with examples illustrating how firms may design procedures to ensure the accuracy of communicated metrics in a manner proportionate to the nature, significance, and breadth of distribution of the metric. Such guidance would help firms apply the requirement consistently and in a manner that is appropriately calibrated to the metrics of greatest significance.

Rescission of the Design-Only Requirement

We are supportive of the proposed rescission of the design-only requirement, which currently applies to firms registered with the PCAOB that are not required to comply with applicable professional and legal requirements with respect to any PCAOB engagement. We agree that limiting QC 1000's requirements to

firms actively conducting PCAOB engagements is a reasonable and proportionate approach, consistent with the PCAOB's investor protection mandate.

Implementation Guidance

We believe the PCAOB's issuance of implementation guidance will be critical to ensure consistent and effective application of QC 1000. As part of its implementation support efforts, PCAOB staff engaged with firms to address questions and provide perspectives on the requirements of QC 1000. Formalizing the perspectives developed through those efforts into written implementation guidance would extend the benefit of that work to all stakeholders and ensure that the PCAOB's views on the application of the standard are consistently understood and applied across the profession. More broadly, there are a number of areas where we believe implementation guidance would help firms apply the requirements consistently, including the application of the 'experienced auditor' concept to QC system documentation, the design of procedures related to communicated metrics under paragraph .53e, the evaluation of similar engagement deficiencies under paragraph .68d, and the application of paragraph .33e with respect to affiliates of the firm. In addition, we welcome the PCAOB's new consultation process within the Office of the Chief Auditor and look forward to engaging through that process as appropriate.

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We would be happy to discuss any of the points in our letter. If you have any questions or would like to discuss our views further, please contact Laura McCracken at (212) 653-5738 or Wyndham Smith at (469) 417-2209.

Yours sincerely,

Deloitte & Touche LLP

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with confidence

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9 July 2026

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

Dear Ms. Brown:

Ernst & Young LLP appreciates the opportunity to respond to the PCAOB No. 2026-002 supplemental request for public comment from the Public Company Accounting Oversight Board (PCAOB or Board) regarding the Board's proposed amendments to QC 1000, *A Firm's System of Quality Control, and Related Rule and Form*. We support the PCAOB's commitment to stakeholder engagement since the Securities and Exchange Commission (SEC) approved QC 1000 in 2024, and we applaud the Board for taking the necessary steps to address the consistent themes that have arisen throughout this stakeholder engagement. We support the Board's proposed amendments and believe they would improve the standard by increasing consistency between QC 1000 and ISQM 1,[1] reducing incremental costs that outweigh benefits, and focusing on what is most important to achieve the mission of advancing audit quality.

Furthermore, we encourage the Board to utilize its newly announced consultation process so practitioners can consult with the PCAOB's Office of the Chief Auditor on remaining interpretive matters in QC 1000 and beyond. As currently designed, the scope of items that qualify for consultation may appear to be limited given the nature of firms' implementation processes, including dry runs (i.e., situations cannot relate to "activities or conduct that has already occurred"[2]). We encourage the Board to consider designing the firm consultation process in a way that promotes open two-way dialogue on interpretative issues that are facing practitioners. This will help provide clarity and confidence to auditors and issuers, facilitate consistent application of professional standards, minimize unintended consequences, and in turn help protect investors in a proactive manner. We believe this will provide benefits to the PCAOB as well, since it will be involved in emerging issues practitioners are facing in real time.

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[1] International Auditing and Assurance Standards Board (IAASB) quality control standard, International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (ISQM 1).

[2] OCA Firm Consultation | PCAOB.

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We look forward to continuing to engage with the Board and PCAOB staff in exploring the remaining challenges that practitioners are working through in applying the provisions of QC 1000, particularly with the remaining areas in QC 1000 that differ from international quality control standards. We agree with Board Member Steven Laughton's recommendations[3] on engaging stakeholders earlier in the standard-setting process and believe this can be a beneficial approach for publishing PCAOB interpretations and implementation guidance as well.

This letter addresses the proposed revisions to QC 1000 and provides additional incremental areas where we believe implementation guidance is still warranted and would help avoid unintended consequences by providing practical interpretations of the final standard. We also support the formation of the PCAOB's Inspections Modernization Council (IMC)[4] and the Board's objective to pursue a modernized quality control-focused inspections approach grounded in the principles and objectives outlined in QC 1000.

Evaluation date and framework[5]

We are supportive of the Board's proposed amendments to allow firms the flexibility to choose their own evaluation date and the proposed amendments made to the evaluation framework and Form QC. As we stated in our previous comment letters[6] and reiterated with the PCAOB, the previously adopted evaluation framework and required evaluation date included prescriptive requirements that resulted in significant challenges and differences between QC 1000 and ISQM 1. We believe these were not grounded in the principles of materiality or in a risk-based QC standard that contributed to investor protection.

We believe the proposed amendments that would allow firms the flexibility to choose their own evaluation date would be appropriate, especially given the non-public nature of Form QC. This flexibility would enable firms to choose the most relevant date based on their unique business considerations.

We also believe the proposed amendments to the QC 1000 evaluation conclusions, which now largely align with ISQM 1, would be appropriate and would address the challenges we previously identified. These amendments would also appropriately address previous concerns raised regarding the downstream ramifications of communicating these conclusions to other participants, as well as transparency reporting inconsistencies. Based on the proposed amendments, we believe it would be uncommon for firms to come to different conclusions under QC 1000 and ISQM 1. Because this approach will result in firms choosing evaluation dates throughout the year, we encourage the PCAOB to consider issuing implementation guidance to address practical challenges that may arise.[7]

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[3] Earlier Stakeholder Engagement in Standard-Setting | PCAOB.

[4] PCAOB Announces Inspections Modernization Council, Seeks Participation From Outside Experts | PCAOB.

[5] Commentary provided is intended to address PCAOB supplemental request for comment questions 19-27.

[6] EY comment letter to the SEC, 24 September 2025, among other previous letters.

[7] Implementation guidance could address several challenges, including how to handle situations in the adoption year where there may be quality responses that do not occur in the five-plus month period between the effective date of QC 1000 and the firm's selected evaluation date.

External quality control function[8]

We are supportive of the Board's recommendation to rescind the external quality control function (EQCF) requirement. We continue to believe the EQCF role is unnecessary to meet the objectives of QC 1000 when taking into account the many existing adequate governance and advisory structures our firm has in place, in addition to the dedicated monitoring function required under the standard and the PCAOB's own inspection activities. Identification and onboarding of this role would be a significant undertaking, and firms would need to be afforded sufficient time if an EQCF or similar role is to be prescribed now or in the future. The EQCF function would be entirely duplicative, costly and unnecessary, and we support the proposed amendment to rescind this requirement.

Roles and responsibilities[9]

We are supportive of the Board's proposed amendments that would allow firms to assign roles and responsibilities to other individuals who are not "firm personnel," if these individuals possess the necessary understanding and accountability for their roles and responsibilities. We also support the proposed amendment that would allow more than one individual to serve in these roles.

We continue to believe the ability to assign roles and responsibilities to other individuals who are not firm personnel would be a better outcome for firms that audit fewer issuers and are part of larger or global networks, as these roles may be assigned to individuals outside of the specific member firm based on how the firm operates its business. These assignments often enhance the experience, competence and authority specific to the functional area (e.g., ethics, independence) or provide the individuals with the time needed to carry out their responsibilities effectively.

Allowing firms the flexibility to assign these roles to multiple individuals also would allow responsibilities to be assigned based on subject-matter expertise. We commend the Board for aligning to international standards and allowing for a more scalable approach in this area that would focus on the substance of the individual's roles and responsibilities and would align the role with the appropriate expertise.

Monitoring and remediation process[10]

We are supportive of the Board's proposed amendments related to evaluating whether other similar engagement deficiencies exist, as well as the proposed amendment to the definition of a QC deficiency. Limiting the requirement to evaluate whether similar engagement deficiencies exist to those engagement deficiencies that result in (or could result in) a firm's failure to obtain sufficient appropriate evidence to support its conclusion or an inappropriate overall conclusion would add an element of materiality. This would make the requirement more risk-based, practical and grounded in

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[8] Commentary provided is intended to address PCAOB supplemental request for comment questions 8–12.

[9] Commentary provided is intended to address PCAOB supplemental request for comment questions 4–7.

[10] Commentary provided is intended to address PCAOB supplemental request for comment questions 15–18.

the reasonable assurance objective. Furthermore, the proposed amendments to the QC deficiency definition would help clarify that compensating quality responses should be considered when determining whether a QC deficiency exists. We believe these proposed amendments would be appropriate, and we support the Board's clarifications in these areas.

We look forward to engaging with the PCAOB on practical examples of how these requirements would be applied. Currently, the example provided in the release text related to cash confirmation procedures not being applied to an insignificant account has resulted in confusion regarding the initial determination that an engagement deficiency existed. This determination is inconsistent with an auditor's expectation of an audit response for an insignificant account. Further clarification of this example would be helpful to avoid unintended interpretations of the requirements.

Documentation[11]

We are supportive of the Board's proposed amendments to the documentation requirements in QC 1000 related to the length of time firms are required to maintain documentation to support the operation of its QC system. However, we believe it will be equally, if not more, important to issue implementation guidance related to the extent of documentation required to be retained related to the operation of a firm's QC system. We continue to believe the "experienced auditor" threshold in paragraph .83b, without further guidance, would result in the retention of significant amounts of unnecessary documentation due to an analogy to the similar threshold used in the Board's auditing standards.

Consistent with recent discussions we have had with the Board's staff, we believe it will be important for the Board to clarify in implementation guidance the views it shared with us that the QC 1000 documentation requirements are not expected to be interpreted as a reperformance standard consistent with how the experienced auditor threshold is applied in audits of financial statements and internal control over financial reporting (i.e., Auditing Standard (AS) 1105[12]). Instead, consistent with the staff's views, the documentation that a firm is required to retain should be commensurate to what is needed to support the firm's internal monitoring function in evaluating the design and operating effectiveness of its quality responses.

Based on our experience, we also continue to believe the PCAOB's evaluation of the sufficiency of a QC system would benefit from the evidence gathered by an effectively designed and operating monitoring function. This documentation should also be sufficient for the PCAOB to reach its own conclusions on the sufficiency of the QC system as an alternative to requiring the firm to retain every instance of a quality response operating throughout the evaluation period for purposes of PCAOB inspection, and in turn, retaining this voluminous documentation for five years.

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[11] Commentary provided is intended to address PCAOB supplemental request for comment questions 28–29.

[12] AS 1105: Audit Evidence | PCAOB.

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Focusing the PCAOB's requirements on the documentation inspected internally by the monitoring and remediation function would help alleviate the onerous volume of documentation necessary to retain. We believe this would align with the final rule and the PCAOB's statutory mandate. Current discussion in the adopting release of QC 1000 indicates the PCAOB believes it needs to extend its focus beyond the documentation used by firms' monitoring functions.[13] We encourage the Board to reconsider this position in implementation guidance and through the important work of the IMC.

Information and communication[14]

We are supportive of the proposed amendments to the information and communication requirements related to firm and engagement metrics. We believe narrowing the requirement to a more cost-effective approach, while still achieving the objective of providing accurate and not misleading information to stakeholders for publicly available metrics, would be a reasonable approach. In discussions with the PCAOB, we have indicated that the quality responses for certain public and non-public communications of firm and engagement level information may often involve policies or procedures based on a risk-based approach. The staff has not objected to this and has indicated that while the PCAOB's definition of a quality response refers to "policies and procedures," the Board's intent was for "policies and/or procedures" to be applied overall. We believe written implementation guidance on this topic would be beneficial to help avoid diversity in practice and provide confidence to practitioners that firms have made reasonable interpretations that will stand the test of time.

Additionally, while no amendments were proposed related to .53d, we believe implementation guidance on this topic would be helpful to stakeholders. This requirement states, "Information is communicated to external parties in accordance with applicable professional and legal requirements." As a guiding principle we have interpreted that this paragraph was meant to encompass external communications that are specifically required by applicable professional and legal requirements (APLR).

Practitioners and inspectors could interpret this requirement to include all ad hoc communications to regulators or others, even those that are not specifically "required communications" in accordance with APLR. Therefore, we believe implementation guidance addressing how to apply the requirements of .53d to specific fact patterns, including PCAOB inspections and ad hoc communications with regulators, is warranted. We often do not know the intention of the requests received from regulators, and therefore, it can be challenging to meet the requirements of the standard.

Alternatively, if this requirement is only applied to communications required by APLR, we believe this applicability should be clarified in guidance and would be a reasonable and more practical approach.

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[13] See page 283 of QC 1000 Adopting Release, which states "in light of the scope of our statutory mandate, the Board's inspection procedures cannot be limited to quality responses (and, to the extent applicable, samples of the operation of quality responses) that the firm chose to monitor in the period. On the contrary, firms will be expected to provide evidence of the operating effectiveness of any quality responses selected for inspection in connection with the PCAOB's evaluation of the effectiveness of the firm's QC system."

[14] Commentary provided is intended to address PCAOB supplemental request for comment questions 13–14.

Other topics

Lastly, although the Board did not propose any amendments to .34b, we believe this is an area where further clarification through implementation guidance is warranted. This paragraph of QC 1000 requires firms to have policies in place for making available and communicating updates at least monthly to the list of restricted entities to firm personnel and others subject to independence requirements. We support the objective of making sure personnel are aware of restricted entities and maintaining independence.

Our concern is that the specified mechanics, including population-wide monthly updates and mandatory review, do not reflect how independence risk is best managed at scale with modern technological tools. We encourage the PCAOB to acknowledge the sophisticated IT systems that some firms have in place to maintain continuously updated restricted entity lists in independence systems, perform automated comparisons to identify affected individuals, and deploy targeted communications and controls.

Existing requirements do not acknowledge this construct and appear to provide a prescriptive solution when a "one-size-fits-all approach" would be ineffective and cause confusion for firms that have existing automated processes in place. We believe this could be clarified in implementation guidance and result in a more cost-effective and reasonable approach to interpreting this requirement.

* * * * *

We would be pleased to discuss our comments with the Board or its staff at its convenience.

Very truly yours,

Ernst & Young LLP

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July 9, 2026

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

Re: PCAOB Rulemaking Docket Matter No. 057; Supplemental Request for Comment: Proposed Amendments to QC 1000, A Firm's System of Quality Control, & Related Rule and Forms

Dear Office of the Secretary:

Forvis Mazars, LLP ("Forvis Mazars" and/or "we") appreciates the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB" and/or "the Board") supplemental request for comment on proposed amendments to QC1000, *A Firm's System of Quality Control* ("QC 1000"), and related amendments. We appreciate the Board's willingness to revisit targeted areas of the standard during the implementation period and to propose changes that improve clarity, operability, and alignment with other quality management standards while preserving investor protection.

Overall Support for the Proposed Amendments

Overall, we strongly support the proposed amendments. Most notably, we appreciate the Board's efforts to provide more flexibility for specified roles and responsibilities, remove the External QC Function requirement, allow firms to select their annual evaluation date, revise the QC system evaluation conclusions to align more closely with other quality management standards, and reduce the documentation retention period from seven years to five years. These changes respond to concerns we and others raised in prior comment letters. Collectively, these amendments will improve the operability of QC 1000 without impacting the improvements in quality that will come with its adoption. The benefit is particularly important for firms like Forvis Mazars outside the top six Global Network Firms, where prescriptive requirements that deviate from existing quality management frameworks have created disproportionate cost and operational burden without a corresponding improvement in audit quality, as we noted in our February 1, 2023, letter to the PCAOB and September 24, 2025, letter to the Securities and Exchange Commission ("SEC").

Documentation Retention & the Reach of the Experienced Auditor Threshold

As indicated above, we support the Board's proposed documentation amendments. The focus on timely retrieval and the reduction in the retention period from seven years to five years are helpful and respond to concerns raised in our February 1, 2023, letter to the PCAOB and our September 24, 2025, letter to the SEC. However, we believe additional clarity is still needed regarding the amount of documentation expected, particularly how firms should apply the reperformance standard and experienced auditor threshold.

In particular, we believe the Board should clarify whether the same documentation expectations apply to both the firm's overall evaluation and conclusion on its QC system and the day-to-day execution of individual quality responses. These are related, but different, types of documentation. Documentation

supporting the firm's evaluation and conclusion, including risk assessment documentation and monitoring and remediation results, is generally more centralized and better suited to a five-year retention period. Execution-level documentation, however, is often much more detailed and may reside in several systems that change over time. Retaining this information for prolonged periods can be impractical, as many underlying records are operational in nature and intended to serve short-term business purposes. For example, access provisioning and deprovisioning activities occur on a frequent basis, generating a significant volume of supporting documentation. The detailed evidence associated with each activity, including system logs, is currently often retained for only a limited period.

We are not seeking to reduce the rigor of the quality responses themselves or the firm's responsibility to design, operate, monitor, and test them appropriately. Rather, we request that the Board consider a shorter retention period for detailed execution-level documentation. For annually inspected firms, that period could extend through completion of the PCAOB inspection for the applicable year, which is typically 18 months to two years. We believe this would preserve the information needed for inspection while avoiding the operational challenges of retaining detailed, system-based execution evidence for five years.

Conclusion

We appreciate the Board's consideration of these comments and its willingness to make targeted changes to improve the clarity and operability of QC 1000. We are supportive of the proposed amendments. Our comments are intended to seek further clarity on one area important to implementation: the scope of documentation subject to the experienced auditor threshold and five-year retention requirement.

We would be pleased to discuss our comments or answer any questions. Please contact Will Neeriemer, Chief Quality Officer at Will.Neeriemer@us.forvismazars.com or Toby Akrab, National Director of A&A PSG Quality Management at Toby.Akrab@us.forvismazars.com with any questions regarding this response.

Sincerely,

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July 9, 2026

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Public Company Accounting Oversight Board
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Via Email to comments@pcaobus.org

Re: PCAOB Rulemaking Docket Matter No. 057, *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:

Grant Thornton LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or Board) Rulemaking Docket Matter No. 057, *Supplemental Request for Comment: Proposed Amendments to QC 1000,* A Firm's System of Quality Control (QC 1000), *and Related Rule and Forms* (SRC).

We appreciate the Board's continued consideration of stakeholder feedback and its efforts to improve both the clarity and operability of QC 1000. Overall, we support the proposed amendments, which enhance practical implementation while preserving the objective of supporting high-quality audits.

We respectfully submit our comments and recommendations for the Board's consideration, including the accompanying Appendix to this letter that contains our responses to the questions posed in the release document.

Principles-based flexibility

We support the Board's movement toward more principles-based requirements in the targeted areas, which allow firms to design and operate quality control (QC) systems that reflect their specific facts and circumstances. Greater flexibility, such as permitting more tailored assignment of roles and responsibilities, removing prescriptive constraints, and allowing firms to select their evaluation date, supports the development of more effective and sustainable QC systems. These changes strengthen accountability and support high-quality engagements under PCAOB standards in the public interest and for the protection of investors.

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Alignment and consistency

We strongly support amendments that improve alignment with other existing quality management frameworks, including International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements,* and Statement on Quality Management Standards (SQMS) No. 1, *A Firm's System of Quality Management*. The removal of requirements that diverge from these frameworks, such as the design-only requirement and the concept of a "major QC deficiency," as well as the elimination of the External QC Function (EQCF) requirement, represents meaningful progress. Greater alignment promotes consistency, reduces unnecessary complexity, and supports firms that operate in multiple regulatory environments.

Operational clarity

We believe continued engagement between the Board and stakeholders will further support the effective application of QC 1000. In particular, areas such as monitoring and remediation, evaluation of similar engagement deficiencies across engagements, and documentation requirements would benefit from ongoing dialogue and implementation guidance, as firms operationalize the requirements in practice. Continued interaction, whether through outreach, the consultation process with the Office of the Chief Auditor, or informal and formal post-implementation review, would allow the Board to better understand firms' experiences, while providing firms with greater confidence in applying the requirements as intended.

****

We would be pleased to discuss our comments with you. If you have any questions, please contact Craig Woodfield, National Managing Partner of Assurance Quality and Risk, at 212-542-9735 or Craig.Woodfield@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP

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Appendix

Responses to questions within the SRC

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

We believe that rescinding the design-only requirement appropriately refocuses QC 1000 on firms that are subject to applicable professional and legal requirements with respect to engagements under PCAOB standards. With this rescission, the proposed amendment better aligns the scope of the standard with its underlying objective, which is to support the consistent performance of high-quality engagements, rather than requiring preemptive system design in the absence of such engagements. We believe this is a more targeted and risk-based approach.

Further, eliminating the design-only requirement improves consistency with other quality management frameworks, including ISQM 1 and SQMS 1, which are generally applied in the context of firms performing engagements. This alignment reduces unnecessary complexity for firms operating across multiple regulatory environments and supports more efficient and coherent implementation of QC systems.

Consistent with our previously submitted comments on QC 1000, we have observed that incremental and prescriptive requirements can create meaningful implementation challenges, including increased costs and operational disruption, without yielding clear corresponding benefits. The rescission of the design-only requirement is a measured step toward addressing those concerns by removing a requirement that is not demonstrably linked to improved audit quality outcomes.

Finally, and of utmost importance, we believe the proposed amendment does not diminish investor protection. Firms that perform engagements under PCAOB standards would remain fully subject to QC 1000 requirements, including the design, implementation, and operation of an effective QC system. Accordingly, the Board's objective of promoting high-quality audits is preserved, while unnecessary burdens on other registered firms are reduced.

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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?

We do not believe there is a measurable benefit to retaining a design-only requirement for firms that do not perform engagements under PCAOB standards and, therefore, do not believe any such benefit would justify the associated costs of compliance.

We note that ISQM 1 and SQMS 1 are generally applied in the context of firms performing engagements. Requiring a design-only system outside of that context would introduce incremental complexity and divergence, without generating a clear quality-related benefit. Eliminating this requirement supports greater alignment across frameworks and reduces unnecessary burdens for firms operating in multiple regulatory environments.

Consistent with our broader comments previously submitted on QC 1000, we believe regulatory requirements are most effective when they are closely tied to activities that directly affect audit quality, whether related to audit or other assurance engagements. In this case, we do not believe a design-only requirement meets that objective and, as such, do not support retaining it in any form.

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?

We do not believe a broad or prescriptive set of activities should trigger a QC system design requirement before a firm becomes subject to applicable professional and legal requirements in connection with an engagement. Consistent with our responses to Questions 1 and 2, QC requirements are most effective when directly linked to the performance of engagements within the PCAOB's jurisdiction. Introducing pre-engagement triggers could reintroduce complexity and cost without a clear connection to audit quality, particularly if such triggers are defined broadly or applied inconsistently across firms.

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?

We support the proposed amendments to paragraph .12 and believe they are sufficiently clear and appropriate. The proposed amendments are responsive to concerns we have raised in previous comment letters and reflect a meaningful shift toward a more principles-based framework. In particular, allowing specified roles and responsibilities to be assigned to individuals who are not firm personnel, and permitting firms to divide responsibilities among multiple individuals, better accommodates the diverse organizational structures that exist across firms.

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We believe these amendments will promote thoughtful and effective allocation of responsibilities, enabling firms to align roles with the appropriate expertise, experience, and capacity. In doing so, the amendments help mitigate the risk that responsibilities assigned to a single individual become overly concentrated or operationally untenable, particularly in larger firms. At the same time, the requirement continues to preserve clear accountability within the QC system, as firms remain responsible for appropriately defining, assigning, and overseeing these roles within their governance structures. Overall, we believe the amendments strike an appropriate balance between flexibility and accountability, which will support the design and operation of more effective QC systems and, ultimately, enhance audit quality.

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

We believe the proposed conforming amendments to paragraphs .15–.17 are sufficiently clear and appropriately aligned with the revisions to paragraph .12. In particular, the amendments reinforce a more principles-based approach by allowing firms to implement governance and accountability structures that reflect their specific size, complexity, and organizational model, while preserving the core expectation that responsibilities are clearly defined and effectively carried out.

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

We believe that the proposed amendments to paragraphs .12 and .15-.17 support audit quality by providing firms with greater flexibility to assign and structure quality control roles and responsibilities to individuals who have the appropriate expertise, experience, and capabilities. This increases the likelihood that key QC activities are performed effectively and consistently, rather than being constrained by rigid role structures that may not reflect how firms operate.

Importantly, we believe these amendments enhance audit quality outcomes by promoting the effective execution of quality control responsibilities, while maintaining accountability for results. Taken together, the amendments help firms operationalize their QC systems more effectively, supporting consistent performance of high-quality audits and enhancing investor confidence.

Question 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?

We do not believe the proposed amendments to paragraphs .12 and .15–.17 should be limited to firms on a scaled basis. In our view, the flexibility introduced by these amendments is equally, if not more, important for larger firms, given the increased complexity, geographic dispersion, and specialization inherent in their operating models. Limiting the availability of these provisions could create unnecessary operational challenges, particularly in identifying individuals with the appropriate expertise and capabilities to fulfill specified roles within a more rigid structure. We also believe that applying these amendments only to smaller firms could have unintended

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consequences for audit quality. Allowing firms of all sizes to distribute responsibilities across individuals and leverage specialized expertise supports a more effective execution of QC processes, clearer accountability in practice, and more timely identification and remediation of identified deficiencies.

Accordingly, we believe the amendments should be available to all firms, regardless of size, as a principles-based approach that enables firms to design governance and accountability structures that best support the consistent and effective delivery of high-quality engagements.

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

We appreciate the Board's responsiveness to stakeholder feedback in proposing the removal of the EQCF requirement. We fully support eliminating this requirement, as we believe the elimination appropriately addresses previously identified implementation challenges and removes a provision that would have imposed significant operational complexity without delivering a clear, commensurate benefit to audit quality.

Based on our understanding of the SRC and the Board's analysis, we do not believe there are additional costs or benefits that have not already been appropriately considered. In particular, the removal of the EQCF requirement is expected to reduce unnecessary compliance burdens and practical challenges, such as identifying sufficiently qualified and independent individuals, while preserving the core elements of a robust QC system. We believe that the remaining requirements continue to provide a strong framework for oversight, accountability, and evaluation of QC systems, such that audit quality and investor protection are not diminished.

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?

We do not believe the alternative approach of retaining the EQCF requirement only for firms that issued audit reports for more than 500 issuers would be appropriate. As noted in our response to Question 8, we support the complete removal of the EQCF requirement.

Applying a threshold does not address the fundamental concerns regarding the operational complexity, cost, and limited incremental benefit of the requirement. The challenges associated with identifying suitably qualified and independent individuals, as well as integrating the EQCF into existing governance structures, would remain for firms above any threshold. We also do not believe that limiting the requirement to larger firms would result in a commensurate improvement in audit quality. Generally, larger firms already have established governance and oversight mechanisms within their QC systems, and the EQCF requirement risks duplicating these processes without delivering a clear benefit to audit quality.

As such, we believe the EQCF requirement should not be retained, whether on a scaled or universal basis.

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

For the reasons described in our response to Questions 8 and 9, we do not believe an alternative threshold would be appropriate.

Question 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?

For the reasons described in our response to Questions 8 and 9, we do not believe an alternative approach would be appropriate.

Question 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?

We do not believe additional mechanisms for an independent oversight function need to be considered beyond the principles-based governance requirements already embedded in QC 1000.

As designed, QC 1000 provides a comprehensive, principles-based framework that requires firms to establish appropriate governance structures, assign clear roles and responsibilities, and implement monitoring and remediation processes that collectively support the effective oversight of the QC system. These requirements inherently allow for and, in many cases, already result in the incorporation of independent perspectives within a firm's governance and quality management processes, tailored to the firm's size, complexity, and organizational structure.

Therefore, we believe the current principles-based approach, with the rescission of the EQCF requirement, appropriately allows firms to determine whether and how independent input should be incorporated into their QC systems, and no further prescriptive mechanisms are necessary.

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

We support the proposed amendments to paragraph .53e and believe they are sufficiently clear and appropriate. We appreciate the Board's responsiveness to stakeholder feedback and believe the proposed amendments appropriately narrow the scope of information subject to this requirement. In our view, this refinement improves the practical implementation of the requirement by focusing on information that is most relevant to the effective functioning of the QC system, while reducing the risk of over-collection or inclusion of information that may not meaningfully contribute to quality outcomes.

We believe this more focused approach is important to ensuring that firms are able to identify, capture, and use information that is reliable, relevant, and actionable. Overly broad requirements in this area could create challenges in practice, including difficulty in distinguishing critical information from less relevant data, which could reduce the overall effectiveness of the QC system. In that respect, we believe the proposed amendments are a positive step toward improving clarity and usability.

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Overall, we believe the proposed amendments meaningfully improve the clarity and focus of the requirement and are supportive of effective QC system design and operation.

Question 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 do not believe that allowing firms to provide explanations of metrics on their website would adversely affect the utility and comprehensibility of those metrics. Given current technology capabilities and the dissemination of public information electronically, firms can provide explanations in a way that is easily accessible through hyperlinks or similar mechanisms, without detracting from the clarity of the reported metrics themselves.

If firms were to choose this approach, we believe it may, in fact, enhance the overall usefulness of the information for investors and other users. Providing supplemental context outside of the primary disclosure allows firms to clearly present standardized metrics while also offering more detailed explanations, assumptions, or qualitative insights, where necessary. This layered approach helps avoid overloading core disclosures, while still enabling users to access additional information when desired.

In addition, maintaining explanations on a firm's website provides flexibility for firms to timely update or refine contextual information, which could improve the relevance and timeliness of disclosures. This is particularly important where metrics may evolve or further clarification is needed to support consistent interpretation by users.

Overall, we believe this approach strikes an appropriate balance between clarity, accessibility, and flexibility, and supports the important objective of providing decision-useful information to investors and other stakeholders.

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

We generally support the proposed amendments to paragraphs .68a and .68d and believe they provide needed clarity. The amendments take a more risk-based approach to a firm's analysis of similar engagement deficiencies by focusing attention on those engagement deficiencies that are most relevant to evaluating the effectiveness of the QC system. This improvement directs firms' efforts toward areas that have the greatest potential impact on audit quality.

Importantly, we believe the amendments will improve audit quality outcomes by encouraging firms to focus on identifying patterns, root causes, and broader implications of engagement deficiencies, rather than treating all deficiencies as equally impactful. This more targeted focus supports more effective monitoring and remediation, enabling firms to respond in a timely and meaningful way to issues that could affect multiple engagements or indicate systemic risks.

Nevertheless, we note that the assessment of whether an engagement deficiency "could result in" an inappropriate audit opinion or a failure to obtain sufficient appropriate audit evidence remains inherently judgmental. As a result, firms may

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reasonably reach different conclusions regarding the potential impact of identified engagement deficiencies, even when evaluating similar facts and circumstances.

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

While we support the proposed revisions to paragraph .68d, we believe the profession would benefit from additional guidance to promote consistent and effective application. In particular, illustrative examples that include information on the nature of the engagement deficiencies, the identified root cause(s), and the procedures performed to evaluate whether similar engagement deficiencies exist on different engagements would help firms operationalize the requirement as intended by the Board, especially in the context of evaluating whether an engagement deficiency has broader implications for other engagements or the QC system as a whole.

The example included in the SRC does not, in our view, clearly demonstrate the intended application of the “could result in” threshold in the proposed amendment. Specifically, if cash was not a significant account and the failure to perform cash confirmation procedures did not result in a failure to obtain sufficient appropriate audit evidence, it is unclear whether the fact pattern would constitute an engagement deficiency.

Given the importance of this concept within the monitoring and remediation process, we believe the PCAOB could clarify paragraph .68d by providing a more robust set of examples. Specifically, it would be helpful to include a range of scenarios that distinguish between engagement deficiencies and identified root cause(s) that (1) are indicative of systemic issues and may impact other engagements and (2) are more isolated or limited in nature and do not have broader implications.

Providing such examples would support more consistent interpretation and application across firms, reduce unnecessary subjectivity, and help ensure that firms focus their efforts on matters most relevant to audit quality. We believe this additional guidance would meaningfully enhance the operability of the requirement, particularly as firms prepare for implementation ahead of the effective date.

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

Given our feedback on Questions 15 and 16, it is difficult to determine whether the proposed amendments will meaningfully reduce complexity, subjectivity, or implementation costs. We believe additional implementation guidance, particularly in the form of illustrative examples, would enhance consistency in application and help maximize these benefits.

Question 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 support the proposed amendments to the definition of QC deficiency and believe they are both appropriate and provide needed clarity. We believe explicitly acknowledging the role of other quality responses, including compensating

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responses, represents an important refinement that better reflects how QC systems operate in practice.

We believe this approach will improve the evaluation of QC observations and the determination of whether a QC deficiency exists by promoting a more balanced and holistic assessment of the effectiveness of the QC system. Rather than viewing identified QC observations in isolation, the proposed definition appropriately allows firms to consider whether other aspects of the QC system mitigate the potential effects of the underlying matter when determining whether a QC deficiency exists. This is consistent with a principles-based, risk-focused framework and supports more meaningful conclusions about the overall effectiveness of the QC system.

From an audit quality perspective, we believe the amendments will help firms better distinguish between QC observations or deficiencies that represent systemic weaknesses and those that are mitigated by other controls or responses. This should enhance the focus of monitoring and remediation efforts on issues that have the greatest potential impact on audit quality, while avoiding unnecessary escalation of matters that are appropriately addressed within the QC system.

Overall, we believe the proposed amendments improve both the clarity and operability of the definition and support more consistent, decision-useful evaluations of QC system effectiveness.

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?

We support permitting firms to choose their own evaluation date to conclude on the effectiveness of the QC system. We previously expressed concerns with the prescribed September 30 evaluation date and believe the proposed flexibility is responsive to those concerns, representing a meaningful improvement of the requirement. We believe this principles-based approach improves both the practicality and effectiveness of the requirement, while maintaining appropriate accountability for firms to perform a timely and rigorous evaluation of their QC systems.

Allowing firms to select an evaluation date that aligns with their internal processes, reporting cycles, and governance structures enables a more effective and disciplined evaluation. A fixed date may not align with how firms monitor and assess their QC systems in practice, potentially resulting in inefficiencies or evaluations that are less reflective of actual system performance. By contrast, providing flexibility allows firms to conduct evaluations at a point in time when relevant information is complete and decision-useful, thereby supporting a more robust and reliable assessment of effectiveness.

From an audit quality perspective, we believe this change will enhance the quality of firms' evaluations by promoting more thoughtful and well-supported conclusions. When firms are able to align the evaluation date with the natural cadence of their monitoring and remediation activities, they are better positioned to identify trends, assess the impact of remediation efforts, and reach conclusions that more accurately reflect the state of the QC system.

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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?

We believe the proposed framework for concluding on the effectiveness of a firm's QC system is sufficiently clear and that the three proposed conclusions are appropriate and should be retained. In our view, the three-tiered framework aligns more closely with other quality management standards and enhances transparency by allowing firms to differentiate between varying degrees of effectiveness, rather than requiring a binary outcome that may not fully reflect the nature and significance of identified QC deficiencies.

In particular, we believe the availability of an intermediate conclusion (the "except for" conclusion) is important in circumstances where QC deficiencies are severe but not pervasive to the QC system. Absent this distinction, such matters could result in a conclusion that the QC system is not effective, even when the QC deficiencies are isolated, well-understood, and not indicative of broader systemic issues. The proposed framework allows firms to more clearly communicate the nature and impact of such deficiencies, providing a more balanced and decision-useful view of QC system effectiveness.

From an audit quality perspective, we believe this approach promotes more thoughtful and rigorous evaluation by encouraging firms to assess both the severity and pervasiveness of QC deficiencies in a structured way. It also supports more targeted remediation efforts by distinguishing between systemic issues and more isolated matters. In doing so, the framework reinforces a focus on continuous improvement while maintaining appropriate accountability.

Overall, we believe the proposed evaluation framework strikes an appropriate balance between clarity, transparency, and operational practicality, and provides a more meaningful basis for evaluating and communicating the effectiveness of a firm's QC system.

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

We believe the proposed factors for evaluating the severity and pervasiveness of unremediated QC deficiencies are generally clear and appropriate as well as align with a principles-based approach. The framework appropriately emphasizes the nature, impact, and potential systemic implications of QC deficiencies, which are critical considerations in assessing the effectiveness of a firm's QC system.

While the application of these factors will involve professional judgment, we believe the proposed framework provides a sufficient foundation for consistent evaluation in practice. Overall, we believe the factors support a more thoughtful and risk-based assessment of QC deficiencies and contribute to more meaningful evaluations of QC system effectiveness.

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

We support the proposed removal of the term "major QC deficiency" from QC 1000. As noted in our previous comment letters, the introduction of this term represented a fundamental departure from ISQM 1 and SQMS 1, which would have reduced consistency across quality management frameworks. Such divergence introduced unnecessary complexity for firms operating in multiple regulatory environments and risked creating confusion in how QC deficiencies are identified, evaluated, and communicated.

We also believe that retaining a separate category of "major QC deficiency" is not necessary to achieve a robust and effective evaluation of QC systems. The existing framework, including the evaluation of the severity and pervasiveness of QC deficiencies, provides a sufficiently strong and principles-based approach for distinguishing between matters of varying significance. In that context, introducing an additional defined term risks creating artificial distinctions that may not meaningfully improve the quality of evaluations or engagement outcomes.

We appreciate the Board's responsiveness to stakeholder feedback in proposing to eliminate this concept. In our view, its removal will enhance clarity, improve alignment with other quality management standards, and support more consistent and effective evaluations of QC system effectiveness.

Question 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 support the proposed conclusions on the effectiveness of a firm's QC system in paragraph .77. However, we believe implementation guidance would be helpful regarding the treatment of subsequent events occurring between the evaluation date and the report date. For example, guidance addressing how firms should evaluate newly identified deficiencies, inspection results, remediation outcomes, or other quality-related matters that become known during this period would assist firms in determining whether such information provides evidence about conditions that existed as of the evaluation date and, if so, how it should be reflected in the firm's evaluation conclusion under paragraph .77. Such guidance would promote greater consistency in the application of the evaluation framework.

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

We support the proposed conforming amendments to Rule 2203A and Form QC and believe they are appropriate in light of the Board's proposed changes to QC 1000. Aligning these reporting requirements with the revised framework promotes consistency and supports more accurate and meaningful reporting of a firm's QC system and its evaluation thereof.

We believe the Board's approach to addressing changes in a firm's evaluation date is reasonable and operationally practical, as it helps ensure that the PCAOB receives current and decision-useful information regarding a firm's QC system and evaluation period.

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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?

We do not support a binary conclusion framework for the reasons described in our response to Question 21, including our view that the proposed three-tiered framework provides greater transparency and more appropriately reflects the range of potential QC system outcomes. A binary approach may not sufficiently capture situations where QC deficiencies are severe but not pervasive and could therefore result in conclusions that do not fully reflect the effectiveness of the QC system.

In addition, we believe a binary framework may reduce the decision-usefulness of the evaluation by oversimplifying complex circumstances, potentially obscuring important distinctions in the severity and impact of identified QC deficiencies. By contrast, the three-tiered approach enables a more nuanced and informative assessment, which supports clearer communication, more targeted remediation, and ultimately more meaningful insights into the effectiveness of a firm's QC system.

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

We believe the proposed amendments represent an improvement over the previous documentation requirements. However, we continue to have significant concerns regarding the clarity and practical application of certain aspects of the amendments, particularly the extent of documentation that would be required to demonstrate the operation of quality responses in a manner that would enable an experienced auditor to understand and evaluate the operation of the quality responses, as well as the expectation of "timely retrieval of documentation" that is not maintained in the quality monitoring tool.

Unlike an audit or attestation engagement, a QC system is continuous and does not have a defined end point. While firms may evaluate the QC system as of a particular date, the underlying processes and documentation continue to evolve. This creates challenges in determining when documentation is sufficiently complete and what level of detail is necessary to retain in order to meet the documentation requirements. For example, it is unclear whether firms would be expected to retain informal communications, such as emails, beyond standard retention periods if they relate to QC processes. Similarly, response owners may maintain support for the operation of a quality response, such as meeting notes, in SharePoint sites or other repositories outside centralized systems that are subject to established retention policies. In our view, the proposed retention requirement heightens the need for greater clarity regarding the nature and extent of documentation expected to demonstrate the operation of quality responses, as firms would otherwise need to identify, monitor, and retain documentation across a broad range of decentralized locations.

It is also unclear how firms should address documentation residing in systems or applications that have been replaced during the evaluation period. In practice, expectations in these areas could result in documentation requirements that are

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operationally complex and difficult to manage, without providing a commensurate benefit.

We ask the Board to provide additional implementation guidance or examples to further enhance operability. We believe further clarification, particularly regarding expectations for documentation at a point in time and the scope of materials expected to be retained to support QC conclusions, would support more consistent and practical application.

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

We believe the proposed five-year retention requirement is sufficiently clear and support the reduction from the seven-year period previously contemplated.

However, as noted in our response to Question 28, ongoing uncertainty regarding the scope of documentation required to demonstrate the operation of quality responses introduces practical challenges. In that context, a fixed five-year period could exacerbate operability concerns, particularly where documentation resides across decentralized systems or informal channels.

While the revision is a positive step, we encourage the Board to consider whether a shorter or more flexible approach, together with greater clarity on documentation expectations, could achieve the intended objectives in a more practical and scalable manner, while achieving the overall objective of the proposal.

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

We believe the proposed amendments to Form 1 and Form 2 are appropriate in light of the Board's proposed changes to the QC 1000 requirements. Aligning these forms with the revised framework helps to ensure consistency between the underlying requirements and the related reporting obligations.

We also believe the proposed amendments will reduce unnecessary administrative burden created by the original requirements, particularly where disclosures may have extended beyond what is necessary to convey meaningful information about a firm's QC system. By refining the scope of information required, the amendments support more focused and relevant reporting.

Question 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?

While such disclosure could provide helpful context regarding a firm's approach to quality management, its relevance may be limited in practice, as firms will ultimately be required to comply with PCAOB standards when performing engagements within the Board's jurisdiction. We further note that ISQM 1 and SQMS 1 are substantially converged such that the resulting QC system would generally align with both sets of standards, even if it is not required to be. Therefore, we believe the appropriateness of this requirement likely depends on the Board's intended use of the information.

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Question 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.

We appreciate the robust economic analysis provided by the Board in the SRC and its consideration of both the costs and expected benefits of the proposed amendments. In particular, we believe the analysis appropriately recognizes the potential for certain amendments to reduce unnecessary operational burdens, while maintaining the overall objective of supporting audit quality.

Consistent with our responses throughout this letter, we believe many of the proposed amendments are likely to improve efficiency in the design and operation of QC systems. These changes should help reduce incremental compliance costs and allow firms to better focus their resources on activities that have the greatest impact on audit quality.

At the same time, certain areas, such as documentation expectations, monitoring and remediation processes, and evaluation of deficiencies, may still involve implementation complexity and associated costs, particularly as firms establish and refine their approaches. While these impacts may be difficult to quantify at this stage, we believe the proposed amendments overall strike an appropriate balance between costs and benefits and also support the development of effective and scalable QC systems.

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comments@pcaobus.org

9 July 2026

Dear Sirs

Docket 057 - Proposed Amendments to QC 1000

The below comments are from the perspective of an individual not connected to any business / organisation, but previously engaged in audit / audit quality / quality control / standard-setting matters.

James Grosvenor

(A) Overall comments:

(1) Generally, the proposed amendments are clearly positive and in the right direction. There are areas where they could perhaps be revised or supplemented - e.g. questions are raised below re the definitions of fundamental terms like 'Quality Risk' and 'QC Deficiency'.

(2) With the proposed amendments the situation is better than it was, but the number of differences from other QC frameworks remains significant, whereas the value added is not always apparent. On the other hand, perhaps stakeholders will propose enhancements to other QC frameworks, including in a number of areas brought into focus by (the final version of) QC 1000 and related materials.

(B) Comments on specific questions:

Q8. Are there additional costs and benefits of the proposed removal of the EQCF requirement that should be considered?

The answer may depend on (i) the extent to which leadership / senior individuals within firms / networks have much knowledge of or involvement in QC matters; (ii) whether internal reporting & incentive structures lead to quality issues being ignored or minimised; (iii) whether those responsible for quality in the firm / network solicit & engage with feedback, or act in a way that discourages or penalises feedback; and (iv) whether the facts-on-the-ground relating to such matters are discoverable, e.g. by regulators.

If such matters do apply, then having effective independent input (whether in the form of an External QC Function or otherwise) could help address them. But if independent / objective input is only high level, and based on receiving only filtered or curated information, it may not be in a position to address quality issues that are only detectable at the level of the day-to-day, detailed operation of the QC system. If there were some sort of direct communication channel with relevant personnel dealing with day-to-day matters, that would help address this.

Re *"Some commenters said there were challenges in identifying qualified individuals"* - that's surprising, as evidence of firms / networks seeking to engage experienced QC resources appears to be sparse.

Q15. Are the proposed amendments to paragraphs .68a and .68d sufficiently clear and appropriate? Why or why not?

Q18. 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?

Wording	Comment
.68 When an *engagement deficiency* exists, the firm should: a. For *engagement deficiencies* relating to in-process *engagements*, take action to address the deficiency in accordance with *applicable professional and legal requirements* (to the extent necessary, before the issuance of the related *engagement* report(s)), such that the *engagement* report is free of significant engagement deficiencies;40A *** d. For *engagement deficiencies* that resulted or could result in (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,* evaluate whether similar *engagement deficiencies* exist on: (1) Other in-process *engagements*, or would arise if remedial action is not taken; (2) Other completed *engagement*s, unless it is probable that the *engagement* report(s) are not being relied upon; and (3) Work performed by the firm on other firms' *engagements*; and if so, take actions described in paragraphs .68a.-c. above, as applicable. 40A A significant engagement deficiency exists when (1) the engagement team failed to obtain sufficient appropriate evidence or failed to perform interim review or attestation procedures necessary in the circumstances in accordance with the standards of the PCAOB, (2) the engagement team reached an inappropriate overall conclusion on the subject matter of the *engagement*, (3) the *engagement* report is not appropriate in the circumstances,	**Issue 1** If actions to address engagement deficiencies (at the engagement level) are set out in 'applicable professional and legal requirements', is addressing them in a firm-level standard (e.g. in .68a-c and .70) duplicative and/or confusing? As opposed to e.g. including references in footnotes. I.e. only .68d seems to belong in a firm-level standard, as it is broader than the engagement level, with a stand-back evaluation of any implications for the wider portfolio of engagements. **Issue 2** Is it clear why, from footnote 40A(1-4), .68(d) included (1) and (2) but excluded "*(3) the engagement report is not appropriate in the circumstances, or (4) the firm is not independent of its client*"? E.g. if a team uses the incorrect report template under (3), or uses an independence tool incorrectly to arrive at the wrong conclusion under (4), wouldn't any wider implications be considered, as for (1) and (2)?

Wording	Comment
or (4) the firm is not independent of its client. This concept aligns with "significant engagement deficiency" in AS 1220, *Engagement Quality Review* (*see* Notes to AS 1220.12, .17, .18B), but applies to all *engagements* as defined in this standard. .70 For each *engagement deficiency* relating to a completed *engagement*, the firm should comply with paragraphs .98-.99 of AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements;* AS 2901 *Responding to Engagement Deficiencies After Issuance of the Auditor's Report;* AS 2905, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*; paragraphs 39.-42. of AT No. 1, *Examination Engagements Regarding Compliance Reports of Brokers and Dealers;* and paragraphs 21.-24. of AT No. 2, *Review Engagements Regarding Exemption Reports of Brokers and Dealers*, as applicable.	
.A8 QC deficiency – A *QC observation* that, based on the evaluation under paragraph .72, individually or in combination with one or more other *QC observations*, evidences: (1) That the likelihood of the firm not achieving the reasonable assurance objective or one or more *quality objectives* has not been reduced to an acceptably low level; Note: The likelihood of not achieving the reasonable assurance objective or one or more *quality objectives* would be above an acceptably low level if, for example, a *quality objective* is not established, a *quality risk* is not properly identified or assessed, or a *quality response* is not properly designed or implemented or is not operating effectively and other *quality responses* do not achieve the relevant objective(s).	**Issue 1** Is mentioning both (i) not achieving the Reasonable Assurance Objective; and (ii) not achieving one or more Quality Objectives, intended to imply that those are independent outcomes, and one could occur without the other occurring? The distinction between (i) and (ii), and the implications may not be clear to users. **Issue 2** Is *"other quality responses do not achieve the relevant objective(s)"* the right way of articulating the point? Firstly, per the definition, Quality Responses "address Quality Risks" rather than achieve Quality Objectives per se. Secondly, aren't Quality Objectives achieved through the collective impact of the underlying processes, culture, individuals etc; with Quality Responses as just one important element, to prevent or detect things that could go wrong with the processes, culture etc? Processes may also include responses which are not "Quality Responses", but arguably still contribute to achieving the Quality Objectives, if they address risks which are beneath the threshold of "Quality Risks". By way of analogy, even when documenting a process walkthrough, it is not necessarily practicable or desirable to capture the process in full, but rather just the main elements, including those elements that are Quality Responses. **Issue 3** Re "compensating responses" - where quality issues exist, firms / networks may already be inclined to minimise (i) the number of issues that get

Wording	Comment
	recognised as QC Observations, and (ii) the number of associated QC Deficiencies. There would now be the additional temptation to (iii) identify compensating responses, even when the linkage is tenuous. To the extent that the monitoring process is effective / independent / objective, the above concerns would be addressed, of course. **Issue 4** The note below .A8 is a long sentence with quite a lot going on - breaking it up (e.g. by use of (i), (ii) within the sentence) may make it easier to follow.

Q21. 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?

Q22. Are the factors to evaluate the severity and pervasiveness of unremediated QC deficiencies sufficiently clear and appropriate? Why or why not?

Wording	Comment
Annual Evaluation of the QC System .77 Once a firm has been subject to the requirement to design, implement, and operate a QC system under paragraph .06 for at least five consecutive months ~~Annually~~, the firm must annually evaluate the effectiveness of its QC system, based on the results of its monitoring and remediation activities, and conclude, as of ~~September 30 (~~the "evaluation date"), that its QC system: a. Is effective in achieving the reasonable assurance objective ~~with no unremediated *QC deficiencies*~~; or Note: The firm's QC system is effective in achieving the reasonable assurance objective under paragraph .77a if, as of the *evaluation date*, there are no unremediated *QC deficiencies* other than those that, individually or in combination, are not severe. b. Is effective in achieving the reasonable assurance objective except for ~~one or more~~ unremediated *QC deficiencies* that have a severe but not pervasive effect on the design, implementation, and operation of the QC system (and do not render the QC system not effective) ~~are not *major QC*~~	**Issue 1** The wording seems unclear e.g. in the following cases: (1) For a firm subject to QC requirements since 1 Jan 20X1, is the first evaluation date (i) no earlier than 31 May and no later than 31 Dec 20X1; or (ii) no earlier than 31 May 20X1 and no later than 31 May 20X2? p34 of the Supplemental Request to Comment does suggest the latter, but is the standard itself clear on this point? (2) If a firm's last QC evaluation date was on 30 Sept 20X1, but it changes the annual date to 31 Mar going forward - is the next evaluation date 31 Mar 20X2 (in 6 months), or 31 Mar 20X3 (in 18 months)? (3) Should "annually" be "at least annually", as in ISQM 1, to highlight this possibility to firms / networks who prefer more frequent formal assessments, e.g. because they believe this enhances quality? (Regardless of whether or not the frequency of reporting to the PCAOB remains annual.) Do firms / networks consistently operate & document their QC controls, or do they engage in last-minute tidying up / somehow filling in gaps, when a testing and evaluation cycle is approaching - such that more frequent evaluations would indeed enhance quality? **Issue 2** Is "deficiencies in combination" applicable only where a group of deficiencies are closely related; or could a high number of deficiencies that are not closely related also be "severe in combination"? Considering deficiencies "in combination" (to assess severity) may also blur into the consideration of whether they are "pervasive". There may be further blurring due to the factors .78(a)-(h) being labelled as applying to the evaluation of both severity and pervasiveness.

Wording	Comment
~~*deficiencies*~~; or c. Is not effective in achieving the reasonable assurance objective (one or more *major QC deficiencies* exists). Note: An unremediated QC deficiency is one for which remedial actions that completely address the QC deficiency have not been fully implemented, tested, and found effective. For this purpose, implementation must be completed as of the *evaluation date* and testing and the determination of effectiveness must be completed no later than the date Form QC is due under paragraph .79 (or, if earlier, the date Form QC is filed). 44 The selection of the firm's *evaluation date* may be influenced by the nature and circumstances of the firm and its *engagements*, including, for example, the firm's fiscal year-end or the timing of monitoring activities. If the firm changes its *evaluation date*, the firm is required to provide notice of such change on Form QC.	Perhaps the 'except for' category in QC 1000 and ISQM 1 should have captured both (i) "severe but not pervasive" and (ii) "pervasive but not severe" - in which case the blurring wouldn't matter too much. As it stands, one can imagine a firm with one or two high-profile issues feeling obliged to give itself an 'except for' conclusion; while a firm with widespread, numerous, but (hitherto) low-profile issues gives itself a clean-bill-of-health. **Issue 3** Under both QC 1000 & ISQM 1, the clean-bill-of-health conclusion (a) could also cause confusion e.g. in case of a firm which has significant issues during a period, but claims to have remediated everything by the date of the evaluation / of reporting to the regulator. Under an alternative approach to the above, an 'except for' (b) or 'not effective' (c) conclusion would apply for the relevant period, with conclusion (a) becoming possible only from the next period. Would such an approach be more in line with the public interest, and with what stakeholders would expect? By analogy, no-one would say that there's no need to report on misstatements in the P&L, so long as the most recent Balance Sheet is okay - i.e. what happened in the period, and the closing situation, are both of interest. **Issue 4** [A version of the below comments was raised in standard-setting circles years ago, but to no avail.] It can take a long time for deficiencies to become apparent, as the underlying issues have to be detected, reported, investigated and concluded on. Many of the whistleblowing cases one reads about, relate to issues that commenced years ago. E.g. assume a firm's independence tool was flawed, such that severe and pervasive non-compliance occurred in 2027-29. A completely new tool is implemented in 2030, with no related deficiencies. The 2027-29 non-compliance is identified in 2031. How is the firm supposed to conclude on its QC system in 2031? On the one hand everything was fine since 2030; on the other hand, statements / certifications made in respect of 2027-29 failed to reflect severe and pervasive deficiencies. For some firms such statements will have been made publicly e.g. in Transparency Reports. One approach could be to require statements / certifications, whether public or non-public, to take account of previously unidentified (severe/pervasive) deficiencies relating to prior year QC cycles (i) in concluding on the latest cycle (by default); or (ii) in a separate paragraph, to correct the statements / certifications made re prior cycles (in cases where the issues demonstrably did not apply to the current cycle).
[Cont.] .77 [...] Note: An unremediated QC deficiency is one for which remedial actions that completely address the QC deficiency have not been fully implemented, tested,	**Issue 1** Are the requirements / guidance clear enough as to what cut-off date / period is relevant to the testing / sampling of remedial actions and/or post-remediation control (response) instances, to support a conclusion as of the evaluation date? There may be a temptation to 'retrospectively solve' certain issues which still applied as of the evaluation date.

Wording	Comment
and found effective. For this purpose, implementation must be completed as of the *evaluation date* and testing and the determination of effectiveness must be completed no later than the date Form QC is due under paragraph .79 (or, if earlier, the date Form QC is filed).	Some would say that, in principle and as a matter of English, testing instances / evidence arising after the evaluation date (if that is what the standard would lead to), is relevant to the following QC cycle, but not to the conclusion as of the evaluation date. **Issue 2** Does "completely address" sound perfectionist / unrealistic? One could imagine remedial actions which do not "completely address" a deficiency, but e.g. "sufficiently address" it, in line with the "acceptably low level" approach that underpins the standard.
.78 In evaluating severity and pervasiveness, the firm should consider the following factors [...]: (d) The persistence of the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* over time;	Should persistence necessarily affect such evaluation? E.g. a firm may have a quality deficiency relating to a minor issue in its independence tool, which is contracted to be used for another 3 years, such that cost-benefit analysis concludes that the deficiency will be addressed only when the system is replaced. Would the severity and pervasiveness for Year 1 necessarily be any different than the severity and pervasiveness for Years 2-3? At most one could argue that there's an additional observation / deficiency for Years 2-3, re the (intentional) failure to apply the remediation process to the issue with independence tool.
.78 b. The extent to which the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* relate to e. Whether the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* has f. Whether the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* has	Check grammar / consistency.
.80	Seems to be a high degree of repetition between .77 and .80 - can this be avoided?

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

Wording	Comment
.86 The firm must retain the documentation of its QC system required under paragraphs .81-.83 and paragraph .85 for five ~~seven~~ years from the QC documentation completion date, unless a longer period of time is required by law.	**Issue 1** Per AS 1215.14 *"The auditor must retain audit documentation for seven years from the date the auditor grants permission to use the auditor's report [...], unless a longer period of time is required by law."* An argument for also applying 7 years for QC documentation would be that retention should be no shorter than that of the audits which that QC cycle supports - one could imagine audit or related financial reporting issues being identified some years down the line, where it may be helpful to re-trace which quality

Wording	Comment
	controls failed to prevent or detect such issues. If that argument is not persuasive, then one would have thought that the minimum retention period should be as low as possible based on users' needs - presumably regulators are the primary users, and 5 years sounds excessive in that context. **Issue 2** Although "by law" is the same term as used in AS 1215, would "by *applicable professional and legal requirements*", as used throughout the standard, be preferable? The definition of the latter may align better for some jurisdictions, as it includes *"statutory, regulatory, and other legal requirements"*, whereas "by law" sounds narrow.
.A2 Applicable professional and legal requirements – (1) Professional standards, as defined in PCAOB Rule 1001(p)(vi); (2) Rules of the PCAOB that are not professional standards; and (3) To the extent related to the obligations and responsibilities of accountants or auditors in the conduct of engagements or in relation to the QC system, rules of the SEC, other provisions of U.S. federal securities law, ethics laws and regulations, and other applicable statutory, regulatory, and other legal requirements.	Re *"applicable professional and legal requirements"*: Firms and individuals need to comply with various laws / regulations, and questions arise as to which of these are to be addressed within a QC system (as opposed to within the firm's general business operations). An example is laws / regulations relating to Insider Trading / Market Abuse (maintenance of a list of 'insiders', etc). Auditors' activities are relevant to markets, and therefore they can fall into the scope of such provisions. But the provisions broadly apply to various market participants, without specific mention of auditors or engagements or QC systems. The definition in QC 1000 seems more helpful than anything in ISQM 1 - it may or may not be precise enough to settle the question of whether broadly applicable laws / regulations (such as those re Insider Trading / Market Abuse) are QC matters.

(C) Other comments:

Wording	Comment
.13 The firm should establish a direct line of communication from each individual assigned operational responsibilities to the individual assigned ultimate responsibility and accountability for the QC system as a whole.	"Direct line of communication" is vague - formally it is always satisfied, as within a firm, every individual can in theory directly contact every other individual via internal communications tools. The more pertinent matter would seem to be how much involvement & communication the individual really has in relation to QC matters.
.15 The individual(s) assigned operational responsibility and accountability for the QC system as a whole should: a. Supervise<u>, within the scope of their assigned responsibilities,</u> the design, implementation, and operation of the firm's QC system in accordance with *applicable professional and legal requirements* and the firm's policies and procedures; and b. Certify the firm's report to the PCAOB on its annual evaluation of the QC system (*see* paragraph .79).	Presumably it is intentional that the certification in Item 3.2 refers to *"[ultimate/operational] responsibility and accountability for [the QC system] as a whole"*, without any reference to *"within the scope of assigned responsibilities"*, either in the case of multiple individuals under .15, or co-principal executive officers under .11.

Wording	Comment
.42c. Differences in professional judgment related to the engagement that arise among firm personnel, among other participants, or between firm personnel and other participants, including the engagement quality reviewer or those that provide consultation, are brought to the attention of the individual(s) with responsibility and authority for resolving such matters and are resolved before the issuance of an engagement report, such that the engagement is performed in accordance with applicable professional and legal requirements.	Differences also arise in connection with the QC system (e.g. re decisions about QC deficiencies, and the overall conclusion). Arguably, QC standards should address this.
.57 The firm should communicate the result of the annual evaluation of the firm's QC system to the firm's partners, shareholders, members, or other principals, and the firm's board of directors or equivalent.	This seems to set an expectation for rare communication, to a narrow group. As opposed to encouraging more frequent communication of monitoring & remediation results to a wider population (e.g. including engagement managers), which could enhance quality.
.61 The firm's monitoring activities must include: a. "*Engagement* monitoring activities," which are directed at individual *engagements*; and Note: For firms that issued *engagement* reports with respect to five or fewer *engagements* for issuers, brokers, and dealers during the prior calendar year, *engagement* monitoring activities may include monitoring audits not performed under PCAOB auditing standards, provided that such audits are selected taking into account the factors in paragraph .64 and that instances of noncompliance with applicable auditing standards identified through monitoring are treated as if they were "engagement deficiencies" for purposes of paragraph .68d and "QC observations" for purposes of paragraph .72. Audits not performed under PCAOB auditing standards cannot be included in the monitoring required under paragraph .62b.	Presumably it has been confirmed that this is practicable - for a firm with (say) a 95% non-PCAOB portfolio, this seems to potentially bring a swathe of non-compliance within the non-PCAOB portfolio into the scope of .68d and .72.
.65 In determining the nature, timing, and extent of QC system-level monitoring activities, the firm should take into account the following factors: a. Quality risks and the reasons they were assessed to be quality risks;	Elsewhere the standard refers to *"identify and assess quality risks"*. ISQM 1.38(a) refers to *"The reasons for the assessments given to the quality risks"*. QC 1000.65(a) seems to be using "assess" in a different (non-standard?) sense. Should it instead read e.g. *"Quality risks and the reasons [for their identification and] for the assessments given to them"* (in line with .21)? .82(b)(2) by contrast refers to *"the basis for the assessment of quality risks"*.
.A10 Quality objectives – The desired outcomes in relation to the components of the QC system to be achieved by the firm.	"Outcomes... to be achieved" seems sufficient, whereas "desired" seems superfluous; but okay, consistent with ISQM 1.

Wording	Comment
.A12 Quality risks – Risks (whether or not related to intentional acts by *firm personnel* or *other participants* to deceive or to violate *applicable professional and legal requirements*) that, individually or in combination with other risks, have a reasonable possibility of occurring and, if they were to occur, a reasonable possibility of adversely affecting the firm's achievement of one or more *quality objectives.* ISQM 1.16: (r) Quality risk – A risk that has a reasonable possibility of: (i) Occurring; and (ii) Individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives.	[A version of the below comments was raised in standard-setting circles years ago, but to no avail.] **Issue 1 - Methodology** If one uses the term P(O) for occurrence, P(A) for adverse effect, and > 0.10 for 'reasonable possibility', do users identify a Quality Risk when (i) P(O) > 0.10 and P(A|O) > 0.10 or when (ii) P(O and A) = [P(O) * P(A|O)] > 0.10 If P(O) = 0.18, P(A|O) = 0.50, that's a Quality Risk in (i) and not a Quality Risk in (ii). It seems that under QC 1000 only (i) is permitted, whereas ISQM 1 is ambiguous. International standards are also vague / silent on the exact meaning of "reasonably possible", "remote", etc. Firms / networks applying a single risk assessment methodology to their PCAOB and non-PCAOB portfolio may have to use the more specific PCAOB approach as the basis, applying (i) above. The 'unit of account' is also not specified - e.g. a large firm with 100,000 engagements will likely have many more deficiencies per year/period than a firm with 500 engagements, even if its 'quality' overall is much higher - i.e. unless the above probabilities are linked not just to a time period, but also to the circumstances of the firm and its engagements, strange outcomes could occur. In theory, firms / networks must at least have an implicit view on such matters, in order to identify the relevant Quality Risks. But in practice, to what extent have firms / networks: - given much thought to such matters? - understood and appropriately implemented the "combination with other risks" element of the definition? - set out their own methodology, more-or-less grounded in statistics / probability, to the extent that the standard(s) is too vague to be implemented directly? - achieved consistency in such risk assessments within the firm, within the network, between different networks? Were firms / networks intended to understand and address such matters? In audit / assurance, sampling is supposed to be grounded in statistics / probability, and

Wording	Comment
	given that 'reasonable assurance' is the common target, should one expect a similar degree of rigour under QC standards? Of course, 'reasonable assurance' has long been the QC requirement - such that it is questionable why firms' previous systems, assessed as delivering 'reasonable assurance', were not near-ready for QC 1000 & ISQM 1. Perhaps firms / networks and regulators have been interpreting 'reasonable assurance' in a distinct manner for QC purposes. **Issue 2 - Terminology** Events occur, and conditions can be present or not. Risks, meanwhile, do not 'occur', but are probabilities (or are linked to them, or are a way of referring to them). The risk (probability) of throwing a 6 with a die is 0.1667, regardless of whether I actually throw a 6 in practice - i.e. the risk is one thing, and the related event or outcome or condition is another thing. Given that auditors, at least in their marketing, often stress their expertise in 'risk' and 'risk management' - e.g. *"We specialise in managing risk for our clients"* - it is somewhat ironic that QC standards don't appear to be well aligned with something so fundamental as the use / definition of 'risk' in plain English and basic statistics / probability.
p28 of Docket 057 - Proposed Amendments to QC 1000 states that *"On this particular audit engagement, cash was not a significant account as it fell below the engagement's materiality threshold."*	Apart from any other comments that could be made about the example: Some within the profession argue that cash must always be a significant account, due to the nature of cash, its crucial function within business, its prominence within a primary financial statement, etc - it appears that the PCAOB does not endorse this view.
p40 of PCAOB Release No. 2024-005 states that *"The monitoring and remediation [M&R] process applies to all of the components of the QC system, including monitoring and remediation itself"*; whereas the risk assessment process [RAP] does not apply to itself, or to the M&R process.	Some would argue that the RAP should apply (at least optionally) both to itself and to M&R, and that in practice this is an effective way of setting up a QC system.
p74 of PCAOB Release No. 2024-005 - re wording that requires compliance with *"applicable professional and legal requirements and the firm's policies and procedures"* (or *"firm policies and procedures"*). p74 noted that *"Another commenter suggested that the QC system should not address firm policies and procedures that go beyond applicable professional and legal requirements, on the basis that it might undermine investor protection by disincentivizing firms from developing policies and procedures that go beyond what is required. [...] However, because policies and procedures play an important role in the firm achieving the reasonable*	Is this convincing, or is it over-reach (here and with regard to any other standards which include such language)? Is it not sufficient to limit the scope / wording throughout to *"applicable professional and legal requirements"*? Compliance with the firm's own policies and procedures would by implication continue to be addressed under the standard, but only for the subset of policies and procedures that intersect with and support those requirements (in the form of Quality

Wording	Comment
assurance objective, we have determined that some quality objectives have to incorporate compliance with firm policies and procedures as well as applicable professional and legal requirements."	Responses or otherwise).
p108 of PCAOB Release No. 2024-005 states that *"a new accounting standard may result in a firm identifying a new quality risk"*.	This encourages or assumes a level of granularity that may not necessarily be optimal. There will always be a pipeline of new or amended accounting or auditing standards, and (potentially) creating a new Quality Risk for each one involves continually chopping-and-changing the QC system - is there a commensurate benefit? Articulating the related Quality Risk(s) at a more aggregated level than standard-by-standard would reduce this 'volatility'. Quality Responses could be more granular than the Quality Risk(s), but even then may not need to be at the level of each standard, because Quality Responses can be articulated and operated in a pretty standardised way, when appropriate.
p112 of PCAOB Release No. 2024-005 states that *"One commenter sought clarification on the term "leadership," including whether it relates only to the specified roles in paragraph .11 and .12, or to all partners and equivalents in the firm. Under QC 1000, leadership is not limited only to those in specified QC roles. While the composition of leadership may vary due to the nature and circumstances of the firm and its engagements and how the firm chooses to organize itself, it includes firm-wide leadership; the executive team; regional, office, and industry segment leadership; and any other levels of leadership the firm may establish."*	In some firms / networks, local office leadership and industry segment leadership may have little influence over centrally driven quality initiatives, and may not be auditors. Is the wording too categorical in stating that such leaders are fully in scope of the Governance and Leadership Quality Objectives?

ICGN International Corporate Governance Network

The Honourable James Logothetis, Chairman
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

9 July 2026

Dear Chairman Logothetis,

Subject: PCAOB Supplemental Request for Comment: Proposed Amendments to QC 1000, a Firm's System of Quality Control, and Related Rule and Forms, PCAOB Release No. 2026-002, PCAOB Rulemaking Docket Matter No. 057

The International Corporate Governance Network (ICGN) appreciates the opportunity to comment on the PCAOB's Supplemental Request for Comment: Proposed Amendments to QC 1000, A Firm's System of Quality Control, and Related Rule and Forms.

Led by investors responsible for assets under management of >US$100 trillion, ICGN is an authority on global standards of corporate governance and investor stewardship. Headquartered in London, our membership is based in more than 40 countries. ICGN's *Global Governance Principles* and *Global Stewardship Principles*, written from an investor perspective, are widely used by our members in their company assessments and voting decisions, and by regulators when developing corporate governance rules.

Overall views:

- There is merit in as much alignment with the International Standard on Quality Management (ISQM) 1, as possible, however, there are two issues to consider; 1) the structure of the capital market in the US and 2) the issues identified at the time of writing and promulgating QC 1000, both of which continue to support the need for local adaptations.
- Much of the streamlining that is suggested in the amendment appears to be sensible from an investor viewpoint and offers a proportionate approach for smaller firms. However, there are provisions that weaken key requirements and risk undermining the overall importance of a firmwide approach to quality, the intended purpose of QC 1000. For investors, a high quality audit is much more important than the cost to produce one.
- This point is particularly important given the intended move to adopt a firmwide approach to at least part of the inspections process. Investors would respectfully request that the PCAOB consider very carefully how these two agendas interact with one another.
- One key concern is the cliff edge between the large audit firms which conduct most audits, of which there are only five, and the next tier of firms. Investors are concerned the proposal is cutting application of key elements in QC1000 off at too high a limit.
- Investors understand and appreciate cost concerns, as investors ultimately pay for these expenditures. We are not in favour of undue burden and costs of regulations, but we believe that an appropriate investment in quality assurance services is a key

part of market trust for investors and as such are willing to pay an appropriate amount. The comparisons with other external roles offered do not appear to be realistic given the various roles within the industry. Peer comparisons are important. For example, an external quality review professional has a very different role than a Non-Executive Director (NED) of a S&P 500 firm. There are other roles, such as the United Kingdom's Independent Non-Executive (INE) who would serve on a firm's board. Investors would like to see accurate comparators for cost analyses.

- Fundamentally, all public company audits need the same investor protections. Investors recognise there could be a case for pragmatism by the PCAOB, particularly in the instance of firms that do not conduct any public company audits. For example, we understand that there are firms which only conduct broker dealer audits or are not leading or playing a substantial role in the audits of issuers. We would support some type of distinguishing methodology in this case.

We have provided responses to the questions for which an investor perspective may be useful for the PCAOB. We have not responded to every individual question, however, we have provided our responses within the designated question headings. During its review, if the PCAOB would like additional investor perspectives on these questions, we would be pleased to provide them.

Questions 1-3 Requirement to design, implement and operate a QC system

- Investors recognise that many engagements, especially those that encompass audits of public companies, require a higher degree of audit rigour. An audit firm that specialises only in the audits of broker dealers may not need to be subject to all the requirements under QC 1000.
- If the PCAOB is inclined to rescind the design only standards for firms not conducting audits of public companies, it must include a rule that a QC system must be in place prior to a firm tendering an offer for a public company audit and/or getting registered. There cannot be a switch from one to another without meeting the requirements. For investors, this should be the minimum entry requirement, i.e., table stakes, to be considered before the firm performs this work.

Questions 4-7 Roles and responsibilities

- Investors recognise that firms have the responsibility to fill roles internally or through external sources, if necessary. Due to the complexity of audit work, it may be pragmatic that more than one person might be needed to fulfil these roles, particularly in larger firms and/ or due to complex audits.
- The amendment provides language to scale the requirement for firms that issued audit reports for fewer than 100 issuers in the prior calendar year. Investors would not be opposed to a limited degree of scaling these requirements to address cost considerations for small and large firms. We would support these scaled requirements as long as they are in place before firms are hired. Investors would be concerned with any dilution of requirements due to costs alone that could impact audit quality.

Questions 8-12 External Quality Control function

- ICGN is concerned about the changes proposed to the robust quality control functions from QC 1000. These functions are essential to audit quality. If the PCAOB is inclined to move in this direction, investors would want to see these requirements

retained at a minimum for the larger firms, which would include the firms that have conducted over 100 audits in the past year.

- ICGN also believes that the smaller audit firms (under 100 audits in a calendar year) should not be exempted from robust and functioning alternatives should the PCAOB scale these provisions. Independent oversight is essential for investor protections. This is even more important given the changes in ownership structures and more complex transactions that are occurring which need to be considered by the PCAOB. There are audit quality vs commercial decisions at play, along with competition, that investors are mindful of, and play into their views of independence and audit quality.
- For context, ICGN is aware that the system in the United Kingdom with regards to an independent board member who serves on a firm's Audit Board or Committee, as an Independent Non-Executive (INE) or as an Audit Non-Executive (ANE) works well and is a good model for consideration.

Questions 13 and 14 Information and communication

- ICGN favours public disclosures in one place for ease of use and for finding audit information, reports, audit practice, firm personnel, or engagements for investors and interested parties. Placement on the relevant website seems appropriate as long as there are clear instructions how to access additional information within the website and located on other webpages.
- Whilst disclosures on websites are useful, investors would want to make sure that any restatements, changes in definitions, or metrics, are clearly noted, communicated in writing, and updated in a timely basis.

Questions 15-18 Monitoring and remediation process

- The changes would require that the evaluation would only be with respect to those engagement deficiencies that resulted or could result in (i) a failure to obtain sufficient appropriate evidence clear in terms of alignment with the fundamental objectives to support the conclusion reached on an engagement or (ii) an inappropriate overall conclusion on the subject matter of an engagement. Investors would want to understand any engagement deficiencies and these changes appear to retain the most essential processes.

Questions 19-27 Evaluation of and Reporting on the QC System

- Investors would not be opposed to the option of a year-end selection rather than a static September 30 year-end.
- The proposal includes a requirement that once a firm has been subject to the requirement to design, implement, and operate a QC system for at least five consecutive months, the firm must annually evaluate the effectiveness of its QC system. Investors would expect such a review, however, a timeline of five or six months seem acceptable to evaluate its effectiveness.
- The factors described seem reasonable as long as the language related to the extent to which any remedial actions that have been implemented, tested, and found to be effective, is included.
- The alignment with ISQM 1 is important, with the requirement to disclose whether there is a deficiency or not. The disclosure itself is important for investors.

- ICGN would prefer the more nuanced framework than the binary approach. Investors would find more nuanced information and reporting on outcomes more insightful.
- We do not have a view on form structure.

Questions 28-29 Documentation

- Investors may view five years rather than the current seven-year requirement under ISQM I as a fair retention period. However, some US federal and state tax retention periods are a minimum of seven years, so this could be a consideration for retaining the seven-year requirement, particularly due to recordkeeping requirements for litigation or other audit-related matters.

Questions 30-31 Forms

- With respect to the proposed amendments to Form 1 and Form 2, investors would not be opposed to the PCAOB's need to align terminology, concepts, and cross-references with the proposed amendments to QC 1000, if adopted.

Questions 32-37 Economic considerations

- We would refer back to previous comments that the comparisons do not appear to be relevant across positions. Therefore, it is impossible for ICGN to provide comments in this area.
- We note that with previous regulatory changes, overall costs can come down over time post implementation. The year one costs are one consideration only. As we have said, investors are the ones that bear the burden of costs, notably when there are audit failures, as we have been exposed to in the past. Investors value the trust in the capital markets that comes from robust and high quality audits and are willing to support these costs over the long-term. For the firms seeking to do this work, investments in high quality systems should pay off over the longer term and drive down costs over time.
- Audit quality is essential for investors. Any proportionate and robust investment in audit quality can be spread over the costs of all public audits and seems to be a reasonable price to pay. Audit failures, on the other hand, hit investors and beneficiaries hard, compounding losses, and impacting investments for years.

Thank you for the opportunity to provide comments on this proposal. If you would like to follow up with questions or comments, please contact me or our Senior Advisor- Americas, Carol Nolan Drake, (carol.nolandrake@icgn.org).

Yours faithfully,

Jen Sisson

Chief Executive Officer, ICGN

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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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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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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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July 6, 2026

Office of the Secretary
PCAOB
1666 K Street, NW
Washington, DC 20006-2803

Submitted via email to comments@pcaobus.org

Re: PCAOB Rulemaking Docket Matter No. 057 — Proposed Amendments to QC 1000, *A Firm's System of Quality Control*

Dear Office of the Secretary:

Thank you for the opportunity to comment on the Board's supplemental release proposing targeted amendments to QC 1000, *A Firm's System of Quality Control*, and related amendments to PCAOB forms and the QC reporting rule (PCAOB Release No. 2026-002) ("Proposing Release"). I am a recently retired staff member at the PCAOB, with 12 years' experience in the Office of General Counsel, and I am in the process of establishing a consulting practice for small- to mid-sized registered audit firms (i.e., firms with less than 100 audit clients, including certain non-U.S. members of global networks) ("triennial firms").[1] I did not work on the substance of QC 1000 at any stage of its development while I was at the PCAOB. However, based on my extensive experience advising the Division of Registration and Inspections on issues related to firm inspections, compliance with PCAOB rules and audit standards, PCAOB and SEC independence requirements, and remediation of quality control deficiencies, as well as post-PCAOB discussions with triennial firms, I have some thoughts on how the proposed amendments to QC 1000 will impact many of these audit firms. I am submitting this letter on my own behalf, and I am not being compensated by, and do not currently have an engagement with, any client in connection with this comment letter.

For the most part, the proposed amendments should be helpful for triennial firms seeking to adapt to new quality control standards. The proposed amendments directly address areas of concern raised by triennial firms in response to QC 1000 in the form in which it was adopted,

[1] I will refer to these firms as "triennial firms," since, under the Sarbanes-Oxley Act, they are generally required to be inspected by the PCAOB on a triennial basis, as opposed to "annual firms," those with 100 or more audit clients, which are required to be inspected on an annual basis.

and the amendments should significantly reduce uncertainty and compliance costs in many respects. However, as discussed below, there are several instances in which the proposed amendments may create some new uncertainties, albeit much more limited in scope. Fortunately, these concerns can largely be met through staff guidance (particularly issuance of Spotlights[2] on early inspection observations) and/or very minor tweaks to the rule language.

Since my concerns with the proposed amendments are for the most part quite limited, and overall the proposed amendments seem constructive and clear, this letter will not try to itemize the aspects of the proposed amendments with which it agrees. Instead, this letter will focus on a few aspects of the proposed amendments that, from the perspective of triennial firms, may require further consideration or clarification by the Board. The discussion that follows is organized around certain of the specific requests for comments set out in the text of the Proposing Release.

The main points that I will expand on below are

1. As discussed in connection with Question 1 below, there seems to be a disconnect between the text of the proposed amendments and the economic analysis with regard to the rescission of the design-only requirement. This may create confusion for triennial firms as to whether the Board intends for some vestige of the "design-only" requirement to remain for firms that are not conducting PCAOB audits.
2. As discussed in connection with Question 3 below, it would be helpful if the staff issued one or more Spotlights in the early days after it has begun inspecting for compliance with QC 1000 to help firms, particularly smaller firms, understand any concerns that the Board has identified, as well as effective practices in designing, implementing and operating QC 1000 compliant systems that PCAOB inspection teams have observed.
3. As discussed in connection with Question 21 below, there is ambiguity as to how the evaluation date and the Form QC filing date set out in paragraph .77 operate together in some circumstances. It would be helpful to have additional guidance on what the Board and the staff expect in situations where a firm concludes on effectiveness as of the evaluation date, but subsequent testing prior to the filing of Form QC calls that conclusion into question. Specifically, a statement that the PCAOB will not consider it a QC deficiency for a firm to reverse its evaluation date conclusion on effectiveness based on subsequent testing results would help to avoid creating any perverse incentives for firms to avoid effective testing or to rationalize away adverse testing results.

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[2] "Spotlights" refers to staff publications about aggregated inspection observations issued under the authority of PCAOB Rule 4010. That rule provides, in pertinent part, that "the Board may, at any time, publish such summaries, compilations, or other general reports concerning the procedures, findings, and results of its various inspections as the Board deems appropriate. Such reports may include discussion of criticisms of, or potential defects in, quality control systems of any firm or firms that were the subject of a Board inspection," so long as firms as to which nonpublic quality control criticisms have been made are identified. Rule 4010 seems ideal for PCAOB dissemination of information about issues related to QC 1000 identified in staff inspections, and Spotlights, which many triennial firms look to for insights, seems like a logical means to transmit that information.

4. As discussed in connection with Questions 26 and 27 below, I support the suggestion of creating an option, at least for triennial firms, to make binary conclusions under Paragraph .77 as to the effectiveness of their QC systems. For a firm with a limited pool of PCAOB audit engagements and limited resources, it will likely be more challenging than for larger and more sophisticated firms to have to parse its monitoring and remediation activities for the nuanced distinctions made in Paragraph .77(b). Giving such a firm the option to simply choose whether its QC system is or is not effective in achieving the reasonable assurance objectives would be a much more viable approach for many such firms and may produce more useful information for the Board than asking them to navigate the subtleties of Paragraph .77(b).

This letter also notes some other areas of slight ambiguity in the proposal, all of which could be fixed with some minor technical drafting or additional guidance.

Comments on Specific Aspects of the Proposed Amendments

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

The rescission of the design-only requirement is appropriate for the reasons set out in the Proposing Release. I comment on this question only to point out what appears to be a disconnect between the language of the proposed amendment to QC 1000.06 and the economic analysis component of the Proposing Release.

While the text of .06 explicitly states that the design, implementation, and operation requirements of QC 1000 only apply at times when a firm "is required to comply with applicable professional and legal requirements with respect to any of the firm's engagements," the economic analysis begins with the premise that "QC 1000 applies to all [PCAOB-registered] firms" whether or not conducting PCAOB audit engagements, and the analysis includes data that seems to imply that there would continue to be a very substantial population of "design-only" firms. See Table 1 on p. 55 of the Proposing Release. The confusion deepens with the conflicting statement on page 61 of the economic analysis that "[t]he proposed amendments would rescind the requirement for design-only firms to design a QC system that complies with QC 1000." It is unclear how to reconcile these statements in the economic analysis with each other, or the Table on page 55 with the text of the proposed amendment to QC 1000.06.

Most likely this is simply a vestige mistakenly carried forward from the economic analysis of the prior version of QC 1000. However, if the Board or the staff has a view that under the amended QC 1000 there will continue to be some PCAOB-registered firms that will in some way be subject to a design requirement even if they do not conduct engagements under PCAOB standards, that view needs to be explained and reconciled with the plain text of the proposed amended Paragraph .06. If, as is likely, this is simply a mistake in the economic analysis, it would be helpful to correct this aspect of the economic analysis to avoid confusion.

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?

Retaining some form of design requirement for firms not conducting an audit engagement under PCAOB standards is inadvisable for the reasons set out in the Proposing Release. In addition to those reasons, another consideration is that there is likely to be significant variance between firms as to what design of a QC system entails. This variance makes a one-size-fits-all requirement impractical. However, while it may not be appropriate as a regulatory requirement, it certainly could be a good practice for firms to begin developing QC 1000-compliant systems when they anticipate becoming subject to the QC 1000 requirements. As the Board notes on page 14 of the Proposing Release,

> "such firms could still choose to design (and for that matter, implement and operate) a QC system that complies with QC 1000… if, for example, they are planning to bid for a PCAOB engagement, are taking on work on other firms' engagements that could potentially constitute a substantial role, or otherwise wanted to put themselves in a position to implement and operate a QC 1000-compliant system on short notice."

Encouraging, but not requiring, triennial firms to "jumpstart" design of a QC 1000-compliant system when they anticipate that they will become subject to QC 1000 in the near future seems like the right policy approach. To that end, it might be helpful if, with the benefit of early experience inspecting firms for compliance with QC 1000, the PCAOB made it a priority to issue a Spotlight on the experience of triennial firms that opted to begin designing, implementing or operating a QC 1000-compliant QC system in advance of accepting a PCAOB engagement or a substantial role in such an engagement, including effective practices that the inspection staff has observed. Even if not required, information about the experiences of firms in such situations could be beneficial to the compliance efforts of other triennial firms. In particular, a firm that is not subject to either ISQM-1 or SQMS-1 might find it very helpful to have insight into effective steps that similarly-situated firms have undertaken to prepare themselves for compliance with QC 1000.

Question 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?

The proposed amendments to these paragraphs should be especially helpful to triennial firms. The flexibility afforded seems appropriate regardless of firm size, although simply because of their size and increased resources larger firms are better positioned to cope with a more restrictive and specialized set of rules.

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

The proposed amendments to this paragraph are generally clear and seem appropriate. I have one very minor suggestion – the word "metric" is not defined or explained in the rule text.

The text of the Proposing Release helpfully clarifies that "metric" means a calculated measure, rather than underlying data. As a drafting point, it might be useful if the rule text captured that point. A smaller, less sophisticated firm might not know to consult the discussion in the Proposing Release for clarification of terms in the rule that are not entirely clear on their face.

Question 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?

The proposed amendments to this definition are also generally clear and appropriate. One minor suggestion is that the rule text might clarify that multiple other quality responses are not necessarily required. For example, the note to A.8(1) could add the words "one or more" before "other quality responses." It seems highly likely that, in situations where there is just one quality response, the Board did not mean to exclude taking that response into account, but neither the rule text nor the accompanying discussion in the Proposing Release make that entirely clear.

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?

The proposed evaluation framework in paragraphs .77 and .78 is generally clear and appropriate, with two exceptions. The first and more significant concern is that there is some ambiguity as to how the evaluation date and the Form QC filing date set out in paragraph .77 operate together in some circumstances. Paragraph .77 expressly provides that a firm must conclude on effectiveness by the evaluation date. However, it goes on to qualify this, noting that while "implementation must be completed as of the evaluation date[,]…testing and the determination of effectiveness must be completed no later than the date Form QC is due."[3]

It seems clear enough that the "[a]ssessment of whether actions are operating effectively may be supported by evidence obtained from testing after the evaluation date but before the Form QC filing date." Proposing Release at 36. It makes good sense to give firms right up until they file their Form QC to fully and properly test remedial action. The concern is simply how this latitude to test until the filing of Form QC sits with the language in Paragraph .77 that a firm "*must evaluate* the effectiveness of its QC system, based on the results of its monitoring and remediation activities, *and conclude, as of the evaluation date*" on its effectiveness (emphasis added).

What would this mean, for example, if a firm introduced, prior to the evaluation date, new software to address an identified QC deficiency, and concluded as of the evaluation date, that the software was operating effectively to remediate the deficiency, only to find, on the verge

[3] Paragraph .78 further explains that in reaching this conclusion on evaluation date the firm should take into account the severity and pervasiveness of all unremediated QC deficiencies. Paragraph .78 then lists the factors that the firm should consider in evaluating severity and pervasiveness. These factors include "[t]he effects of any remedial actions that have been implemented, tested, and found to be effective." Paragraph .78(h).

of its Form QC filing, that further testing had revealed shortcomings in the software's operation? Presumably the Board would **not** want the firm to stand by its effective date conclusion in its Form QC filing. However, the Proposing Release is silent as to the latitude of firms to change their conclusions from the effective date to the date that Form QC is filed. Might it constitute a new quality control deficiency if a firm has to reverse its evaluation date conclusion about effectiveness due to weaknesses that surface in subsequent testing? If so, might that create a troubling incentive for a firm to not test its remedial actions as vigorously as it should, or an incentive to explain away poor test results so that it does not have to reverse its effective date conclusion? Rather than inadvertently incentivizing firms to avoid vigorous testing and unflinching consideration of adverse testing results, it would be helpful to clarify that nothing in paragraphs .77 or .78 is intended to discourage a firm from changing its evaluation date conclusions in its Form QC filing in light of subsequent test results. This could simply be done by staff guidance that such a reversal of an evaluation date conclusion would not in itself give rise to a need for a firm to treat the reversal as a QC deficiency, and assurance that it would not give rise to a potential QC deficiency finding in Part II of a PCAOB inspection report.

A less significant point is that the word "component" as used in paragraph .78 is not defined or explained in the rule text. Page 39 of the accompanying discussion in the Proposing Release indicates that it means a component of a firm's quality control system. That presumably harkens back to QC 1000.03, which lays out "eight integrated components of a firm's QC system."[4] It is very likely that the term "component" in paragraph .78 means the integrated components set out in paragraph .03, but the connection between the two could be stronger with a cross-citation, or by using the term "integrated components" in both places.

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?

Question 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?

Responding briefly to questions 26 and 27 together, the option of a binary conclusion would be appropriate for many triennial firms. For a firm with a limited pool of PCAOB audit engagements and limited resources, it will likely be more challenging than for larger and more

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[4] These are: a. the firm's risk assessment process; b. governance and leadership; c. ethics and independence; d. acceptance and continuance of engagements; e. engagement performance; f. resources; g. information and communication; and h. the monitoring and remediation process. QC 1000.03

sophisticated firms to have to parse its QC system for the nuanced distinctions made in Paragraph .77(b) of systems that are

- effective, except for unremediated QC deficiencies that
    - have a "severe" effect on the operation of its QC system,
    - but that effect
        - is not "pervasive," and
        - does not "render the QC system not effective."

Candidly, it seems likely that smaller firms with limited resources will find interpreting and applying these variables a challenge, and they may as a consequence report results that are very inconsistent, either between firms, or year-by-year for each firm. Giving a triennial firm, or at least a firm on the smaller end of the spectrum, the option to simply choose whether to designate its QC system as effective or not effective in achieving the reasonable assurance objectives would be a much more viable approach for many such firms and may ultimately give the Board more useful information on Form QC. Of course, if a triennial firm prefers to forego a binary approach and remain subject to all three branches of Paragraph .77, it should also have that option.

The factors set out in Paragraph .78 seem just as appropriate for a binary as for a ternary approach, so it probably would not be necessary to change those factors to accommodate a binary approach.

Conclusion

It is commendable that the Board has engaged thoughtfully with the practical implementation concerns smaller firms have raised since QC 1000's adoption. The proposed amendments should advance the important goal of continual improvement in firms' quality control systems. While I urge the Board to address the limited concerns raised above, overall the proposed amendments should be very helpful, and I hope that the Board will adopt the amendments and that the SEC will approve them in short order.

I appreciate the opportunity to comment and would welcome the opportunity to discuss further any of the points above.

Respectfully submitted,

George R. Kramer

MaloneBailey, LLP

June 26, 2026

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

Re: PCAOB Release No. 2026-002 – Supplemental Request for Comment on Proposed Amendments to QC 1000 and Related Rules and Forms

Dear Board Members:

MaloneBailey, LLP appreciates the opportunity to comment on the PCAOB's Supplemental Request for Comment on potential amendments to certain provisions of QC 1000, related amendments to the QC reporting rule, and PCAOB forms, issued on June 9, 2026.

We are generally supportive of the proposed amendments, which we believe appropriately respond to stakeholder feedback by enhancing flexibility, reducing unnecessary complexity, and improving scalability, while maintaining the Board's investor protection objectives. We commend the PCAOB for reconsidering aspects of QC 1000 in light of implementation experience and for seeking to address areas where requirements may be more prescriptive or costly than necessary.

While we support the proposed changes, our comment relates to paragraph .34 of QC 1000, a provision not modified in this supplemental proposal, but which we believe raises similar concerns regarding cost, scalability, and proportionality, particularly for firms with profiles such as ours.

As a firm that serves a significant number of public company clients—primarily micro-cap and small-cap issuers—we believe our experience is directly relevant to the Board's stated objective of evaluating whether certain requirements impose costs that are not necessary to achieve regulatory goals.

Summary of Our Concern

We are concerned with the requirement in paragraph .34 of QC 1000 applicable to firms auditing more than 100 issuers, which requires processes to identify firm and personal relationships and track financial interests with restricted entities.

While we support the objective, we believe the requirement, as drafted, would result in disproportionate costs and implementation burden for firms like MaloneBailey that:

- Audit a relatively high volume of issuers, but
- Serve primarily less complex organizations with limited subsidiary structures, and
- Currently manage independence effectively through centralized spreadsheet-based processes

For firms operating in this environment, the proposal would likely require significant investment in systems and infrastructure, with limited incremental benefits to audit quality.

Comments

Disproportionate Burden for Micro- and Small-Cap Focused Firms

MaloneBailey's issuer client base generally exhibits low organizational complexity, enabling effective independence monitoring through controlled, manual processes. In light of the Board's acknowledgment that certain QC 1000 provisions may impose higher costs than necessary relative to their benefits, we believe paragraph .34 presents similar concerns for firms with comparable profiles.

Threshold Does Not Reflect Complexity

The "more than 100 issuers" threshold does not distinguish between firms auditing complex multinational entities and those auditing numerous smaller, less complex issuers. As reflected in stakeholder feedback cited by the Board, certain prescriptive requirements may increase cost and complexity without commensurate audit-quality benefit.

Suggested Approach

We respectfully recommend that the PCAOB consider the following:

- **Explicit Scalability -** Clarify that firms may design processes commensurate with their size, complexity, and risk, including permitting spreadsheet-based approaches where effective.
- **Refined Threshold or Qualitative Factors -** Incorporate considerations beyond issuer count, such as certain client market cap thresholds, organizational complexity, global footprint, and affiliate structure.

Conclusion

We support the PCAOB's efforts to refine QC 1000 and reduce unnecessary cost and complexity while maintaining audit quality. We believe that extending this same approach to paragraph .34 would further advance these objectives and better accommodate firms serving the micro- and small-cap market.

We appreciate your consideration of our comments and would be pleased to discuss further.

Sincerely,
MaloneBailey, LLP

Members of the Investor Advisory Group

Via Email

July 9, 2026

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

Reference: PCAOB Rulemaking Docket Matter No. 057, Supplemental Request for Comment: Proposed Amendments to QC 1000, A Firm's System of Quality Control, And Related Rule and Forms

Dear Secretary Brown and Members of the Public Company Accounting Oversight Board (PCAOB or Board):

The Members of the Investor Advisory Group (MIAG)[1] appreciate the opportunity to share our views regarding the PCAOB's "supplemental request for comment on potential amendments to certain provisions of QC 1000[[2]] and related amendments to the QC reporting rule and PCAOB forms" (Supplemental Request)[3] As we indicated in our May 2026 letter (MIAG May Letter) in response to the Board's request for public comment on the PCAOB's strategic plan,[4] "the MIAG believes that quality control is important, [but] assessing that quality should not take precedence over engagement-level inspection and reporting."[5] That said, the MIAG generally supports the Supplemental Request's targeted amendments to QC 1000 that reduce unnecessary implementation burden, and better align that standard with other quality management standards.

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[1] This letter represents the majority view of the Investor Advisory Group (IAG) that voted to submit this letter to the Public Company Accounting Oversight Board (PCAOB). One member of the IAG objected to some of the views contained in this letter and are free to express their alternative views to the PCAOB. This letter does not necessarily represent the views of any individual members, any member's employer or affiliated organization, or any other organization with which a member may be associated. IAG views are developed by the members of the group independent of the views of the PCAOB and its staff. For more information about the IAG, including a listing of the current members, their bios, and the IAG charter, see https://pcaobus.org/about/advisory-groups/investor-advisory-group.

[2] QC 1000, A Firm's System of Quality Control, PCAOB Release No. 2024-005 (May 13, 2024), https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket046/2024-005-qc1000.pdf?sfvrsn=355bf24_2.

[3] Supplemental Request for Comment: Proposed Amendments to QC 1000, A Firm's System of Quality Control, And Related Rule and Forms, PCAOB Release No. 2026-002 (June 9, 2026), https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket-057/2026-002-qc-src.pdf?sfvrsn=92c20332_2.

[4] Request for Public Comment, PCAOB Strategic Priorities, PCAOB No. 2026-001 (Mar. 31, 2026), https://assets.pcaobus.org/pcaob-dev/docs/default-source/about/administration/documents/strategic_plans/pcaob-no2026-001-rfc-sp.pdf?sfvrsn=b6ef3170_2.

[5] Letter from Members of the IAG to Phoebe W. Brown, Secretary, PCAOB, ***Reference: PCAOB No. 2026-001, Request for Public Comment – PCAOB Strategic Priorities*** 7 (May 13, 2026), https://assets.pcaobus.org/pcaob-dev/docs/default-source/about/administration/strategic-plan-comments-2026/28_miag.pdf?sfvrsn=6ab7d737_2.

The MIAG generally believes a clear and operational QC 1000 is in investors' long-term interests. At the same time, we believe that any changes to QC 1000 should preserve the core investor-protection objectives of the standard and maintain clear accountability for audit quality. With that as background, we provide the following responses to select questions posed by the Board in the Supplemental Request:

1. Is the proposed rescission of the design-only requirement appropriate? Why or why not?[6]

The MIAG supports the proposed rescission of the design-only requirement**.** A critical basis for our support is the PCAOB's conclusion that the "design only requirement . . . may impose costs on firms without commensurate benefits."[7] As we explained in our January 2023 letter (MIAG 2023 Letter) in response to "A Firm's System of Quality Control and Other Proposed Amendments to PCAOB Standards, Rules, and Forms, PCAOB Release No. 2022-006":[8]

> We . . . believe that it is not appropriate to require firms that have not and do not plan to perform engagements pursuant to PCAOB standards to design QC system in accordance with QC 1000. It would be desirable for them to do so, on the grounds that they may someday attempt audits under the PCAOB standards, but until they actually prepare to undertake such duties, it would possibly impose costs on firms that may never fall under PCAOB jurisdiction.[9]

In addition, we support the Board's decision to "maintain unchanged the obligation [in paragraph .06][10] to design, implement, and operate a QC system in compliance with QC 1000 when a firm is subject to applicable professional and legal requirements with respect to any of the firm's engagements[.]"[11] We believe the Board should clarify that this obligation requires that a firm must have an appropriately designed and operational QC system before accepting or commencing PCAOB audit work.

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?[12]

The MIAG believes that the proposed amendments to paragraph .12 are sufficiently clear and appropriate.[13] More specifically, we support the proposing amendment to paragraph .12 to allow flexibility in assigning the specified roles and responsibilities to any individual (whether firm personnel or an 'other participant'[14]), rather than limiting those roles to firm personnel."[15] A critical basis for our support is PCAOB's conclusion that "this proposed amendment would support audit quality in cases where the individuals most qualified to assume responsibility for certain roles may not be firm personnel."[16]

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[6] PCAOB Release No. 2026-002 at 15 (emphasis added).
[7] *Id.* at 13.
[8] A Firm's System of Quality Control and Other Proposed Amendments to PCAOB Standards, Rules, and Forms, PCAOB Release No. 2022-006 (Nov. 18, 2022), https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket046/2022-006-qc.pdf?sfvrsn=b89546e2_4.
[9] Letter from Members of the IAG to Office of Secretary, PCAOB, ***Reference: PCAOB No. 2022-06, Request for Public Comment – A Firm's System of Quality Control and Other Proposed Amendments to PCAOB Standards, Rules, And Forms*** 4 (Jan. 13, 2023), https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket046/4_iag.pdf?sfvrsn=1941e7c0_4.
[10] *See* PCAOB Release No. 2026-002 at A1-1 (proposed amendment to paragraph .06).
[11] *Id.* at 13.
[12] *Id.* at 20 (emphasis added).
[13] *See id. at* A1–1 & A1–2 (proposed amendments to paragraph .12).
[14] *Id.* at 68.
[15] *Id.* at 17.
[16] *Id.*

In addition, we support the proposed amendments to the Note to paragraph .12 to allow firms to divide responsibilities of a role among multiple individuals.[17] A critical basis for our support is the PCAOB's conclusion that "these proposed amendments would increase flexibility in assigning these roles, reducing the need for organizational changes that may not serve audit quality and broadening the pool of individuals with the appropriate experience, competence, and authority to perform specified roles."[18]

We wish to emphasize that flexibility should not trump accountability. We, therefore, respectfully request that any final standard require clear identification of who is ultimately responsible for the QC system and key areas such as ethics, independence, monitoring, remediation, and the annual QC evaluation.

We also respectfully request that the PCAOB encourage the firms to consider the firm's retirees for QC system roles because we believe that those individuals would provide valuable experience to the firm's quality control function.

8. Are there additional costs and benefits of the proposed removal of the EQCF requirement that should be considered?[19]

The MIAG strongly opposes the proposed removal of the requirement for larger PCAOB audit practices to have an External QC Function ("EQCF"). The stated basis for the recission is the PCAOB concern "that the benefits of the requirement may not justify the costs, except potentially for the largest U.S. global network firms."[20] We disagree. While we recognize the concerns about costs, liability, and implementation, we believe some form of independent challenge is vital to an effective EQCF.

It is our understanding that the requirement for larger PCAOB audit practices to have an EQCF would be applicable to only five accounting firms. If our understanding is correct, we believe that fact alone may be sufficient for the Board to reject the proposed removal of the EQCF requirement.

Moreover, we believe there are at least two potential flaws with the PCAOB's analysis of the costs and benefits of the EQCF requirement. First, the PCAOB may have understated the potential benefits of the EQCF requirements by failing to consider the impact of the ongoing trend of private equity investment in accounting firms.

In 2022, then Acting Chief Accountant of the Securities and Exchange Commission Paul Munter, observed that private equity investments in accounting firms "could create incentives that conflict with the auditor independence rules [and] [a]ccounting firms that enter into transactions with private equity firms should therefore proactively guard against any potential issues, including appearance issues, regarding the accounting firm's priorities and motives that could compromise its ethical responsibilities and compliance with independence requirements."[21] And just last month, George R. Botic, PCAOB Board Member, stated:

> Recently, we have seen significant evolution in the accounting profession impacting firms' systems of quality control. Examples include changing firm ownership structures [and]

[17] *See id.* at A1–2 (proposed amendments to Note of paragraph .12).
[18] *Id.* at 18.
[19] *Id.* at 23 (emphasis added).
[20] *Id.* at 22.
[21] Paul Munter, Acting Chief Accountant, Statement, Auditor Independence and Ethical Responsibilities: Critical Points to Consider When Contemplating an Audit Firm Restructuring (Aug. 29, 2022), https://www.sec.gov/newsroom/speeches-statements/munter-statement-auditor-independence-ethical-responsibilities-082922.

> expanding numbers of firm mergers and acquisitions . . .. These changes, in my view, underscore the need for the PCAOB to provide a robust quality control framework.[22]

We observe that since 2024 two of the larger PCAOB practices that would be within the scope of the EQCF requirement became recipients of capital from private equity firms.[23] And just days ago, two more of the 20 largest accounting firms that conduct public company audits (now 10 of the 20 largest) announced deals with private equity firms.[24]

We note that the MIAG May Letter requested that the Board prioritize "consideration of how private markets . . . impact the Board's initiatives . . . ."[25] In this circumstance, we believe the consideration of the risks of private equity investments on auditor independence, including the potential trade-offs between audit quality and commercial decisions, increases the benefits of the EQCF requirement.

Second, we believe the PCAOB may have overstated the potential costs of the EQCF requirement. While acknowledging the narrow responsibilities of an individual serving the EQCF,[26] the PCAOB estimated the costs by considering the compensation of a "non-employee director at S&P 500 public companies"[27] and the "remuneration for individual independent nonexecutives (INEs) under the U.K.'s audit firm governance rules."[28] We believe using either of those costs as benchmarks significantly overstates the costs of the EQCF.

10. Is there an alternative threshold that would be appropriate? If so, what is that threshold and why would it be appropriate?[29]

As indicated in response to question 8, the MIAG supports retaining the EQCF requirement at the current threshold. We, however, would not oppose an alternative threshold whereby the requirement would apply only for firms that issued audit reports to more than *200 issuers* during the prior calendar year. We believe

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[22] George R. Botic, Board Member, PCAOB Open Board Meeting: Inviting Broader Stakeholder Perspectives on Proposed Amendments to QC 1000, A Firm's System of Quality Control (June 9, 2026), https://pcaobus.org/news-events/speeches/speech-detail/inviting-broader-stakeholder-perspectives-on-proposed-amendments-to-qc-1000--a-firm-s-system-of-quality-control.

[23] *See* Mark Maurer, Grant Thornton Is Now the Biggest Accounting Firm to Get Private-Equity Backing, Wall Street J., Mar. 31, 2024, https://www.wsj.com/articles/grant-thornton-is-now-the-biggest-accounting-firm-to-get-private-equity-backing-f77243d5 ("The New Mountain-led group's investment constitutes a 60% stake in Grant Thornton's U.S. unit and centers on the nonaudit business, people familiar with the matter said [and] . . . the new majority owners will also have a contractual relationship with the audit business through a management services agreement between the two entities, the people said."); Courtney Vien, BDO Chose an ESOP As An Alternative to Private Equity Funding, CFO Brew, Mar. 20, 2025, https://www.cfobrew.com/stories/2025/03/20/bdo-chose-an-esop-as-an-alternative-to-private-equity-funding (The employee stock ownership plan was "financed with $1.3 billion in private credit from Apollo Global Management among others").

[24] Courtney Vien, 10 Of the Top 20 CPA Firms Are Backed by Private Equity, CFO Brew, June 26, 2026, https://www.cfobrew.com/stories/10-of-the-top-20-cpa-firms-are-backed-by-private-equity ("In recent weeks Crowe (No. 12) and Eide Bailly (No. 18) both announced deals with PE funds").

[25] Letter from Members of the IAG to Phoebe W. Brown, Secretary, PCAOB, ***Reference: PCAOB No. 2026-001, Request for Public Comment – PCAOB Strategic Priorities*** at 4.

[26] *See* PCAOB Release No. 2026-002 at 71 ("For example, directors at S&P 500 public companies are members of a board with broad responsibilities over the company while the EQCF is focused on significant judgments made and the related conclusions reached by the firm when evaluating and reporting on the effectiveness of its QC system.").

[27] *Id.*

[28] *Id.* at 69.

[29] *Id.* at 23 (emphasis added).

the relatively large revenue base from the issuer audits of these audit companies could more easily support the firm's alleged incremental cost of the EQCF requirement.[30]

13. Are the proposed amendments to paragraph .53e sufficiently clear and appropriate? If not, why not?[31]

The MIAG believes the proposed amendments to paragraph .53e are appropriate.[32] We, however, also believe that the PCAOB must clearly communicate to the firms that the intent of this provision is that the firms must "ensure that the explanation remains accurate and publicly available,"[33] including an accurate and publicly available explanation of any changes in the definitions or measurements of the metrics over time.

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?[34]

The MIAG supports allowing the firms to provide an explanation of the metrics on their websites. A critical basis for our support is the PCAOB's conclusion that "permitting a firm to make reference to a single publicly available explanation could reduce unnecessary duplication of disclosures [and] . . . providing a reference to where the explanation can be found in the same public written communication as the metric would preserve the importance of the explanation to the intended audience and their ability to easily access additional information if desired, and would not adversely impact the quality of information that firms make public about themselves."[35] That said, consistent with the recommendation in the MIAG May Letter that the PCAOB consider greater use of artificial intelligence (AI) "so that investors and members of the public might be able to [more easily access and] . . . valuable information" relevant to audit quality,[36] we believe the Board could and should use existing AI technology to scrape the metrics and related information from the each of the firms' websites or other public sources and provide on the PCAOB's website a publicly accessible report displaying all the firms' metrics in one place, preferably with interpretive context that allows investors to understand when there are substantive issues.

19. Is permitting firms to choose their own evaluation date to conclude on the effectiveness of the QC system appropriate? Why or why not?[37]

The MIAG does not oppose permitting firms to choose their own evaluation date to conclude on the effectiveness of the QC system. We note that the MIAG 2023 Letter states:

> We believe that November 30 is an appropriate evaluation date for firms to conclude on the effectiveness of the QC system. It blends in well with the time of year that most firms will become

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[30] *Cf. id*. at 22 ("We have considered retaining the EQCF requirement for only those firms that issue audit reports for more than 500 issuers in the prior calendar year [and] [w]e considered this approach because these firms currently audit companies that make up approximately 98% of U.S. public market capitalization, and they have a relatively large revenue base from issuer audits that could more easily support the incremental cost of an EQCF [and] [r]etaining the EQCF requirement for this population, therefore, may generate benefits to investors that justify the associated costs.") (footnote omitted).
[31] *Id.* at 26 (emphasis added).
[32] *See id.* at A1–5 (proposed amendments to .53e.).
[33] *Id.* at 25.
[34] *Id.* at 26 (emphasis added).
[35] *Id.* at 25.
[36] Letter from Members of the IAG to Phoebe W. Brown, Secretary, PCAOB, ***Reference: PCAOB No. 2026-001, Request for Public Comment – PCAOB Strategic Priorities*** at 12.
[37] PCAOB Release No. 2026-002 at 46 (emphasis added).

enmeshed in auditing duties. We would not recommend that firms be allowed to set their own reporting date.[38]

We have revised our view on this issue based the new information contained in the Supplemental Request. A critical basis for our revised view is the PCAOB's conclusion that "allowing each firm to select its evaluation date based on the particular facts and circumstances of the firm would be responsive to the implementation challenges experienced by some firms and, in particular, could reduce the burden and costs of multiple annual evaluations that some firms could have experienced due to having different required evaluation dates for their QC system under QC 1000 and other regulations to which they are subject [and] [i]t would also better align with the flexibility provided by other quality management standards, which permit firms to choose their own evaluation date."[39] Additionally, our view has changed because of the PCAOB's conclusion that they "*do not believe that allowing firms to select their own evaluation date would impair [their] . . . ability to carry out [their] . . . inspection program*."[40]

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?[41]

The MIAG does not support the alternative evaluation framework with a binary conclusion. We share the PCAOB's concerns that the binary approach "could reduce the rigor of the evaluation process and reduce the ability of the evaluation conclusion to convey meaningful information to the firm and the PCAOB about the nature and impact of identified QC deficiencies, particularly where QC deficiencies exist but do not rise to a level that would warrant an overall conclusion that the QC system is not effective."[42]

28. Are the proposed amendments to paragraph .84 sufficiently clear and appropriate? If not, why not?[43]

The MIAG believes the proposed amendments to paragraph .84 are sufficiently clear and appropriate.[44] We support simplifying communication and documentation requirements when they are unnecessarily burdensome, including allowing firms to retain QC documentation in source systems if it is readily retrievable.

A critical basis for our support for the proposed amendments are the PCAOB's conclusions that the amendments would address the firms' two concerns: (1) "regarding the need for new technology solutions to be implemented by the firm for the purpose of meeting QC 1000's documentation requirements because the revised requirement would make clear that documentation can continue to exist within the systems in which it originated or was used as long as it remains available for retrieval" and (2) "regarding data confidentiality such that documentation can continue to exist in the system of record without creating additional data transfer risks or the potential increase to the number of individuals with access rights to the data."

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[38] Letter from Members of the IAG to Office of Secretary, PCAOB, ***Reference: PCAOB No. 2022-06, Request for Public Comment – A Firm's System of Quality Control and Other Proposed Amendments to PCAOB Standards, Rules, And Forms*** at 6.
[39] PCAOB Release No. 2026-002 at 33-34.
[40] *Id.* at 34 (emphasis added).
[41] *Id.* at 47 (emphasis added).
[42] *Id.* at 43.
[43] *Id.* at 50 (emphasis added).
[44] *See id.* at A1–11 (proposed amendments to .84).

29. Is the proposed amendment to retain documentation for five years sufficiently clear and appropriate? If not, why not?[45]

The MIAG believes the proposed amendment to retain documentation for five years is sufficiently clear and appropriate. A critical basis for our support of the proposed amendment is the PCAOB's conclusion that "reducing the number of years that firms are required to retain QC documentation to five *would not adversely affect the PCAOB's ability to inspect, and would not otherwise have any impact on audit quality*."[46]

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.[47]

The MIAG generally agrees that the economic considerations fairly considered the potential impacts of the proposed amendments. We, however, believe the analysis could be improved by more "appropriately balancing the costs of [the proposed amendments] . . . with the [audit] quality investors expect"[48] by addressing the following potential economic impacts that do not appear to have been fully considered in the Supplemental Request:

- The potential economic impacts of private equity investments in determining the benefits of the EQCF (see response to question 8);
- The potential economic impacts of the higher compensation costs of non-employee directors at S&P 500 public companies, and the remuneration for INEs under the U.K.'s audit firm governance rules, as benchmarks in determining the costs of the EQCF (see response to question 8);
- The potential economic impacts of the cost reductions that may accrue following the initial implementation of the proposed amendments;
- The potential economic impacts of the proposed amendments on smaller issuers and emerging growth companies since those companies may rely especially heavily on the external audit given greater information asymmetry and less market coverage;
- The potential economic impacts of the proposed amendments on audit quality, firm capacity, inspection outcomes, and investor confidence; and
- The potential economic impacts of the costs to investors and the public of audit failures that could result from a more flexible system of quality control because of the proposed amendments.

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[45] *Id.* at 50.
[46] *Id.* (emphasis added).
[47] *Id.* at 82 (emphasis added).
[48] Mark A. Calabria, Board Member, PCAOB Open Board Meeting: Comment on Proposed Amendments to QC 1000 (June 9, 2026), https://pcaobus.org/news-events/speeches/speech-detail/advancing-audit-quality-through-balanced-regulation--statement-in-support-of-supplemental-request-for-comment-on-proposed-amendments-to-qc-1000.

Thank you for considering the comments of the MIAG, which represents the primary customers of audited financial reports. If you, any members of the Board, or your staff have questions or seek further elaboration of our views, please contact Amy McGarrity at mailto:amcgarrity@copera.org.

Sincerely,

Members of the Investor Advisory Group

Members of the Investor Advisory Group

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.

<u>Suggested Revision to Paragraph .78</u>

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.

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July 10, 2026

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
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Re: PCAOB Release No. 2026-002 – Proposed Amendments to QC 1000, *A Firm's System of Quality Control*, and Related Rules and Forms

Dear Office of the Secretary:

Plante & Moran, PLLC ("Plante Moran") appreciates the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB" or "Board") proposed amendments to QC 1000 and related rules and forms. We commend the Board for its continued efforts to respond to implementation feedback while preserving the objectives of a robust and effective quality control framework.

Overall, we support the proposed amendments. We believe the revisions appropriately enhance the operability and scalability of QC 1000 while maintaining a strong focus on audit quality and investor protection. The proposed changes also further align the PCAOB's quality control framework with existing quality management standards that many firms have already implemented, including the AICPA's SQMS standards and the IAASB's International Standards on Quality Management ("ISQMs"). This alignment should promote greater consistency in application and enable firms to focus resources on activities that most directly support quality outcomes.

Support for Removal of the External QC Function

We support the Board's proposal to eliminate the requirement for an External Quality Control Function ("EQCF"). Based on implementation efforts since adoption of QC 1000, it has become evident that the EQCF requirement presents operational challenges and costs that may not be proportionate to the incremental benefits achieved.

The quality objectives of QC 1000 can be effectively achieved through the governance, monitoring, remediation, and evaluation processes already embedded within firms' systems of quality control. Accordingly, we believe removal of the EQCF requirement appropriately streamlines the standard without diminishing the effectiveness of firms' quality management systems.

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Support for Amendments to the Monitoring and Remediation Process and the Evaluation Framework

We also support the proposed amendments to paragraphs .68a and .68d and the Board's revised evaluation framework. The amendments provide greater clarity regarding the evaluation of identified deficiencies and help ensure that assessments are focused on matters most relevant to the achievement of quality objectives.

We believe the proposed framework better reflects a risk-based approach that is consistent with how quality management systems are designed, implemented, and evaluated under other established quality standards. Specifically, the proposed amendment to the definition of a QC Deficiency, which allows firms to consider the effectiveness of other quality responses achieving the quality objective, is aligned with other quality standards and will support a more consistent evaluation.

Request for Additional Implementation Guidance

While we support the proposed amendments, we believe additional implementation guidance would promote consistency in application and help firms effectively operationalize the revised requirements.

Evaluation Framework

Additional guidance and illustrative examples would be beneficial regarding application of the evaluation framework, including:

- Considerations when assessing the severity and pervasiveness of identified deficiencies.
- The role of compensating controls and other mitigating factors in the evaluation process.
- Evaluation of deficiencies identified near or after the annual evaluation date.

Because the evaluation framework relies heavily on professional judgment, we believe practical examples laid out in implementation guidance from the PCAOB would support consistent application of the relevant standards across firms.

Documentation Requirements

While we support the reduction in the document retention period, a five-year period could continue to pose significant challenges and unintended costs to firms, particularly when firms may have technology changes and are required to maintain information in an obsolete system to meet the QC 1000 retention requirement. Because of this, we request further guidance regarding documentation expectations. Examples illustrating the nature and extent of documentation necessary to support key judgments, annual evaluations, and remediation decisions would provide greater clarity and improve consistency in regulatory expectations. Such guidance would be particularly helpful when considering documentation that supports the operation of the system of quality versus documentation that supports the annual evaluation of the system of quality.

Changes to the Evaluation Date

We appreciate the Board proposing an amendment permitting firms to select their own annual evaluation date. Flexibility in the evaluation date recognizes differences in firm structures, governance processes, and operational cycles and should enable firms to align their quality control evaluations with existing monitoring and reporting activities.

While we appreciate the Board's efforts to provide this flexibility, we encourage the Board to provide additional transition guidance for the initial implementation period. Many firms have already designed and implemented processes, monitoring activities, and documentation protocols around a September 30 evaluation date based on the original requirements of QC 1000. As a result, modifying those processes before the initial effective date may present practical challenges, particularly for smaller firms.

For example, if a firm elects to use a May 31 evaluation date, the firm would effectively be required to perform its first annual evaluation approximately four months earlier than contemplated under a system designed around a September 30 evaluation date. Given the December 15, 2026 implementation date of QC 1000, firms may have limited ability to redesign, test, and operationalize their monitoring processes in time to support an earlier evaluation cycle during the first year of implementation.

Accordingly, we encourage the Board to consider providing transition relief or implementation guidance addressing the first-year application of the evaluation date provisions. Additional guidance regarding the process and considerations for changing the annual evaluation date, whether it is after the first year or several years later in connection with mergers, acquisitions, organizational restructurings, or efforts to better align quality control evaluations with governance reporting cycles, would also promote consistency and reduce uncertainty in practice.

Conclusion

Plante Moran supports the proposed amendments to QC 1000. We believe the proposals appropriately respond to stakeholder feedback, enhance alignment with existing quality management standards, and improve the practicality of implementation while maintaining a strong focus on audit quality.

We appreciate the opportunity to provide our views and would welcome further dialogue with the Board regarding these matters.

Sincerely,

Plante & Moran, PLLC

Plante & Moran PLLC

pwc

July 9, 2026

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
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RE: PCAOB Rulemaking Docket No. 057, Supplemental Request for Comment: Proposed Amendments to QC 1000, A Firm's System of Quality Control, and Related Rule and Forms

Madam Secretary:

We[1] appreciate the ability to comment on the proposed amendments to QC 1000 included in the Supplemental Request for Comment (SRC). A strong and effective system of quality control (QC system) consistently underpins and helps drive audit quality—which is why our firm and the PwC global network more broadly have invested significantly in efforts to strengthen, modernize, and maintain our systems of quality management at the member firm level.

Overall views

We have supported the PCAOB's efforts to create a quality control framework that (1) facilitates international alignment, (2) is integrated, risk-based, and scalable for application by firms of all sizes, and (3) promotes accountability. Our **comment letter** on the PCAOB strategic priorities highlights the benefits of QC 1000 as the board considers modernizing its inspections program as well as the potential for achieving greater alignment with international standards in the future.

[1] Reference to "we" and "our" in this letter are to PricewaterhouseCoopers LLP, the US member firm of the PwC global network. References to the "PwC global network" are to the PwC network, which consists of firms that are separate legal entities. Firms in the PwC network are members in, or have other connections to, PricewaterhouseCoopers International Limited (PwCIL), an English private company limited by guarantee. PwCIL does not practice accountancy or provide services to clients. The PwC network is not one international partnership and PwC member firms are not otherwise legal partners with each other. A member firm cannot act as an agent of PwCIL or any other member firm, and cannot obligate PwCIL or any other member firm. Similarly, PwCIL cannot act as an agent of any member firm and cannot obligate any member firm. While this response has been developed by the US member firm, we have solicited feedback from other member firms within our network that are also subject to QC 1000 in order to inform our response.

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We commend the PCAOB for responding to feedback on the implementation of QC 1000 in such a comprehensive manner. The issuance of the SRC is a positive development in terms of the board's approach to standard setting, especially:

- How the board has articulated the need for targeted standard setting to ultimately achieve its objective in issuing QC 1000, including how the feedback received from the profession on implementation challenges has been considered

- The discussion in the *Economic Considerations* section of the SRC of alternatives considered in particular areas, the IAASB's rationale in finalizing ISQM 1,[2] and a more thorough analysis and acknowledgement of the potential costs of many of the requirements in QC 1000 about which stakeholders had raised concern (e.g., the "design-only" requirements and the external quality control function (EQCF))

The board's effort to issue the SRC demonstrates the continued relevance of both robust economic analysis and stakeholder engagement at all stages of a standard-setting project. Allowing stakeholders the opportunity to evaluate any final changes made as a result of comments on a proposal helps identify unintended consequences to the extent possible before significant implementation activities commence. The board's existing advisory group mechanisms[3] could be called upon to function in this manner. For example, they could receive a report back on the feedback received in response to a standard-setting proposal as well as how the board intends to respond to that feedback (including updated language in the standard) and could provide insights to inform the decisions made to consider and address prior feedback before its approval and issuance.

The proposed changes to QC 1000 will promote increased flexibility in designing and implementing a QC system tailored to a firm's facts and circumstances, which benefits quality.

The changes proposed to QC 1000 are necessary and appropriate to support its effective implementation—and the revised QC 1000 standard will continue to require firms to implement and maintain rigorous QC systems. Importantly, these changes do not diminish investor protection but rather enhance the focus and scalability of the standard, eliminate unnecessary burden and redundancies, and address certain unintended consequences identified after the standard was initially finalized. In addition, it is helpful that the PCAOB

[2] International Standard on Quality Management (ISQM) 1, **Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements,** issued by the International Auditing and Assurance Standards Board (IAASB)**.**
[3] See further descriptions of the **Investor Advisory Group** (IAG) and **Standards and Emerging Issues Advisory Group** (SEIAG), which to date have met semi-annually.

has asserted that the proposed changes would not impair its ability to carry out its inspection program.[4]

We support the approach in the SRC to consider areas where greater alignment with ISQM 1 would reduce the regulatory burden (e.g., allowing a firm to select an appropriate evaluation date and greater flexibility in filing specified roles in the QC system). Greater alignment with ISQM 1 and its AICPA equivalent[5] helps to further manage the costs of compliance with QC 1000 but does not undermine its objective or its effects on quality. For example, improvements have been made to the definitions and requirements in QC 1000 that address a firm's monitoring and remediation process and the interaction with its required evaluation of the effectiveness of the firm's QC system. The board's rationale about competing definitions (including the approach to defining a "QC deficiency"), timeliness, potential lack of clarity to stakeholders, and how the proposed changes are expected to be interpreted, is well articulated in the SRC.[6] Overall, these changes are more consistent with ISQM 1 and SQMS 1 and better balance the concepts of severe and pervasive deficiencies with the reasonable assurance objective of the QC system. This is also preferable to the alternative of a binary "effective / not effective" conclusion for the reasons cited by the board.

At the same time, we agree it continues to be important for the PCAOB to retain its ability to allow for differences in areas where alternative or incremental provisions better address the US legal and regulatory environment, the needs and priorities of its stakeholders, and the statutory mandate of protecting investors and the public interest. With these cumulative changes, the revised QC 1000 standard will strike an appropriate balance between (1) leveraging ISQM 1 and SQMS 1 and (2) allowing the PCAOB to supplement those requirements for firms conducting engagements in the US public company audit environment.

The SRC raises the question of whether certain of the proposed amendments (e.g., those related to assignment of roles and responsibilities, including operational responsibility for compliance with ethics and independence requirements) should be available only on a scaled basis to firms that are not annually inspected. As originally drafted, these requirements created different but equally relevant implementation challenges for larger firms—namely related to the different skills and knowledge that may be necessary to deal with these matters, as well as the potential volume given the size of the firm and its portfolio—and could have necessitated changes to existing operational structures. Therefore, we do not support limiting the proposed amendments to only certain firms.

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[4] See **Supplemental Request for Comment**, pages 34 and 78.
[5] Statement on Quality Management Standards (SQMS) 1, **A Firm's System of Quality Management**, issued by the AICPA's Auditing Standards Board (ASB).
[6] See **Supplemental Request for Comment**, pages 34–42.

We support changes to the documentation requirements, while acknowledging questions may continue to arise in relation to how these requirements are intended to be applied and the costs associated with them.

We agree with the changes proposed to the QC system documentation requirements, both reducing the retention period to five years and the clarification that the documentation should be retained "in a manner that permits timely retrieval." We believe that it is sufficient for firms to retain and archive, for a period of five years, the extent of documentation that was required for the firm to make its conclusion as to the effectiveness of its QC system.

However, questions about the nature and sufficiency of documentation required to be maintained for each instance of operation of each risk response are likely to continue to arise and should be addressed through the Office of the Chief Auditor's (OCA) Firm Consultation Process, with the potential for additional guidance to be made available as the PCAOB or its staff determines necessary. This may also be an area to be revisited in a future post-implementation review, informed by the PCAOB's inspection experience as to what documentation is necessary to be retained to support the execution of a modernized, QC-focused inspection program.

We support the removal of the requirement for a firm that does not perform PCAOB engagements to design and implement a QC 1000-compliant system.

Within our network, certain member firms would have been subject to the "design-only" requirements in QC as originally issued, which would have resulted in unnecessary costs of compliance without commensurate benefits. We support the PCAOB's approach in the SRC to eliminate the separate obligation for a firm not performing PCAOB engagements to design a QC 1000-compliant system. All registered firms in our network are already subject to ISQM 1, which provides a strong basis for transitioning to QC 1000 compliance if and when necessary (e.g., if the firm is asked to perform a substantial role on PCAOB engagements in the future).

Rescinding the requirement for certain firms to have an external quality control function (EQCF) is appropriate for the reasons the PCAOB describes.

Perspectives from independent third parties can add an important dimension of input to a firm's internal assessments and can benefit audit quality by enhancing a firm's governance and decision-making processes. We recognize the value of outside-in perspectives and advice and have proactively taken steps to gain such perspectives, which have evolved over time. Although we place great value on these mechanisms, we do not view them as directly serving as oversight of our QC system or otherwise being accretive in enabling us to obtain reasonable assurance that our QC system is operating effectively.

This view underpinned the concerns noted in our July 2024 **comment letter** to the SEC. The description of the EQCF and its specific responsibilities in QC 1000 as issued extended well beyond the responsibilities of the structures that were in place at the largest six firms and represented a significant shift from what was included in the proposing release. Such significant change after the proposal effectively deprived stakeholders of an opportunity for public input into the revised requirement. While the PCAOB's **comment letter** to the SEC following the board's adoption of QC 1000 helped to clarify the role of the EQCF, as noted in our September 2025 **comment letter** to the SEC, the role of the EQCF is not necessary to achieve the quality objectives of QC 1000—including the ability for a firm to evaluate and conclude on the effectiveness of its QC system. It is important for a firm to have flexibility to consider whether independent oversight is necessary and, if so, what is most appropriate based on the structure of the firm and where it operates. Accordingly, we are supportive of rescinding the EQCF requirement; it is not necessary for the PCAOB to pursue either a scaled requirement in QC 1000 or the requirement for an independent oversight function in the form initially proposed.

We appreciate the thorough discussion about the EQCF in the *Economic Considerations* section of the SRC, in particular the acknowledgement that any potential negative consequences of removing the requirement would be mitigated by the quality objectives that a firm is required to establish with respect to governance and leadership.[7] The need for any requirements or guidance in the future relating to external oversight could be considered as part of a post-implementation review as the PCAOB continues to observe how firms respond to their assessed quality risks.

* * * * *

In closing, we appreciate the PCAOB's efforts to consider implementation feedback and pursue targeted amendments to QC 1000 in response. We welcome the timely approval of these amendments as presented so that the planned effective date can remain intact. Ongoing engagement with stakeholders will continue to be necessary as QC 1000 becomes effective and firms move towards their annual evaluation of their QC systems and submissions of Form QC. We applaud the formation of the Inspection Modernization Council to help inform a future QC-based inspection program as well as the OCA Firm Consultation Process, as both mechanisms can support such engagement. Finally, we note the PCAOB's intent to monitor the implementation of QC 1000 through its oversight activities. We would support both a formal post-implementation review of QC 1000 and other informal mechanisms to share best practices and observations about the implementation of QC 1000.

[7] See **Supplemental Request for Comment**, page 69.

We would be pleased to discuss our observations and recommendations with the board or its staff. Please contact Brian Croteau (**brian.t.croteau@pwc.com**) regarding our submission.

Sincerely,

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July 9, 2026

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street NW
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Re: Proposed amendments to QC 1000, a firm's system of quality control, and related rule and forms, Docket Matter No. 057

Dear Office of the Secretary:

RSM US LLP (RSM, "we," "our") values the opportunity to offer our comments on the Public Company Accounting Oversight Board's (PCAOB or the Board) *Proposed amendments to QC 1000, a firm's system of quality control, and related rule and forms* (the proposal). RSM is the leading provider of assurance, tax and consulting services focused on the middle market, with nearly 18,000 professionals in 77 U.S. cities, six locations in Canada, one in El Salvador and four in India.

As we have written in our prior letters on QC 1000, we believe a firm's quality control system is the foundation for audit quality and appreciate that the standards provide a comprehensive framework and support the shift to a principles-based, risk-assessment-driven quality control design. Likewise, as we wrote in our July 16, 2024, and September 23, 2025, letters to the Securities and Exchange Commission, we are encouraged that the standard adopted many enhancements to promote audit quality and that the PCAOB continues to engage with and encourage dialogue from stakeholders to refine key initiatives.

Overall Comments on the Proposal

We support the PCAOB's continued efforts to refine QC 1000 and enhance the effectiveness of firms' systems of quality control. Overall, we believe the proposed amendments represent meaningful progress toward a more principles-based, risk-driven framework that better aligns with how firms design, implement and operate their systems of quality management in practice.

In particular, we are encouraged by the Board's efforts to increase alignment with other widely adopted standards, including ISQM 1. Greater convergence across frameworks reduces unnecessary complexity, minimizes duplicative effort and enables firms to focus resources on activities that most directly support audit quality rather than maintaining parallel systems to satisfy differing requirements.

We also support amendments that provide firms with increased flexibility to tailor their quality control systems to their size, structure and risk profile. Allowing firms to assign roles and responsibilities based on expertise, leverage their existing organizational structures and implement scalable approaches enhances both the effectiveness and efficiency of quality management systems without compromising audit quality.

At the same time, we believe certain aspects of the proposal would benefit from further clarification to ensure consistent application and avoid unintended consequences. We recommend that the PCAOB add additional interpretative guidance, such as FAQs and illustrative examples, to help facilitate clarity and understanding around the application of the new amendments. Additional guidance would be helpful in areas involving the evaluation of deficiencies and the timing and basis for concluding on the effectiveness

of the QC system. Without such clarity, firms may reach differing conclusions under similar circumstances, which could reduce comparability and create challenges in communication with stakeholders.

We also believe the proposal appropriately considers the cost-benefit tradeoffs associated with quality control requirements. Certain proposed changes—such as the removal of the external quality control function (EQCF) requirement and the elimination of duplicative or burdensome elements—have the potential to significantly reduce implementation and ongoing compliance costs with those resources alternatively being invested in maintaining and enhancing audit quality. Continued attention to these tradeoffs is critical to ensuring that requirements remain practical and do not unintentionally discourage participation or limit competition in the market.

Finally, we believe it is important that QC 1000 requirements are applied in a manner that is responsive to when firms actually undertake engagements subject to PCAOB standards. Imposing extensive requirements prior to the existence of an engagement that would trigger such requirements may create unnecessary cost and complexity without providing corresponding benefits to investors or other stakeholders.

We appreciate the opportunity to provide these comments and support the Board's ongoing engagement with stakeholders to further refine this important standard. We provide further detail on these areas, as well as other comments, in our responses to the specific questions set out below.

Comments on Specific Questions Posed by the Board

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

Yes, we support the proposed rescission of the design-only requirement. As we wrote in our September 2025 response, we do not believe that the design-only requirement is an appropriate mandate for registered firms that are not performing engagements in accordance with PCAOB standards. Further, as we noted in our July 2024 letter, we believe the design-only requirement is inconsistent with the text of the Sarbanes-Oxley Act of 2002 (SOX).

For example, if a firm does not have an engagement, there is no risk to the investors or public interest. However, once a firm obtains an engagement, it would be required to comply with QC 1000, which necessitates consideration during the proposal and client acceptance process to ensure readiness for implementation. In practice, registered firms would already maintain some form of system of quality management (SOQM) to support their PCAOB registration. If the design-only requirement is removed, firms would be more likely to remain registered and only deregister for unrelated reasons. By contrast, retaining the design-only requirement may create incentives for firms to deregister, thereby limiting competition. It also raises barriers to entry, as firms would need to design and implement a full QC system prior to registration with the potential of expending significant resources without a corresponding return on investment. Under the proposed amended approach, firms can remain registered and pursue opportunities, provided they appropriately plan for sufficient time to ensure compliance with QC 1000 before commencing work.

We support the proposed language added to paragraph .77 that would delay when a firm is first required to evaluate its QC system. Under this proposed amendment, a firm would be required to evaluate its QC system once the firm has been subject to the requirement to design, implement and operate a QC system under paragraph .06 for at least five consecutive months (whether due to the effectiveness of QC 1000 on December 15, 2026, or to the firm's later becoming subject to the requirements of QC 1000.06). We agree this new provision is necessary to ensure that firms are not required to perform an evaluation of the

QC system until the system has been operating long enough to provide sufficient information to support the evaluation.

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?

As we wrote in our May 15, 2026, letter, we believe further alignment with ISQM 1 will lay the foundation for changes to the inspection program to allow it to be strengthened by the firm's evaluation of its system of quality control. In addition, this further alignment will eliminate the cost associated with supporting two separate standards that are aligned in objective, but where the underlying requirements may not substantially align.

In practice, firms that are registered are required to maintain an SOQM under other standards, such as ISQM 1, which we believe provides an adequate framework to support audit quality for firms with up to a certain number of issuers so that there is not an "in and out" of a design-only requirement with a single issuer change. The primary benefit to a firm for retaining a design-only requirement is a shorter timeline for implementation once a firm obtains an engagement which would require compliance with QC 1000. When firms only have a few issuers, implementation costs still exist, especially where there is a divergence in the applicable standards. In our view, the limited benefit of a shorter implementation runway does not justify these costs. This may cause firms to choose not to propose, thereby limiting competition, so that they do not incur the cost of compliance with QC 1000 for a single or low number of engagements under PCAOB standards. For these reasons, we believe that the revised requirements are an improvement and allow firms to further invest in quality.

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?

We support requiring a QC design requirement that includes effective operation of an SOQM under relevant standards for the jurisdiction in which the firm operates, such as ISQM 1 or SQMS 1. However, we do not believe it should be required to comply with PCAOB standards until the firm undertakes an engagement that would require compliance with those standards, as there is no risk to investors or other stakeholders prior to that point. Requiring PCAOB compliance in advance of an engagement that would necessitate compliance with those standards would not achieve the intended objectives of QC 1000.

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?

We agree with the proposed amendments to paragraph .12. The revised wording is sufficiently clear that the responsibilities of the named roles may be divided among individuals, provided that the individuals understand their roles under the standard and that accountability has been appropriately defined by the firm. The proposed amendment is also clear that the individual is not required to be firm personnel.

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

We agree with the proposed conforming amendment to paragraphs .15-.17 and believe they are sufficiently clear. The revised wording appropriately conforms to the proposed amendments to paragraph .12.

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 appropriately align with how firms may structure these roles. The flexibility to assign responsibilities based on organizational structure and individuals' skillsets, rather than in a prescribed approach, enhances effectiveness, best positions the professionals with the specialized knowledge and experience, and avoids misalignment between responsibilities and expertise.

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?

The proposed amendments to paragraphs .12 and .15-.17 should apply to all firms, not scaled to a subset. Each firm is unique in their structure and may assign roles based on experience and knowledge of certain individuals as well as responsibilities and accountability for certain roles within the firm, which is not unique to only smaller firms.

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

As discussed in our 2024 letter to the SEC, we believe that there are significant challenges for firms with respect to structuring the EQCF role in adherence with the PCAOB's intent due to the financial and operational burden of compliance. We are concerned that the EQCF, as currently required, would not be able to perform their duties absent access to the firm's PCAOB Part II inspection findings and communications with PCAOB inspection teams. The SEC should consider whether SOX restrictions on public disclosure of Part II inspection findings and confidentiality of communications with inspection teams create complexities for effectuating the PCAOB's intention with respect to the EQCF's role. Overall, we do not believe that audit quality will suffer with the removal of the prescriptive EQCF requirement and those resources may be used to further enhance audit quality.

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 believe that the alternative approach retaining the EQCF requirement for firms with audit reports for more than 500 issuers is appropriate. This requirement limits a firm's flexibility to tailor their governance structure to respond to the identified quality risks that the EQCF requirement was intended to address. Further, firms may already have an oversight function that appropriately addresses related quality risks which would need to be restructured to meet the prescriptive requirements of an EQCF solely based on the number of issuers. As discussed in our response to Question 8, the additional cost to a firm to implement an ECQF may be significant and does not result in corresponding benefits to audit quality.

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

No, we do not propose an alternative threshold.

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 support the alternative approach of adopting the requirement for an independent oversight function in the form initially proposed. Firms are required to assess risk and design quality responses to appropriately mitigate the identified risk to achieving quality objectives, which includes ensuring that appropriate governance structures are in place. Firms should be able to exercise judgment, based on their risk assessment, as to the structure of the response, including the need for independent input in the governance process. Allowing firms the flexibility to design the response based on unique organizational structure, inherent risks and size will reduce unnecessary cost while not negatively impacting 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?

Many firms already use external providers to perform an independent oversight function; however, these approaches vary based on firm structure and size. Allowing firms to address the proposal's objectives through their own frameworks is appropriate, as it enables a response tailored to each firm's risks and organizational structure without introducing unnecessary cost or requiring the revision of effective existing practices.

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

We appreciate the proposed revisions in paragraph .53e to clarify and narrow the scope of the requirements to only those metrics which are calculated measures and made publicly available. We believe that it would be helpful to further clarify in the final release or through the release of interpretive guidance whether the requirement applies only to those communications required under pplicable professional and legal requirements or all such metrics publicly disclosed. This clarification would assist in consistent application of this requirement across the profession. We also believe that it would be helpful to clarify in the final release or through the release of interpretive guidance whether all changes to the calculation of disclosed metrics to which this requirement applies must be explained or whether this requirement applies only to material changes in the calculation of the disclosed metrics.

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 do not believe allowing firms to provide explanations of firm metrics on their websites would negatively impact users' access to or ability to understand the metrics. The proposed approach instead promotes consistency and usability, particularly where metrics are presented across multiple documents or disclosures. Centralizing the explanations reduces repetition and enables users to more easily identify when a metric is defined consistently across disclosures, rather than requiring them to compare for alignment.

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

The ability to consider compensating controls in evaluating whether a deficiency exists is helpful and more closely aligns with current standards. However, the wording should be aligned, or supplemented

with clarifying interpretations or guidance, to ensure consistent application. Absent alignment, differing conclusions for the same exception across standards could create communication and transparency challenges.

We request additional clarification regarding the proposal "to limit the requirement to evaluate whether similar engagement deficiencies exist so it applies only with respect to those engagement deficiencies that result or **could result in**…" (emphasis added). Specifically, it is unclear whether "could" should be assessed at the individual engagement level or at a broader, thematic level. As currently written, it does not clearly indicate whether a single potential significant engagement deficiency necessitates evaluation under paragraph .68d, or whether such an evaluation is intended only when a theme or trend begins to emerge. In cases involving isolated incidences, the root cause may not be relevant to other engagements, and expanding the evaluation may not be appropriate.

Another point is the example of the cash confirmation procedures added to paragraph .68d. As described in the example, cash is not a significant account and therefore cash confirmation procedures would not be required. As such, confirmation procedures would not be required for a non-significant account and therefore it is unclear what resulted in the determination that there was a significant engagement deficiency. Accordingly, the example does not illustrate a meaningful or realistic scenario and does not appear to support the intended objective of evaluating similar engagement deficiencies.

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 to .68d could reduce the complexity, subjectivity and costs associated with evaluating engagement deficiencies slightly; however, we feel that the example given in Question 15 about the cash confirmation procedures creates confusion.

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 support allowing the evaluation of compensating controls and believe this is an appropriate addition to QC 1000. However, it is unclear how this concept will work in practice. For example, where a quality risk has a single response that fails, it is unclear whether firms may consider other responses that mitigate other identified risks to support achievement of the overall objective. There may be responses where a precision level is too high to singularly address a specific risk on their own, but when considered collectively, may reduce the risk of failing to achieve the objective to an acceptable level. As currently worded, it may still meet the definition of a deficiency—even if it doesn't fully address the specific risk—but that risk alone may be lowered enough that it would not prevent achievement of the objective unless there were also other quality risks to that objective.

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 the QC system is very appropriate. For RSM, this flexibility allows us to retain our existing ISQM 1 evaluation date, which better aligns with our monitoring cycle. Because inspection cadence changes during various periods, this allows us to complete our monitoring efforts and have time to evaluate thematic quality events, assess SOQM impacts and implement remediation by our annual evaluation date. Further, there are often annual processes which may occur around a firm's fiscal year end, which does not align with a specified annual evaluation date. For example, there are often mandatory training, annual compliance

and governance activities that may occur sufficiently close to a prescribed evaluation date that the current instances of the response may not have fully operated in the current period as the process spans the September 30 prescribed date. In addition, any deficiencies identified in the design, implementation or operation of the control would not have sufficient time to perform root cause procedures, design and implement remediation and test for operating effectiveness of the response prior to the prescribed evaluation date. Permitting firms to determine their own evaluation date allows firms to align their selected date with the timing of business process that support the identified quality responses in their system of quality management.

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?

Regarding the five-month timeline, this does not impact RSM since our annual date aligns with the QC 1000 effective date. However, we request clarification on certain aspects of the proposed wording in paragraphs .77 as detailed below.

First, in subparagraph .77a, the phrase, "as of the *evaluation date*" is unclear. It is not evident whether these words are intended to establish an "as of" the evaluation date similar to a company's ICFR evaluation. Since the SOQM operates on a continuous basis, clarification is needed on whether a deficiency that existed for most of the year, but was remediated by the evaluation date, would still be considered in evaluating the effectiveness of the system for that year.

Regarding the modification to the note to Paragraph .77, we are asking for clarification of the phrase "may be supported by evidence obtained from testing after the evaluation date." It is unclear whether this refers to testing of instances that occurred prior to the evaluation date, or whether the related response activities may occur after the evaluation date. For example, where a response is designed and implemented and operates once as of the evaluation date but requires two instances of operation to conclude that remediation is effective, it is unclear whether a subsequent instance occurring after the evaluation date but prior to the filing of Form QC would satisfy this requirement.

This approach may create challenges for responses that operate less frequently or sufficiently close to the evaluation date. Because Form QC must be filed within 60 days of the evaluation date, firms may have only one instance of operation available for testing, which may be insufficient under existing methodologies to conclude that remediation is effective. In addition, ISQM 1 allows for conclusions based on design and implementation only, without requiring testing of operating effectiveness, which could result in differences in the determination of whether remediation has occurred across standards solely due to differences in the wording in the standards and not as a result of the design and implementation of responses to appropriately mitigate quality risks and achieve quality objectives.

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

Yes, the proposed removal of "major QC deficiency" from QC 1000 is appropriate as it is helpful to align with other applicable standards and reduces the additional complexity associated with evaluating deficiencies to determine whether a deficiency should be classified as a deficiency or a major QC deficiency, a term which only exists in QC 1000.

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?

The current framework for evaluating the conclusion related to QC system effectiveness provides for an appropriate range of potential conclusions and reflects the complexity of determining effectiveness of an overall system of quality management. However, as noted in our response to Questions 15-18 above, it is important that the terminology in the evaluation of deficiencies is consistent among differing quality management standards and that the evaluation framework is aligned. Reaching different conclusions due to variations in terminology or the framework in the standards may create confusion to users and introduce unnecessary complexity for firms, which would need to reconcile and explain the differences in the conclusions around effectiveness of their system of quality management between standards, particularly when the difference is due solely to the differing framework and not the underlying design or implementation of the system of quality management.

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

While we do not object to the proposed amendments to paragraph .84, these proposed amendments do not address a key issue related to real-time systems, particularly the requirement to retain documentation "in a manner that permits timely retrieval" by the QC documentation date. Real-time systems may not allow reconstruction of information back to a specific point in time unless versions are archived or captured (e.g., via screenshots). In addition, paragraph .84 does not clarify whether firms are required to retain evidence of every instance of every response, or just those instances that were tested to support the firm's QC system evaluation. Retaining documentation for all instances of a response's operation would impose significant storage burdens.

Further, while the reduction in required document retention from seven years to five years is helpful in reducing the storage burden, there are still significant costs associated with retaining the required data, as currently described, for this period. Further, with the pace of change in technology, many solutions may be outdated or superseded in a shorter period than five years, requiring firms to continue to maintain outdated systems or incur costs to archive the information in those systems simply to meet the five-year documentation requirement prescribed in the QC 1000 proposed amendments. We recommend interpretive guidance be published that clarifies the nature and extent of documentation that is required to be retained for the proposed five-year period. Clarifying the documentation required to be retained may reduce the likelihood that systems may be significantly altered or replaced during the required document retention period and reduce the cost burden for data storage.

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

Please see our response to Question 28.

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 do not object to the proposed amendment to require a firm to disclose which quality management standard(s) its QC policies are based on when applying for registration. This disclosure may provide useful information regarding compliance with existing quality management standards and further support the objective of ensuring audit quality while removing the design-only requirement, as proposed.

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.

Firms have already incurred significant design and implementations costs to comply with QC 1000 requirements, including expanded documentation to ensure quality risks and responses are sufficiently precise. We also anticipate significant continued ongoing costs related to maintaining this documentation, particularly where duplicate evaluations are needed (e.g., deficiency evaluation) or where differing conclusions must be reconciled. The incremental cost of applying QC 1000 will negatively impact audit fees to the extent that they are not offset by expected benefits that may be received through changes in the inspection process.

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.

We expect the proposed amendments to reduce the overall cost of designing, implementing and operating a QC 1000-compliant system compared to the initial proposal, primarily due to the elimination of EQCF requirement, reduction of the document retention period from seven to five years, and simplification of the evaluation of deficiencies along with deficiency impact on the overall evaluation of the system of quality management. For RSM, the ability to select our annual evaluation date is a welcome modification, as the originally proposed date of September 30 does not align with our business cycle, including monitoring and remediation processes. Requiring multiple annual processes was putting undue pressure on completing our assessment of design, implementation and operating effectiveness by September 30, as well as meeting the subsequent Form QC filing deadline 61 days later.

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We would be pleased to respond to any questions the PCAOB or its staff may have about our comments. Please direct any questions to Allison Eidinger, Quality Management Partner, National Professional Standards Group, at 206.341.8075.

Sincerely,

RSM US LLP

RSM US LLP

Secretary Phoebe W. Brown July 6, 2026

Office of the Secretary

P.C.A.O.B..

1666 K Street, NW

Washington, DC 20006-2803

Dear P.C.A.O.B. Secretary Phoebe W. Brown :

This commenter alone considers it to be a great privilege to review the text of P.C.A.O.B. Release No. 2026-002, PCAOB Rulemaking Docket Matter No. 057, "SUPPLEMENTAL REQUEST FOR COMMENT: PROPOSED AMENDMENTS TO QC 1000, A FIRM'S SYSTEM OF QUALITY CONTROL, AND RELATED RULE AND FORMS", and to provide feedback thereon despite the risks involved that include possible misperceptions and misreadings, though in these matters it appears risks are mitigated by a careful and concerned review of the QC1000 narrative. The audit profession at one time was self – regulated and it is a nonetheless unfortunate commentary that progress in the audit profession today encompasses significant, detailed and laborious compliance requirements. This is perceived as primary because the risks of misstatements in financial disclosures due to deliberate omissions and fraud, even, are ever more present today than in the epoque of self – regulation. Audit quality some time ago was driven by compliance check sheets, many times filled out in the engagement planning phase and preliminary stages of fieldwork. This was because the audit methodology of the day was based upon integrities and honesty driven by principles such as matching, fair presentation, timeliness, and so on. In the world of computers at the present time, though computing is exact in most respects, evidential matter that is valuable to proper disclosures can be manipulated without changes being detected, and perhaps for this reason alone, regardless of the lack of integrity that invites such things, QC1000 has been developed and has appeared.

Is the current QC1000 framework a paradigm of over – regulation? Some might interpret it as such, though again in the age of computing the general and application controls that govern financial systems, while many times they parallel accounting controls, do not always correlate with the function of these accounting controls, especially with the ease at times of overrides. This consideration alone attributes great value to the QC1000 and related systemic developments. Additionally, with the advent of artificial intelligence as a bona fide business tool and functionality that will add to auditing precision and augment audit quality, the QC1000 framework proposes great possibilities and potential to vastly increase audit quality in the future. Consider the relationship between QC1000 and artificial intelligence as an additional assurance of audit quality of greater and greater performance and precision. While design and implementation of the QC1000 framework might be onerous in character and in development for some, it presents great promise for the future of auditing and with the potential for additional audit quality methodology, audit program, audit process innovation and development.

Comments on "SUPPLEMENTAL REQUEST FOR COMMENT: PROPOSED AMENDMENTS TO QC 1000, A FIRM'S SYSTEM OF QUALITY CONTROL, AND RELATED RULE AND FORMS" are as follows. Significant effort has been made to properly review the request for comment, and then to respond coherently to the questions. Numbered question stems are followed by the answers to questions starting with an "Answer" prompt at the beginning of the answer narrative in responses.

Questions :

1. Is the proposed rescission of the design-only requirement appropriate? Why or why not? Answer : Recission of the design – only requirement as proposed appears to affect firms that are registered but that do not perform, nor do these firms plan to perform engagements under P.C.A.O.B. standards, nor under related quality standards such as the ISQM and SQMS that QC1000 attempts to integrate. Firms that design, implement and operate a viable quality control system should be subject to the provisions of QC 1000 and at the same time need to be actually required to comply with applicable professional and legal requirements (APLR.) That firms that are registered and that do not conduct audits does not signify, necessarily, the need for an exemption from standard best practices or audit quality requirements. These same

firms, however, as registered with the Board, should be subject to QC1000 provisions on the level of preparedness, or some related quality control regime that parallels QC1000 in its design, implementation and operation.

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? Answer : In the event the QC1000 design – only requirement is part of a preparedness utility, program, or process under P.C.A.O.B. authority, retaining the design – only requirement does present a benefit that enables QC1000 functionality for firms that do not prepare and certify audit reports (that do not perform engagements.) P.C.A.O.B. registered firms under the circumstances should be required to comply at least with QC1000 on this level. Preparedness for design, implementation and operation of a firm's quality control system could encompass documentation, even documentation under self – regulated standards and principles; and certification that the registered firm not performing issuer engagements is at the ready with a quality control program that integrates, at least in outline form, the components of the QC system, adherence to the PCAOB audit quality control methodology and its quality control system processes.

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? Answer : Registered firms that are not required to perform engagements and that are not subject to APLR, should nonetheless have a preparedness requirement invited by any event that subjects these firms to APLR in connection with an engagement. If the preparedness requirements include provisions for audit quality (QC1000) control design, and then implementation and operation depending upon facts and circumstances, this dovetails with a principle of the benefits in parallel with the burdens of P.C.A.O.B. registration. Also, preparedness functionality for registered firms not performing engagements should include documented acknowledgement and recognition of the QC1000 process starting with establishing quality objectives, identifying and assessing quality risks (especially), designing and implementing quality responses, and monitoring and remediation.

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? Answer : The proposed amendments to paragraph .12, to allow (a) the specified roles, responsibilities and accountability to be assigned to individuals who are not firm personnel and (b) firms to divide responsibilities of a role among multiple individuals are sufficiently clear and appropriate. Implementation and operation of QC1000 in this way should avoid separation of duties, independence and objectivity conflicts and should also respect the principle that adherence of personnel, no matter their role involving responsibility and accountability for example, to the standards of fieldwork (planning and supervision; obtaining sufficient, appropriate audit evidence; and the preparation of documentation) should also facilitate conformity with QC1000 provisions.

5. Are the proposed conforming amendments to paragraphs .15-.17 sufficiently clear? If not, why not? Answer : The proposed conforming amendments to paragraphs .15 - .17 are sufficiently clear in formalizing provisions having to do with operational responsibility and accountability for the QC system, compliance and ethics, and monitoring and remediation that involve the scope of audit assignments under QC1000. These provisions encompassing supervision, design, implementation and operation of the QC system and provisions of QC1000 such as evaluation, communication and certification as well as other policies and procedures related to monitoring and remediation are illustrated in consideration of independence and objectivity as well as quality control objectives.

6. Would the proposed amendments to paragraphs .12 and .15-.17 support audit quality? Why or why not? Answer : The roles and responsibilities provisions discussed allow for valued audit and work experience and expertise (experience, competence, authority, and time necessary to enable them to carry out the responsibilities assigned), and thereby in principle necessary and tangible support of QC1000 audit quality. In this context, while audit experience and expertise are necessary to fulfill requirements for roles, responsibilities and accountability, one should avoid the conflict in the engagement environment (metaphorically) of “too many chiefs and not enough Indians.”

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? Answer : This commenter does not believe the proposed amendments to paragraphs .12 and .15 - .17 should be available or implemented on a scaled or tiered basis. All registered firms should be subject to these provisions. Whether or not these provisions should have a tiered structure according to firm size or the number of issuer audit reports prepared should be ultimately left to the discretion of the Board, however.

8. Are there additional costs and benefits of the proposed removal of the EQCF requirement that should be considered? Answer : There do not appear to be additional costs and benefits of the proposed removal of the EQCF requirement that should be considered. Discretion of the Board with respect to the removal of EQCF from QC1000 requirements is important considering that in removing the EQCF requirement the Board abates a level of assurance with respect to internal processes and audit quality in audit firms.

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? Answer : The assignment of the EQCF function to a single individual, or more than one person exercising judgment over the QC system adds another area of responsibility to quality assurance in firms' audit practices insofar as reviewing the firm's quality control system and operation, ensuring compliance with QC1000 provisions, and providing oversight to enhance accountability and auditing performance as part of the integrated QC1000 component structure. EQCF, as a measure to improve audit quality and audit processes internal to the firm with an emphasis on minimizing audit risk and strengthening audit quality, presents another reasonable assurance function that is in some ways beneficial, but expensive, redundant and overreaching, and unnecessary, though this should be left to the discretion of the Board.

10. Is there an alternative threshold that would be appropriate? If so, what is that threshold and why would it be appropriate? Answer : It cannot be readily determined if there is an alternative threshold that would be appropriate for implementa-

tion of the EQCF given the overall utility of the EQCF and the expenses involved, including the expense of allocation of, or re - allocating personnel to reviewing and evaluating the firm's QC system and compliance with QC 1000, in addition to its oversight and accountability functions and so on. It does appear the EQCF in its implementation is a proxy for official legal - administrative regulation and oversight, and this is perhaps not constructive with respect to the audit environment and represents institutional paternalism that is perhaps against the purposes of better and innovative audit quality methodology and process in this area of endeavor.

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? Answer : The effect or impact of the alternative approach of adopting the requirement for an independent oversight function in the form initially proposed in which there is governance for audit firms of more than 100 issuers cannot really be determined. The purpose of such oversight invites additional uncertainties – economic and human capital costs, costs of allocating or relocating personnel, the marginal costs of additional assurance of this function, office and engagement politics, independence challenges, and more – and the additional oversight within the framework of assurance certainties of larger firms appears unnecessary and un - constructive given the proper and practical expediency often needed in the audit process. Such expediency integrates, in a structured and consistent, complete way different timeliness considerations, competence considerations, reasonable assurance in the production of audit work, relevance and reliability of what in this case are innovative and more precise methodologies and processes.

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? Answer : It is possible, though not absolutely certain, that functions such as shareholder activism and stakeholder interests in addition of course to self – regulation, that the independent oversight function within the context and environment of the audit quality subject matter is largely moot, and represents, if implemented, another level of compliance and economic costs that are unnecessary and perhaps entirely specious. The principle of increasing audit quality by increasing official audit oversight under the circumstances only represents another way to apply unwarranted legal – administrative pressure on audit firms. This also results in an almost real - time challenge to audit firms' competence, and evaluative - judgment

faculties concerning audit issues, and for audit firms opens up a dialogue of compliance requirements in addition to QC system implementation costs, etc., that given the constraints involved as well as potential atomization in auditor examinations that is beyond the scope of most all audit practice.

13. Are the proposed amendments to paragraph .53e sufficiently clear and appropriate? If not, why not? Answer : The proposed amendments to paragraph . 53e are sufficiently clear and appropriate under the conditions by which the Board wishes to distinguish between, mention, "inside" stakeholders who either know or have information as to the nature and process of metrics computations, and "outside" stakeholders who must be provided information as to the nature and process of audit metrics computations that are communicated. This is to be avoided.

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? Answer : While publishing an explanation of metrics computations on a web site is not overall adverse to the utility of metrics that are constructive and intended to be made public, it is possible given audit requirements applying to public web site information that the web content would have to be certified or somehow verified and validated. There is uncertainty as to the motivations behind this question as web sites change, and publishing metrics disclosures information on a web site that is vital to the quality of the audit and to financial statement disclosures apart from the actual, material disclosure document(s) might distort first the significance or importance of the disclosures and then raises the issue of whether or not the information published on the web is part of the metrics disclosures in the audit report in a legal sense. These items and related issues should be determined before allowing the policy of publishing metrics information that should be accessible to legitimate stakeholders, yes, but also possibly misused by web - savvy actors finding such information and then attacking it.

15. Are the proposed amendments to paragraphs .68a and .68d sufficiently clear and appropriate? Why or why not? Answer : The proposed amendments to paragraphs .68a and .68d are sufficiently clear and appropriate. In reviewing the proposed amendments to paragraph .68a, relating to deficiencies before the publication of the engagement report, the material nature of "free of significant engagement de-

ficiencies" allows for greater scope and a greater level of assurance apart from that originally attributed to the engagement end work product. Paragraph .68d refers to possible insufficiency of processes and procedures as performed, and secondly refers to uncanny or inappropriate conclusions about the audit evidence by the engagement team. Both of these modifications allow for additional assurance concerning evident and material audit deficiencies, and distortions or mistakes in judgment by the engagement team as addressed through quality remedial responses.

16. What, if any, additional direction is needed regarding paragraph .68d? Answer : Whether audit deficiencies are determined given insufficiencies or failures in obtaining audit evidence, and then determined separately or in parallel given mistakes or uncanny, inappropriate conclusions about audit evidence, the engagement team must carry out remedial activities starting with monitoring and reviewing audit evidence obtained, monitoring and reviewing the engagement environment, and other factors. Limiting the requirement to evaluate deficiencies based upon the provisions of paragraph .68d with a primary emphasis on work that was not performed to support the conclusions of the audit and applying a practical remedial (corrective) action that is effective and according to a proper risk – based approach is entirely appropriate in engagements before the audit report is issued and before engagement quality review.

17. Would the proposed amendments to .68d reduce the complexity, subjectivity, or costs associated with evaluating engagement deficiencies across other engagements? Please explain. Answer : The proposed amendments to .68d reduce the complexity, subjectivity and costs associated with evaluating engagement deficiencies across other engagements as the approach of the proposed amendments has to do with an emphasis upon remedial (corrective) action and current and other engagements of the firm. Any findings of deficiencies that would then invite the provisions of paragraphs .68a through .68c.

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? Answer : See the response to question 17 in this writing; and the proposed amendments to the definition of a QC deficiency to take into account other quality responses (e.g., compensating responses) that are appropriate and clear insofar as the deficiency definition is amended as a QC deficiency in evidence only when

(other quality responses have been implemented to address the same risk, and) "other quality responses do not achieve the relevant objectives."

19. Is permitting firms to choose their own evaluation date to conclude on the effectiveness of the QC system appropriate? Why or why not? Answer : Permitting firms to choose their own evaluation date to conclude on the effectiveness of the QC system seems appropriate in allowing flexibility to firms that required a different evaluation date other than September 30, either for firm – specific reasons, reasons involving the audit environment or industry or economic sector reasons that have an effect upon compliance deadlines. The choice of one's own evaluation date also possibly saves regulators from a glut of reports and forms as submitted on or about November 30 of each year.

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? Answer : The Board has undoubtedly studied this subject matter in allocating five months 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. Five months does seem reasonable in the circumstances, though it has not been readily disclosed why the Board has chosen a five month preliminary period, indicating some possibly arbitrariness in this selection of the amount of time for the firm's QC system to operate before the evaluation date. Given the possible arbitrariness of the selection of time period for QC1000 operation before evaluation is possible, why not allow six months or 180 days as the preliminary period requirement with respect to the firm evaluating its QC system for the first time?

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? Answer : The proposed evaluation framework for concluding on the effectiveness of a firm's QC system, including the three proposed conclusions in paragraph .77 are sufficiently clear and appropriate given the strict requirements for the continuous, iterative audit quality control process and the changes in the firm's audit risks, engagements and operations. One might mention in response to this question that mentions the three conclusions of

paragraph .77 that the seriousness, severity and pervasiveness of audit quality deficiencies are not of the same scope, nor are they of the same scale for all firms.

22. Are the factors to evaluate the severity and pervasiveness of unremediated QC deficiencies sufficiently clear and appropriate? Why or why not? Answer : The factors cited in paragraph .78a-h to evaluate the seriousness, severity and pervasiveness of un – remediated QC deficiencies in reaching the evaluation conclusion under paragraph .77 are appropriate in consideration of each QC deficiency individually or in combination, and considering both qualitative and quantitative implications. These factors appear to specifically and broadly (as well) address the ability of the audit firm to achieve its reasonable assurance objective, and to also address the breadth of the effect(s) of any deficiency or deficiencies on the QC system in a consistent, reliable and relevant way across all engagements.

23. Is the proposed removal of "major QC deficiency" from QC 1000 appropriate? Why or why not? Answer : The proposed removal of the "major QC deficiency" provision from QC 1000 is appropriate as the firm evaluation process should be aligned with the language in paragraph .77 that excludes "major QC deficiency" conditions as revised. The examples of "major QC deficiencies" should remain part of QC 1000 in modified form, however, in facilitating the evaluation of the seriousness, severity and pervasiveness of un – remediated QC deficiencies. The requirement for a binary conclusion on the effectiveness of the firm in achieving a QC system (objective) that is effective or not effective with respect to reasonable assurance in the design, implementation, and operation of its QC system is also appropriate.

24. What, if any, additional direction is needed regarding the possible conclusions on the effectiveness of the firm's QC system in paragraph .77? Answer : Paragraph .77 of QC1000, that represents the P.C.A.O.B. QC Form evaluation and reporting provisions, with specific deadlines and reporting rules, ensures the firms' continuous, iterative quality control process. Paragraph .77, in view of QC system requirements is necessary given the need to incorporate factors, roles and considerations of a changing audit environment into the assessed risks, operations and engagements of the firm with the purpose of protecting investors and other financial statement users.

25. Are the proposed conforming amendments to Rule 2203A and Form QC appropriate? Why or why not? Answer : The proposed conforming amendments to Rule 2203A and Form QC are appropriate in that the amendments improve the coherence of QC1000 requirements, and allow for expedience and efficiency of QC Form compliance.

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? Answer : That the alternative evaluation framework with a binary conclusion is more appropriate for evaluating the effectiveness of the QC system is undefined insofar as risk – based or probabilistic modes of analysis often integrate more than a binary conclusion. As much is evident, though such modes of solution analysis would be less helpful in the circumstances and the binary solution proposed is characterized by greater utility and effectiveness as a "bright – line" evaluation framework.

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? Answer : Under the alternative evaluation framework with a binary conclusion, it would entirely be appropriate and constructive to retain the factors listed in paragraph .78 as adopted. These factors align QC1000 language with other quality management standards and at the same time retain its structured process, including specific factors for consideration, to guide the evaluation in the proper audit quality environment. In the annual evaluation of the firm's QC system, and in reaching the conclusion required by paragraph .77, the factors listed and as adopted allow for firms to reach a clear and coherent, consistent conclusion, that is determinative and informative given the reasonable assurance objective.

28. Are the proposed amendments to paragraph .84 sufficiently clear and appropriate? If not, why not? Answer : The proposed amendments to paragraph .84 are suffi-

ciently clear and appropriate given required conformity with paragraphs .81 through .83 and the availability of QC documentation "that permits timely retrieval."

29. Is the proposed amendment to retain documentation for five years sufficiently clear and appropriate? If not, why not? Answer : The proposed amendment to retain documentation for five years is sufficiently clear and appropriate per modification to paragraph .86.

30. Are the proposed amendments to Form 1 and Form 2 in Appendix 3 appropriate? If not, why not? Answer : The proposed amendments to Form 1 and Form 2 in Appendix 3 are appropriate and clearly stated concerning Board rules, and as including an item in which firms confirm whether firms have designed a QC system in accordance with QC 1000.

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? Answer : A firm applying for registration should be required to report on Form 1 which quality management standards its QC policies are based on if other than QC1000. This commenter disclaims on the ISQM and SQMS frameworks as equivalent to QC1000.

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. Answer : The firm has currently incurred some paperwork preparation costs as well as internal costs involved with first recognizing the need for audit quality compliance and then reviewing the literature including P.C.A.O.B. literature, pronouncements, staff updates and related documents. Costs for a design – only QC1000 environment at the firm might be close to $ 1 , 000 . 00, in addition to the value involved in ensuring preparedness to process the new compliance information.

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. Answer : Given the document preparation and processing, reviewing of information and rules, etc., to the present time, the costs expected that the firm will incur to design, implement, and operate a QC1000 – compliant system are foreseeably minimal, especially given the design – only provisions of QC1000.

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. Answer : Economic considerations have factored in the potential impacts of the proposed amendments in an adequate fashion. It is undetermined how much actually this has cost apart from, principally, document preparation costs, and the economic effect of further compliance, while it promises to be of significant impact, cannot be determined at this time.

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. Answer : It is difficult to determine exactly if the proposed amendments have a disproportionate effect or impact on smaller audit firms or EGC's concerning compliance as smaller audit firms typically do not perform the same types of services as larger firms operating on a much larger, even extremely larger comparative scale. Proportionally, the smaller audit firms will have integrated QC1000 for much less economic and monetary costs than the larger firms with a good – size subset of their operations devoted to compliance with QC1000 and related, and other audit quality frameworks, rules, guidelines, principles and so on.

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. Answer : Implemen-

tation of QC1000 is an incontrovertible and extremely valuable contribution to audit quality assurance while there remains an approach of peer – review and self – regulation compliance with respect to the rules and audit quality that might still be desired by some. Alternative approaches will not better achieve the regulatory objectives at hand given the innovative audit quality methodology and processes needed . Alternative approaches to QC1000 as developed and used in the audit quality approach (in designing, implementing and operating a QC system) will add to the economic and monetary expenses of implementing an audit quality methodology and process in the current auditing environment. The related costs and related while operating a QC1000 system at the same time will add significant overhead given the scale of audit engagements of the firm.

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. Answer : The P.C.A.O.B.'s economic analysis framework, the study by the American Accounting Association Auditing Standards Committee and the 2024 publication by Deloitte examining implementation and related adjustments as well as timing (SEC considerations), economic and operational concerns; have appeared to suffice concerning the need for implementation and operability of a QC1000 system, including amendments, that is valuable and functional for auditing firms. In the place of QC1000 the P.C.A.O.B. might have chosen to require computing – based audit quality tools, or to target audit quality issues based upon perceived risk, or just to hire and keep greatly experienced audit staff in addition to attempting to build a robust QC system at each firm. The QC system approach makes audit quality under QC1000 compliance constructively, as innovated, and as needed a highly valued framework in an approach to improved engagement quality in the audit environment, and quite possibly at a higher level of assurance depending upon how the QC system is positioned and used.

Sincerely and respectfully yours,

Thomas H. Spitters, C.P.A.

Thomas H. Spitters, C.P.A. – San Francisco, CA 94104 – tom.spitters@hotmail.com – (415)508-6446

From: Larry Durham <ldurham@stccg.com>
Sent: Friday, June 12, 2026 11:16 AM
To: Comments
Subject: [EXT]: Submitting Comments: PCAOB Rulemaking Docket Matter No. 057 — Proposed Amendments to QC 1000, A Firm's System of Quality Control

June 12, 2026

Office of the Secretary

Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Via email: comments@pcaobus.org

Re: PCAOB Rulemaking Docket Matter No. 057 — Proposed Amendments to QC 1000, *A Firm's System of Quality Control*

Dear Office of the Secretary:

St. Charles Consulting Group appreciates the opportunity to comment on the proposed amendments to QC 1000. Our firm advises public company audit firms on the development and measurement of professional judgment capability, and our research on this subject — including the analysis published in *The Judgment Void* (2026) — examines how the conditions under which auditors form professional judgment relate to the deficiency patterns documented in the Board's inspection program. Our comments address three of the proposed amendments and one area where we encourage clarification in the adopting release.

1. The proposed criteria for evaluating similar engagement deficiencies correctly identify judgment outcomes as the threshold that matters.

We support the proposal to require evaluation of whether similar engagement deficiencies exist only where an identified deficiency could result in (i) a failure to obtain sufficient appropriate audit evidence to support the conclusion reached, or (ii) an inappropriate overall conclusion on the subject matter of an engagement.

These two triggers are well chosen because they describe the outcomes of failed professional judgment rather than failures of procedural execution. The Board's own inspection reports have, for more than a decade, concentrated their most serious findings in a consistent set of areas: risk assessment, sufficiency of audit evidence, evaluation of internal control over financial reporting, auditing of accounting estimates, and the exercise of professional skepticism. The recurring character of these findings is that procedures were performed and documentation was complete, but the practitioner's judgment — in calibrating risk, in recognizing when evidence responsive to a procedure was nonetheless insufficient for the conclusion, in questioning management representations — did not meet the standard the engagement required. The proposed criteria focus the firm's similar-deficiency evaluation precisely on this category of failure, which is where investor protection exposure actually concentrates.

We encourage the Board to make clear, in the adopting release or subsequent guidance, that when a firm evaluates the root cause of a deficiency meeting either trigger, the evaluation should encompass the judgment capability of the personnel involved — not solely the design of policies, methodologies, and tools. A deficiency in which procedures were followed but the conclusion was inadequately supported is rarely remediated by procedural change alone. Treating such findings exclusively as process-design failures invites remediation that

addresses the symptom while leaving the underlying capability condition — and therefore the likelihood of recurrence on other engagements — unexamined.

2. Recognition of compensating quality responses should encompass competence-development responses, with effectiveness evidenced by capability measures.

We support the proposed revision to the definition of QC deficiency clarifying that, where a firm has implemented more than one quality response to the same quality risk, those responses may be considered together in determining whether a QC deficiency exists. This revision appropriately rewards firms that invest in layered responses rather than single points of control.

We recommend that the Board clarify that quality responses addressing personnel competence and capability — including structured programs to develop and assess professional judgment — are valid quality responses within this framework. QC 1000 already requires that engagement teams possess competence and capabilities appropriate to their assignments. Where a firm identifies a quality risk arising from the judgment capability of its practitioner population — a risk that is becoming more salient as technology assumes a growing share of procedural execution and compresses the experiential pathway through which judgment has traditionally been formed — the natural quality response is developmental rather than procedural. The compensating-response framework should accommodate that response on equal footing with procedural and supervisory responses.

Equally important, the monitoring of such responses should rest on capability evidence: measures that demonstrate practitioner judgment is in fact developing, rather than measures that demonstrate only that training was delivered or attended. Completion records are not evidence that a quality response to a judgment-capability risk is operating effectively. The Board can strengthen the integrity of the compensating-response provision by signaling this evidentiary expectation.

3. Permitting non-firm personnel to fill specified QC roles is a sound recognition that quality-relevant expertise is specialized.

We support the proposal to permit specified roles in the QC system to be assigned to non-firm personnel and divided among multiple individuals. Certain functions within a quality management system — particularly those involving the assessment of personnel capability, the design of developmental responses to identified quality risks, and the measurement of whether those responses are operating effectively — draw on disciplines, including learning science and capability measurement, that audit firms do not uniformly maintain in-house. Allowing firms to engage qualified external specialists for such roles, while retaining firm accountability for the QC system as a whole, should improve the quality of those functions rather than dilute it. We encourage the Board to retain clear firm-level accountability and documentation requirements so that flexibility in role assignment does not become diffusion of responsibility.

4. Simplified communication requirements should not be read as diminished monitoring expectations.

We take no exception to the proposal to narrow and simplify the requirements governing metrics the firm communicates about its audit practice, personnel, and engagements. We would, however, encourage the Board to make explicit that simplification of communication requirements does not alter the firm's monitoring obligations. Leading indicators of audit quality — including indicators of practitioner competence and judgment capability — remain essential inputs to a functioning quality management system whether or not they are externally communicated. The distinction between what a firm must communicate and what a firm must know is worth preserving clearly in the adopting release, so that reduced reporting burden is not mistaken for reduced self-knowledge.

Conclusion

The proposed amendments, taken together, sharpen QC 1000's focus on the deficiencies that matter most to investors — those in which the audit conclusion itself was unsupported or inappropriate — while giving firms credit for layered, substantive responses to quality risk. Both moves are consistent with what the inspection

record has long indicated: that the most consequential audit deficiencies are failures of professional judgment, and that effective quality management must therefore address how judgment capability is developed, assessed, and evidenced. We support adoption of the amendments with the clarifications described above, and we would welcome the opportunity to provide further data or perspective as the Board considers this docket.

Respectfully submitted,

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VSCPA
Virginia Society of CPAs

July 9, 2026

Office of the Secretary
Public Company Accounting Oversight Board

Sent via email to comments@pcaobus.org

RE: PCAOB Docket 057 – Supplemental Request for Comment on Proposed Amendments to QC 1000, A Firm's System of Quality Control, and Related Rules and Forms

Dear Board Members:

The Virginia Society of CPAs (VSCPA) Accounting & Auditing Advisory Committee has reviewed the Public Company Accounting Oversight Board's Supplemental Request for Comment on the proposed amendments to **QC 1000, A Firm's System of Quality Control, and Related Rules and Forms**. The VSCPA is the leading professional association in Virginia dedicated to enhancing the success of all CPAs and their profession by communicating information and vision, promoting professionalism, and advocating members' interests. The VSCPA membership consists of nearly 11,000 individual members working in public accounting, private industry, government, and education.

The Committee appreciates the Board's willingness to revisit targeted aspects of QC 1000 after considering stakeholder feedback. We believe the proposed amendments appropriately balance the Board's investor protection mission with practical implementation considerations and will improve the operability of QC 1000 without compromising audit quality.

Overall Comments
The Committee supports the proposed amendments because they reduce unnecessary implementation burden, improve consistency with other quality management frameworks, and maintain the fundamental objectives of QC 1000. We appreciate the Board's willingness to reconsider specific provisions after receiving implementation feedback and believe this supplemental proposal reflects a thoughtful, principles-based approach to standard setting.

Elimination of the Design-Only Reporting Requirement
The Committee supports eliminating the requirement for firms to report once a quality control system has merely been designed. Reporting should occur only after the system has been both designed and implemented, providing more meaningful information while reducing unnecessary administrative burden.

Elimination of the External Quality Control Function
The Committee supports removing the requirement for certain firms to establish an External Quality Control Function. Existing governance, leadership accountability, monitoring activities, and PCAOB inspections provide meaningful oversight while avoiding unnecessary implementation cost and complexity.

Alignment with Other Quality Management Standards
The Committee strongly supports improving consistency with SQMS No. 1 and ISQM 1 where doing so does not diminish investor protection. Many firms, including small and regional firms, operate under multiple professional and regulatory quality management frameworks. Greater consistency in terminology, concepts, and documentation requirements will reduce unnecessary complexity, improve implementation efficiency, and promote more consistent application of quality management principles across engagements. We encourage the Board to continue seeking opportunities to harmonize QC 1000 with ISQM 1 and SQMS No. 1 where doing so does not diminish investor protection. Many firms operate under multiple quality management frameworks, and unnecessary differences in terminology, documentation expectations, and evaluation requirements increase implementation complexity without necessarily improving audit quality. Continued alignment, where appropriate, would promote consistency, reduce

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duplicative policies and training, and allow firms to devote more resources to operating effective quality management systems rather than reconciling differing regulatory requirements.

Conforming Amendments to Related Rules and Forms
The Committee supports the proposed conforming amendments to Form QC and related reporting requirements because they appropriately reflect the substantive amendments and improve clarity.

Scalability
The Committee encourages the Board to continue emphasizing that QC 1000 is intended to be scalable and capable of being implemented proportionately based on a firm's size, organizational structure, complexity, and risk profile. Continued emphasis on scalability will help firms develop effective quality management systems without imposing unnecessary administrative burden where risks are less significant.

Additional Recommendation
The Committee encourages the PCAOB to continue issuing implementation guidance, illustrative examples, frequently asked questions, and other educational resources as firms continue implementing QC 1000. Additional guidance regarding scalability, assignment of quality management responsibilities, documentation expectations, monitoring activities, and evaluation of quality control observations would promote greater consistency in practice while reducing implementation uncertainty.

Conclusion
The Committee believes the proposed amendments represent thoughtful improvements to QC 1000 that reduce unnecessary implementation burden while preserving the standard's core principles and the Board's investor protection mission. We encourage the Board to finalize the amendments substantially as proposed, continue engaging stakeholders as implementation progresses, and provide additional implementation guidance as practical experience develops.

The VSCPA appreciates the opportunity to respond to this proposal. Please direct any questions to VSCPA Vice President, Advocacy & Pipeline Emily Walker, CAE, at ewalker@vscpa.com or (804) 612-9428.

Sincerely,

Elissa Obillo, CPA
Chair 2026-2027
VSCPA Accounting & Auditing Advisory Committee

VSCPA Accounting & Auditing Advisory Committee 2026-2027

Elisa Obillo, CPA — Chair
Domenic Savini, CPA — Vice Chair
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Clara Tang, CPA
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Anna Wagner, CPA
Patrick Wunderlich, CPA
Natalya Yashina, CPA

NOTICE: This is an unofficial transcript of the portions of the Public Company Accounting Oversight Board's Investor Advisory Group meeting on April 29, 2026 that relate to the proposed rule amendments to QC 1000, *A Firm's System of Quality Control*, related amendments to PCAOB Rule 2203A, PCAOB forms, and technical amendments to AS 2101, *Audit Planning*. The other topics discussed during the April 29, 2026 meeting are not included in this transcript excerpt.

The Public Company Accounting Oversight Board does not certify the accuracy of this unofficial transcript, which may contain typographical or other errors or omissions. An archive of the webcast of the entire meeting can be found on the Public Company Accounting Oversight Board's website at: https://pcaobus.org/news-events/events/event-details/pcaob-investor-advisory-group-meeting-april-2026.

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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INVESTOR ADVISORY GROUP

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MEETING

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WEDNESDAY
APRIL 29, 2026

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The Advisory Group met via videoconference, at 9:34 a.m. EDT, Demetrios (Jim) Logothetis, Chair, presiding.

PCAOB BOARD OF DIRECTORS

DEMETRIOS (JIM) LOGOTHETIS, Chair
GEORGE R. BOTIC, Board Member
MARK A. CALABRIA, Board Member
STEVEN D. LAUGHTON, Board Member

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ALICIA DAMLEY, CFA, CPA (Canada), CA
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6 JASON NAGLER
PAUL F. O'BRIEN, Ph.D.
7 SANFORD (SANDY) RICH
GINA SANCHEZ
8 NEMIT SHROFF, Ph.D.
JEN SISSON
9 GARY WALSH, CFA, CPA

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OBSERVERS
WILL BIBLE, Deloitte
MELISSA BURGUM, Accenture
SHAWN PANSON, PwC

PCAOB STAFF

CHRISTINE GUNIA, Director, Registration and Inspections
BRENT SIMER, Chief of Staff
SABA QAMAR, Investor Advocate
ANNIE TORRES, Associate Director
MATT ULAN, Senior Inspector

MR. LOGOTHETIS: Thank you, George.

Now, let me turn it over to Board Member Steve Laughton for his comments.

MR. LAUGHTON: Thank you, Mr. Chairman.

I want to first welcome and thank the new members of the IAG, many of whom I had the pleasure of meeting yesterday. Second, I want to thank the continuing members with a special thanks to Amy McGarrity, who has tirelessly served as the IAG co-chair over the past four years. Third, this important meeting prompted me to re-familiarize myself with the IAG's objective as reflected in its 2022 charter.

The IAG's objective is to provide the board with the views of investors and their advocates on the PCAOB's regulatory agenda and include serving as a source of information, views, and recommendations on other matters regarding the PCAOB's oversight activities.

With regard to our regulatory agenda, our chairman recently announced that we will be soliciting public comment on certain provisions

of QC 1000. And on March 31st, PCAOB requested comment regarding the PCAOB's strategic priorities. I look forward to hearing the views of the IAG members today and receiving the IAG's consensus views on the PCAOB's strategic priorities before the close of the comment period on May 15th, 2026.

Thank you, and welcome.

MR. LOGOTHETIS: Thank you, Steve.

And now, Board Member Mark Calabria.

MR. CALABRIA: Thank you, Jim.

I guess since I'm relatively new to the board, it's kind of like you're all new board members to me. At least it's -- we look forward to getting to know all of you. I'm somewhat reminded of the quip about everything having been said, but not everybody having said it, but I'm going to refrain, but I do want to associate myself with what Jim, George, and Steve said. I agree with all of it.

In my three months here, I've been extremely impressed with the camaraderie and the

MR. GREY: Hook them.

MS. COPELAND MCGARRITY: Sandy, I -- you can go next.

Thank you, Steve.

MS. PETERS: Oh, was Jen before me? You know, I guess I agree with all the comments that have been made.

I think that -- I think I have more to say in the response on the 15th than maybe today, because I need a moment to collect my thoughts.

But, you know, as I look at this, to me, and we talked about this when we talked about international inspections before, is there's a vast amount of information that over the past 20 years to contextualize the inspection process that doesn't necessarily exist, right.

So we -- there's a lot of talk about small firms. There's nothing that really shows -- you can get it from the audit quality -- I forget the name of the organization, Audit

Analytics. It's got a different name now. You can sort of sort those by market cap, but to decide what are the most important entities.

But there's a vast amount of information that's sort of needed to context -- contextualize the importance of the inspection process. Not -- the report, but the process. I think that going through what we went through last summer the -- how many reports have done, what they actually cost, what the percentage of the budget is.

The organization doesn't have the facts to support its existence, and the public narrative about PCAOB board members' salaries rules the day, which is ridiculous, right. And the PCAOB has done a great job internationally of improving audit quality. So I think there's a lot of contextual information that's needed, and I can provide some of that.

On the report, you know, I've got some -- you know, some of the charts are hard to follow because it's like we have all the

numbers, but not the percentages. I think that the entirety of the inspection process is wrapped around a single number, which may or may not be statistically relevant.

And that's a shame, right. Because it's -- there's not enough texture or contextualization around it. So I think there's something that sort of needs to be done around that. I don't -- I have -- my biggest concern right now with respect to the report is there's a global narrative of moving to inspecting at the firm level as opposed to inspecting at the engagement level.

You just heard Steve say that he wants to know because he's investing at the company level, right. Investing at the -- that's where people -- that's where investors own, that's what they care most about. We care about the firm, but we don't want to have to sue the firm, right.

So there's a lot of information that, you know, there's a lot of good that comes from

inspecting at the engagement level. Not only deterrence, but understanding the relevant risks. But also, Part 2, if you move to an audit at the firm level Sarbanes-Oxley prevents you from disclosing what you found.

So you're going to actually make the Inspection Report less meaningful. And inspecting at the firm level, to my mind, is more of a TOD, a test of design for you non-CPAs, and then a TOE, which is test of effectiveness, right.

So to me, I -- I'm thinking about big picture and the contextualization and this desire to move inspections and, you know, the -- also the conversation about moving from QC 1000 to making it more like ISQM1.

I think some people may have saw my post about, like, I just asked ChatGPT to compare them, and there's a really funny analogy at the bottom about what they -- what really the difference is. But to me, that's a big concern for investors when you hear comments like Steve

said, wanting to know specifically at the issuer versus moving inspections to the firm level.

So -- and, also, one more thing. The PCAOB has such a vast amount of information and a unique position because they're really -- the FRC is the closest, but they're so unique in that they make the standards, because the FRC doesn't make them. They put -- input them. They make the standards and they inspect and see how they turned out.

I don't ever hear much about what they found in the process to feedback into improving the audit standards. So I think there's an important feedback loop in doing that. So sorry, my comment was kind of long.

MR. LOGOTHETIS: Perhaps this is the right time maybe to -- for me to jump in. Because what you're talking about, Sandra, and everyone, but you're talking about now is at the heart of what we want to do and we have a -- we, obviously, have announced.

There's no question, as George said,

that when you look at this organization, at the heart of the organization is inspection.

MS. PETERS: Yeah.

MR. LOGOTHETIS: Yes, we do other things as well. All you have to do is look at the number of people that we have in inspections versus the overall personnel, obviously, related also to the budget.

MS. PETERS: They don't know that in Congress, though.

MR. LOGOTHETIS: Well, exactly. And there's -- we have -- and that's another topic, and we're working on it. There's so many things that the public does not know, and, quite honestly, we don't even know ourselves.

And we -- it goes back to, Sandra, what you said, and this is the way I'm just going to tell you my personal view coming into this. I didn't expect to come into this. I came into this, I'm fully committed to it. I know I can make a difference.

But what I'm asking my team, what I

talk to my team about all the time, everyone involved in the organization, is, why do we exist? Because we came in and we have to be realistic that there was discussion, as you all know, about doing away with this organization.

So when I interviewed with the SEC, I, of course, asked them, is this thing, are you serious about keeping this around? And, of course, the answer was yes. We want to keep it. It's going to be here forever, and you need to do whatever we need to do to regain the credibility that perhaps is missing out there. Okay.

And that's my focus. That's all I think about 24/7. So it gives -- gets us back to a number of things, but let me just focus on inspections. I was with the firm, with EY, for 40 years from junior all the way up to senior partner. Okay.

And I handled some of the largest clients of the firms. My last client was the Coca-Cola Company that involved audits in 150

countries. I spent half of my time traveling the world.

When I think about what we do and what we do with training and the direction we're taking with QC 1000, which we have announced is a priority where we're going to make some modifications with -- through -- going through the proper process, but we're looking to make some modifications, but continue the effective date as is. We're not delaying that.

So when I look at the inspection process, the closest I can come to based on my experience, and I can say honestly that deep down everything that I did with the firm for 40 years, yes, I had titles, yes, I did other things, but I was focused, I was an auditor.

I was the lead audit partner on engagements, and I know the audit process really well. And I love doing the audit process, and I see the inspection process here as one giant audit. So let me talk about the direction.

The closest that I can come to from an

analogy that most unsophisticated people, not this group, obviously, but most unsophisticated people out there don't understand, is the analogy of the Federal Aviation Administration and airplanes.

What we're here to do, the accounting firms, obviously, and us, our -- in our job as regulator, we want to prevent airplane crashes. We want to prevent audit -- significant audit failures, any audit failures, but especially significant audit failures.

Now, when we go back to history, even the primary reason why this organization was formed and why we're here today is Enron and WorldCom, and a few others that followed. So when you do the root cause analysis of what happened with Andersen, Andersen was an incredible firm.

I was in the Chicago office. I grew up there. They were my other choice. It was EY or Andersen, and I picked EY. I competed against them. I knew many of their partners. They were

terrific people.

And one could argue that what the government did was unjust, inappropriate. Many people would say that, especially with hindsight. Well, when we look at the, what happened there, here's what we know.

They had very well-trained people. They knew the industries well. They were growing rapidly. All the good stuff. We know, of course, about Accenture and the other side, the consulting side. But the main failure with Andersen was the fact that their quality control processes did not work.

More specifically, they had a -- they allowed each signing partner to make the final decision on the accounting. They were able to get permission -- or not permission, but input from technicians, what we normally call in most accounting firms, professional practice.

These people there are there just to make sure that, you know, you're applying accounting properly. And in that particular

case, the technicians told the partner and the account exactly what the accounting should be, and he ignored them. That's the primary reason they failed. It was the quality control system.

Now, let's talk about an analogy in the FAA. When we get on airplanes, we all assume that the pilot has been well-trained, or pilots, they -- the company has done the right process to follow -- to find the right pilots and train them, and that the airplane is maintained properly, right. There's a maintenance system that works, right.

So we take those things for granted. Now, let's think about that. We -- most airplanes that fail, that crash, crash because of a defect, some mechanical defect that maintenance either didn't properly review or pick up on, or they did pick up on and didn't do the right thing, okay? The bolts that were missing from the 9/11 in Chicago so many years ago, right? Things like that. So when you think about what the airlines do and what the

FAA does, the FAA does not go out there and select 30 airplanes or 55 airplanes from the fleet of 1,000 American Airline flights to check specific flights, to give you a report as you enter the door to say, this airplane has been -- I've inspected it, it's properly, it's got all the right things for you to fly. They do it at the entity level. They check the records, the maintenance records, their internal process, right?

And the accounting firms, because they have a motive to make sure they exist. If they don't have the right quality, they will be out of business, and it will be out of business sooner. There will be a lot of lawsuits and things like that. So they have a natural incentive to do the right thing.

Obviously, having the PCAOB and the potential inspection by the PCAOB or the regulators overseas, that's an incentive as well, right? So they do their own extensive quality control processes, not only on a random

basis, on an industry basis, on a risk basis, but also they themselves assess the risk of them getting inspected by the PCAOB. I was there. I know. And they do it based on the risks that they have identified. And therefore, when they get a list of the priorities, the riskier clients that potentially could be inspected, they send an army of people out there to review their work papers.

And so they do all of this and then we come along and we randomly, well, not always randomly, but a risk basis, we pick 50 accounts, 55 accounts out of the thousands, okay? So the idea that what we're talking about in terms of QC 1000, first and foremost, QC 1000 has to be implemented, okay? And most of the large accounting firms have been implementing aspects of this, if not exactly, for years. Now, that's number one.

Number two, for us, we need to have to, as we call it internally so far, modernize our inspection process. This is our number one

priority here. After getting QC 1000 out, we are in the process of forming a task force to reconsider the inspection process. And the inspection process, as was explained earlier, will continue to be risk-based. But the risk element of it's going to be much, much higher.

And let me go back for a second. Once we go back and we do the QC 1000, let's say the quality control inspection of each one of these firms, right? By definition, we're going to assess the process they follow to do the risk assessment. That is a roadmap to figuring out what are the risky clients that they have identified, and based on our own input, our own experience from history, our own experience and expertise in industries, we're going to say, by the way -- and this is where our ad value comes in, okay? This is -- the way you assess the risky clients isn't exactly right. We have another point of view. Let's talk about it, right?

But ultimately, we want to not reduce

the number of accounts that we look at. It's possible that we will look more -- at more files, but if we do it on a risk basis, okay? We -- and we do it top down, it will give us a chance to focus on the areas that could cause -- the most important areas that could cause an audit failure or an airplane crash. So ultimately, we don't have to look at the entire file, but we need to look at the specific risks that are at the highest levels.

And there, we need to have our highest expertise. We're talking about AI, okay? We're talking about cyber. We need to have those people that address those specific risks, and of course, industry expertise. If we're looking at an oil and gas company, we have to go in with oil and gas experts to look at the specific risks. Most companies don't have 100 percent risks in everything.

Now, what I'm going to share with you, I think it's generally public knowledge, so I don't think I'm giving anything away. But my

last client was the Coca-Cola company, okay? The Coca-Cola company was, is, as you know, a giant company, very profitable and everything else. If you were to look through the financial statements and you're all experts in your area, you -- I encourage you to do it. I think what you'll find is that the most risky area, and it's outlined and disclosed, is the income tax provision, because they're -- they have operations around the world, they produce most of this stuff for tax purposes in two areas, in Ireland and Singapore, primarily.

And so for me as the audit partner, the most important thing that I needed to do is look at the tax provision, and I needed to make sure that I had the most expert, sophisticated tax partner in the world that would say to me, yes, they did it the right way. The rest of it, they have very sophisticated people. The EY were -- have been the auditors for 100 years. We know what the history is, we know what the areas are.

So if the PCAOB was to come in and

review the Coca-Cola company and they review their inventory, it would make no sense. It would mean nothing. They have to come in and review the income tax provision, right? And the disclosures around the income tax exposures which are there. So where am I going with this? I don't know what the exact answer is, but it doesn't -- we need to re-challenge everything we do in light of two or three factors.

One of them is the accounting firms have poured millions, if not billions of dollars into their systems, right? They have -- they came -- I was in, you know, in Paris last week for something called the International Forum of Independent Audit Regulators, and all the firms, the big firms came, the big six came in to talk to us. The way they operate now is each one of them has a platform. A platform where the auditor goes in and pushes buttons and is told exactly what to do in all the, let's call it compliance areas. They tell them, here's what you have to do. Go find this receipt, whatever,

blah, blah, blah. And they provide them information to look at the most important subjective areas. This is where the challenge comes in, right? Because we -- they -- in other words, if you look at an audit, 60, 70, 80, 90 percent of the work is compliance.

We, you know, we often say to the auditors to make them feel good, the CPAs that, hey, you're doing a great job. You're learning all this stuff. Yeah, but the truth is, most of it is compliance. Most of it now has been automated through AI and other means. So it's the rest, 10, 20, 30 percent that's important, that could cause an audit failure, that could cause an airplane crash, and our process need to be -- needs to modernize -- to be modernized to focus on those areas.

And I mentioned the Enron example, I challenge you to go back to all of the major audit failures. I think what you will find is that it was the firm, at the firm level, that the mistakes were made in terms of policies, not

training people adequately, not giving them the right support, letting them do the things that they want to do. So -- and keep it -- keep in mind one more thing. It's interesting that the PCAOB, and there's no criticism of anybody, but the PCAOB put out standards, AS 5, 15 years ago, whatever it was, telling the firms that they have to put in entity level controls, that entity level controls were critical, and the auditors have been auditing against that. But in terms of, we're now coming 15 years later, and we're saying now QC 1000 is, in other words, entity level controls at the firm levels are necessary. Of course, they're necessary. They're important. They should be in place from the beginning.

Selecting a partner, the right partner, like selecting the right pilot to fly a specific model airplane, okay? And training them, and providing the right incentives and all the other things that go with it, is critical. But many of the -- many of the accounting firms over the

years, including, by the way, back to -- think about Andersen, it was what I explained to you, and yeah, what was the other big factor? The audit partners were not making as much money as the consulting partners, right? That didn't have anything to do with any accounting or not testing enough invoices.

So I don't want to overdo this, but there's a reason we're moving down that path. I'm not suggesting that it's going to be perfect. It's going to take time, but we need to move in that path, and that would allow us to look at more accounts as well. It's just that we're not going to look at everything, soup to nuts. And we need to train another big part of what we have to put in places like the pilots. We need to train and retain the best and brightest so that they can focus on the specific risks that each one of you have been talking about and each one of you have been emphasizing.

Last thing I will say is there is a difference between the bigger firms, the top six

firms that have invested millions on these platforms and AI and the smaller accounting firms. It's a big issue that needs to be addressed. I'm not so sure that the PCAOB is in the right place to do it, but the smaller firms have a tough time coming up with the investments necessary to get to become bigger. And as you all know, I'm sure you know that almost 90 percent, at least 85 percent or more of the value of the public companies in America are audited by the big four, right?

So when we talk about focus in the PCAOB, the PCAOB has to focus on the 80 percent, which is the big four or big six. And then we need to specialize people in our shop to make sure that they understand broker dealers, because that's part of our responsibility, that they understand what the dynamics of smaller firms and what their challenges are, one of which, as you know, is private equity. The smaller firms, GT, Grant Thornton, BDO, some of the others, because they need money, they're

going out to private equity. Well, that creates all kinds of issues.

At the firm level, compensation, investment, priorities, and so on and so forth, that's an area that we need to be looking at. We, the PCAOB can't prevent a firm from getting investment money from the private equity. But what we need to look is we need to look at the system of quality control to make sure that the allocation of earnings and investment and so on and so forth is at the right level. Reviewing 100 files of Grant Thornton because they're getting private equity money is not going to give us what we're looking for.

So I said probably a little bit more than you wanted me to talk about right now, but what I'm trying to kind of sense is the main points that are coming out of this discussion and to connect those because it's critical. As I said earlier in my speech at the beginning, it's critical that we connect it to what we're doing. And the major thrust of what we're going

to be doing here in the next few months is redesigning, modernizing, whatever you want to call the inspection process.

MS. COPELAND MCGARRITY: Thank you, Jim. Jen?

MS. SISSON: Thank you very much, and thanks for having me on the group. Glad to be here. I think, I wanted to sort of frame my comments from, like, ICGN's members are largely very big global asset owners and asset managers, right, who are not all but many of them essentially universal owners. So they're kind of invested in everything. And even if the, even if you're -- and perhaps even more so if you are a non-U.S. asset owner, you will still have a huge proportion of your investments on behalf of your pension savers as mainly pension schemes around the world, right, invested here in the U.S.

So there are two things that are important in terms of audit quality, I think. One is the individual audit on an individual

1 happen. It's happened in the way investment
2 management works. It sounds like it's already
3 happening here. Like, we can't just fall back
4 to, okay, but I still want the audit partner to
5 tell me the answer anymore, or is it -- is that
6 not it because you still -- the human in the
7 loop is still the audit partner?
8 MR. LOGOTHETIS: Well, it gets
9 complicated, obviously, and I don't pretend to
10 have all the answers. But the first thing that
11 comes to mind is -- and I -- we've gone through
12 this process a little bit. We need to do more.
13 We have to ask ourselves the question, how many
14 of our 500 inspectors have any concentrated or
15 meaningful knowledge of AI?
16 MS. SISSON: Yep.
17 MR. LOGOTHETIS: Right? You need to
18 start there because when you go out and audit
19 these firms or inspect these firms that are
20 using AI extensively and control -- as was
21 mentioned, controls are based on AI or performed
22 by AI, the person who is doing the inspection

needs to understand what that means. So we need to start there. We need resources. We need to train existing inspectors on AI, and we have a -- we just started thinking about it, right? We need to do a lot more in terms of training.

And we talked -- you heard the firm talk about -- or firms talk about platforms. Each one of these firms do most of their work now on a global, consistent platform. We need to train our people to understand their platform. When they go out and visit a specific -- or inspect a specific firm, they need to be experts in that platform, at least as good as the auditors themselves, right, if not better. And then we need to invest in technology to have a platform of our own.

How are we -- there's opportunities for us to be more effective, perhaps more efficient as well in terms of what we do. And the one thing comes to mind is -- and I haven't thought through this a lot. We haven't talked about it a lot, but we talk about QC 1000, okay? So QC

1000, theoretically, you can put it on a platform. You can put it on some automated process. You can get the information from the firms, and you can do a lot of this work in advance before you go out and you inspect the firm, before you start asking questions, because the standards are going to be the same.

The steps that one has to put in place for QC 1000 is going to be the same, and chances are most of the responses and the steps that the firms are going to have in place are going to be similar, if not the same, right? Just think about the opportunities you're able to automate this process, and we were talking earlier about best practices, providing value to the profession. Think about best practices, one, as the regulator can come up with as we do these inspections in an automated way to say, well, you know, all of you should be thinking about this.

So long story short, we're at the beginning of it. We're thinking about it. We

need the right resources. We need the right training. It's a huge opportunity. On the other hand, it's a big challenge for us because the reality is the firms are ahead of us at this point in time. We haven't invested in AI as much as we need to. This is a big priority for us.

MS. QAMAR: Thank you, Jim.

Mark.

MR. CALABRIA: So I appreciated the -- Gina's point about the bias and hallucinations, although it's also a good reminder that people are biased and hallucinate a lot, too. So ultimately, the real question is, does the AI hallucinate less than the people or the bias than the people? And for instance, you know -- so again, I come from more financial services world and certainly if you think about consumer finance, the move broadly from manual underwriting to automated underwriting has unquestionably reduced bias. So that's been a progress.

things that occurred to me when I saw this question was, is there a survey necessary in terms of thinking through what standards the PCAOB currently has and to bench that or compare that against are there gaps? Where are those gaps? Or where's the PCAOB ahead of others? And whether there might be an opportunity to have this kind of preliminary conversation with peers to then think about the next steps? I don't know what the answer to that is, but it seems to me that that would be a good idea within the context of considering other aspects of the strategic planning process.

MR. LOGOTHETIS: Yeah. I guess I'll respond. First of all, if you -- if -- when we -- the initial information they put out there in terms of a strategic plan and requesting comments, there were four priorities -- four key priorities, right? The first priority for us is to finalize or let's say, make the revisions through the process for QC 1000 so that we can begin to think about re-engineering or

1 modernizing the inspection process, which is
2 priority -- not number two, important, but two,
3 in terms of the strategy, right?
4 Number three is we talk about
5 harmonization, to your point, right?
6 Convergence. So we want to make sure -- because
7 for example, last week when I was in Paris and
8 the Big Six firms presented there, I guarantee
9 you, maybe they had talked about this in
10 advance, but every one of them put on the list
11 fragmentation of standards. And what they said
12 is, we are putting together this global platform
13 to standardize the audit and make it more
14 efficient and effective, improve audit quality,
15 but what gets in the way is fragmentation of
16 standards. Can you please get together, all of
17 you, as regulators, as accounting bodies,
18 auditing bodies, whatever, and do something
19 about it?
20 So I can tell you it's a big priority
21 for us in the strategy. We're working for the
22 SEC because the SEC has made some comments about

how they want to invest and pursue global harmonization. So we're doing that. The survey that you're suggesting or the approach you're suggesting would make a lot of sense. We have sort of started there. One of the first questions that I asked is: Can you show me next to each other where are we different, specifically as it related to IASQM1 and QC 1000? Because obviously that's a big deal. And we're moving towards that. We were -- we will definitely, in our strategic plan and the budget, put in additional investments in this area because it's going to -- it should be helpful to the filers, to the registrations, to the entire process. Ultimately, we need to harmonize it.

And by the way, as we -- since we talked about inspections earlier and there were questions, whether it was China or other places, the inspection process outside of the United States and the related risks. We do most of those inspections ourselves from here. And the

reason we do them from here is because many, if not all, I would say many for now not to get in trouble, but many of the regulators around the world don't have the resources to do the inspections and the work that we do here. And so it would be easy to say, okay, well now I'm going to go to France. There's no reason for us to go to France. We'll rely on the French regulator to do the inspections, in theory, but we're nowhere close to having all of these regulators around the world ready to do that.

So if you think about it in terms of standards, the goal should be to harmonize the standards as much as we can. You know, we are in a globalized world after all. The inspection process, it should be -- our goal should be to work together with the other regulators and to try to rely on one another as much as possible so they won't duplicate the effort. Just think about the need for -- or somebody asked the question about resources, right? Think about an inspection that takes place in a country where

English is not the spoken language. We need to employ translators. Well, there's -- it's a challenge, finding the right people and doing it the right way.

So yes, I think directionally we want to go there. It's a very big priority for us. And hopefully, at the next meeting or two meetings from now, we will be able to report back to you what progress we have made in that regard.

MR. BIBLE: Yeah. If I can add one thing, it was announced by the chairman at the open meeting that is part of the subsequent solicitation for comment on the strategic plan, we're also going to be issuing a standard setting agenda consultation. So that will be a good opportunity for us to put something forward and then the general public to react on where there might be those divergences between the standards and where we might be able to focus moving forward to bring those together.

MR. LOGOTHETIS: Thank you.

NOTICE: This is an unofficial transcript of the portions of the Public Company Accounting Oversight Board's Standards and Emerging Issues Advisory Group meeting on May 6, 2026 that relate to the proposed rule amendments to QC 1000, *A Firm's System of Quality Control*, related amendments to PCAOB Rule 2203A, PCAOB forms, and technical amendments to AS 2101, *Audit Planning*. The other topics discussed during the May 6, 2026 meeting are not included in this transcript excerpt.

The Public Company Accounting Oversight Board does not certify the accuracy of this unofficial transcript, which may contain typographical or other errors or omissions. An archive of the webcast of the entire meeting can be found on the Public Company Accounting Oversight Board's website at: https://pcaobus.org/news-events/events/event-details/pcaob-standards-and-emerging-issues-advisory-group-meeting-may-2026 https://pcaobus.org/news-events/events/event-details/pcaob-standards-and-emerging-issues-advisory-group-meeting-may-2026.

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD
(PCAOB)

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STANDARDS AND EMERGING ISSUES ADVISORY GROUP

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MEETING

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WEDNESDAY
MAY 6, 2026

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The Advisory Group met via videoconference, at 10:00 a.m. EDT, Demetrios Logothetis, Chairman, presiding.

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international equality control that was done -- that was already done before when it was originally issued. That would be really helpful to see.

MS. VANICH: Liz, there is a staff document available on the website that the staff -- there's two documents, one that highlights bigger differences and a very long document that kind of compares paragraph by paragraph.

MS. MOONEY: Is that the original proposal? Is -- okay. Okay. Is that the full comparison?

MS. VANICH: I would say so.

MS. MOONEY: Oh, okay. Do you mind sending that link or -- okay, thanks.

MS. VERBECK: Great. We'll circulate that post-meeting.

So, Brian, if you'd like to go ahead.

MR. CROTEAU: Thank you.

Yeah. So thanks again and really appreciate the opportunity to, you know, comment through the strategic outreach process and

certainly we'll be submitting a detailed comment letter, but maybe some overarching thoughts in this space. You know, as I think about -- and certainly the updated standard-setting agenda makes good sense to get QC 1000 kind of ultimately finalized with hopefully some opportunity for some improvement enhancements or addressing some of the concerns that have been raised.

So we look forward to seeing that and makes sense and we understand the broker-dealer rulemaking on the agenda and certainly the research project on data and technology.

I would suggest that as you -- as you kind of think about then what's next and ahead, I kind of think about it in buckets. And the first category would be things where if you think about kind of the emerging risks that we deal with today around technology. On certainly GenAI, I think there's work to do there, whether that's standards or guidance. We've talked about that in prior SEIAG meetings.

1 least. And so, there is a starting point there
2 where you can consider this as a template or
3 when you set the internal control standards. It
4 identifies the limitations, capabilities of
5 GenAI, and something that could save the
6 standard-setting process a lot of time, so
7 that's something to consider. Thank you.
8 MS. VERBECK: Thank you very much.
9 Jeff?
10 MR. MAHONEY: Thank you. Just to add a
11 few comments on some of the things that have
12 already been said. First, I think the professor
13 makes a couple of very good points about
14 international auditing standards. Let me add
15 just a couple of others. First, the SEC chief
16 accountant said recently that there were some
17 issues with the governance and funding of the
18 IAASB. So, as a governance person and CII, we
19 actually have a specific policy with respect to
20 standard setting, auditing and accounting
21 standard setting, that stable funding is
22 critical to high-quality standard setting, and

certainly, we believe governance is as well. So my comment there is, you know, we ought to look at those issues and see if the they can't be resolved before we spend too much or give too much reliance to international standard settings of standard setters.

To Brian's point, I agree, Brian, that to develop a single set of high-quality auditing standards, that is probably a different project than developing a single set of high-quality accounting standards.

You know, we know what happened in that circumstance, but I think some of the same issues will pop up as well. For example, there was political issues, there were legal issues, there were some cultural issues. I think you're going to run into some of those as well if you try to have a goal of a single set of high-quality auditing standards. I think those will rise up again in the case of auditing standards as they did with accounting standards. You know, the other point with accounting standards

is, at the end of the day, at least the SEC and others concluded that, by having a single set of high-quality accounting standards in the United States, it would not benefit the U.S. capital markets. There was a lot of benefit to other countries of having international standards and something close to U.S. standards, but the ultimate conclusion was having a single set of high-quality accounting standards would not benefit the U.S. capital markets.

So that's something to think about, again, if our goal is to have a single set of high-quality auditing standards. NOCLAR, Brian mentioned NOCLAR. I agree with Brian. I think we ought to try to finish that project. So much work was put into that project at the staff and the board level. I had some frustrations with that project because I think what should have happened is stakeholders should have gotten together and figured out, how do we fix it? There were a lot of problems with the proposal. No question about it.

I agree with you, Brian. But I think there should have been some type of an effort, and maybe the PCAOB could have led it, to bring the stakeholders together and figure out, how do we fix this? And maybe that can still occur when we hopefully move to finalize it.

QC 1000, I would just ask, I know there's discussion of a narrow amendment to improve it. I don't necessarily have a problem with that, but we have a new Chair. We have new Board members. I would just ask you to spend a little bit of time to look at what some have proposed should have been in QC 1000 and were rejected. Maybe we can spend just a little bit of time looking at those things again with the new Board, new Chair, and see if maybe some of those weren't good ideas that should be in QC 1000. So it's just something to think about.

Also, agree with Brian, interim standards, why can't we get rid of interim on the interim standards? Let's go through a process and take away the interim of interim

standards after we go through a thorough process. Thank you.

MS. VERBECK: Thank you very much.

Jennifer Burns?

MS. BURNS: Thanks. And thanks for that conversation today and the opportunity to be here. In terms of priorities and talking about technology, both on the topic of digital assets and AI, the AICPA through the Auditing Standards Board and the Assurance Services Executive Committee, have been working hard on guidance on both of those topics. We've got the digital assets practice aid, as well as an AI practice aid and process. And, you know, in the effort of U.S. standards that are collaboration, we would be more than happy to work with the PCAOB.

And I know we do share these practice aids with the staff and get their input before they're published, and certainly would welcome that collaboration as you all think about what you might want to do in that space. And

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Exhibit 2(a)(D)

Alphabetical List of Commenters on Possible Amendments to QC 1000 (Comments on PCAOB Release No. 2026-001)	
1	Agentic CPA Inc.
2	AICPA
3	Baker Tilly US, LLP
4	BDO USA, P.C.
5	Dennis R. Beresford, CPA
6	CBIZ CPAs P.C.
7	Cherry Bekaert LLP
8	Robert A. Conway
9	Council of Institutional Investors
10	CPA Club Inc.
11	Deloitte & Touche LLP
12	Ernst & Young LLP
13	Forvis Mazars, LLP
14	Grant Thornton LLP
15	ICR Inc.
16	The International Corporate Governance Network
17	KPMG LLP
18	Lark Research
19	Members of the Audit Committee Council
20	Members of the Investor Advisory Group
21	Pennsylvania Institute of Certified Public Accountants
22	PricewaterhouseCoopers LLP
23	RiskGraphs
24	RSM US LLP
25	Tapestry Networks, Inc.
26	Texas Society of Certified Public Accountants

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May 14, 2026
Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street NW
Washington, DC 20006

Re: PCAOB No. 2026-001 — Request for Public Comment on Strategic Priorities (2026–2030)

Dear Board Members:

Agentic CPA Inc. appreciates the opportunity to comment on PCAOB No. 2026-001 regarding the PCAOB's strategic priorities for 2026–2030. We support the Board's early-stage solicitation of stakeholder input and agree that the PCAOB's strategic plan should evolve alongside how audits are performed, supervised, documented, and evidenced in a technology-driven environment.

About Agentic CPA Inc.

Agentic CPA Inc. is a newly established Canadian CPA-led firm designed around an AI-first and agentic-by-design operating model. Because the firm is being built from inception, its internal operations, engagement execution processes, working methods, and methodology are being developed without the constraints of inherited legacy systems or workflows. This perspective informs our comments on how technology can be governed and used to improve audit quality while preserving professional judgment, accountability, and investor protection.

Perspective Informing Our Comments

We believe that artificial intelligence and agentic systems, when deployed responsibly, can strengthen the audit profession and materially improve audit quality over the short, medium, and long term. In our view, these tools can help address chronic and emerging structural pressures facing the profession, including increasing standards complexity, resource constraints, execution consistency challenges, and documentation burdens.

Our comments are not intended to promote a specific technology architecture or proprietary model. Rather, they reflect a practitioner perspective on how audit quality can be strengthened when AI-enabled tools are embedded within appropriate governance, documentation, supervision, monitoring, and professional review controls.

Core Premise for the PCAOB's 2026–2030 Strategic Plan

Audit quality is increasingly system-determined. Outcomes depend not only on professional judgment but also on the design, governance, and auditability of the systems used to execute procedures, analyze data, transform evidence, document work, and support review. AI should not be viewed as a substitute for professional skepticism, judgment, or accountability. Properly governed, it can reinforce those obligations through stronger consistency, improved evidence traceability, more disciplined documentation, and better execution control.

Many existing auditing standards, methodologies, and implementation practices were developed in an environment in which audit work was largely human-executed, file-based, transaction-oriented, periodic, and dependent on sampling because complete data access and continuous testing were often impractical. That historical model also shaped how auditors evaluated internal control, including audit strategies that rely on management-designed and management-operated controls, often tested through sample-based procedures. AI-enabled tools, agentic workflows, blockchain-based records, API-connected systems, and broader access to full-population data are beginning to change these assumptions.

This does not reduce the importance of internal control over financial reporting. Effective internal control remains central to reliable financial reporting, and in integrated audits the auditor's ICFR responsibilities remain distinct. However, technology may change the

relative mix of audit evidence available to auditors. In appropriate circumstances, auditors may be able to obtain more direct, system-native, and independently supported evidence from underlying transaction data, source systems, automated logs, external records, and evidence pipelines, rather than relying as heavily on indirect evidence derived from management's own control processes.

In AI-enabled audit workflows, documentation should preserve a reviewable path from the audit conclusion back to the underlying evidence, source data, relevant transformations, versioned tools or workflows, exceptions identified, and human review performed. The PCAOB should consider guidance that encourages this type of source-to-conclusion traceability, without prescribing a specific technology architecture or discouraging innovation in how firms design their systems.

A related near-term risk is the unauthorized or insufficiently governed use of AI tools by audit professionals and third-party providers. AI adoption may occur formally through firm-approved platforms, but it may also occur informally through "shadow AI"—the use of public or unapproved AI tools outside the firm's governance, monitoring, and documentation controls. In an audit context, this risk is particularly significant because engagement personnel, including less experienced professionals, may not fully understand the confidentiality, independence, evidence reliability, documentation, record retention, and professional skepticism implications of using such tools.

Board Member George R. Botic has specifically asked stakeholders to consider how the expanding use of AI affects audit evidence and whether existing standards impede auditors' ability to use advanced technologies. That question is central to the PCAOB's 2026–2030 planning horizon. In our view, the relevant issue is not simply whether auditors should "use AI," but how the PCAOB can ensure that AI-enabled audit execution environments are designed, governed, documented, and inspected in a manner that protects investors and strengthens audit quality.

Below, we respond to each of the seven questions in PCAOB No. 2026-001.

Crosswalk to PCAOB Questions

PCAOB No. 2026-001 Question	Where Addressed
Q1 — Strategic priorities in registration, inspections, and enforcement	Section 1
Q2 — Changes to the inspections program, including in light of QC 1000	Section 2
Q3 — Inspection information useful to stakeholders and reporting enhancements	Section 3
Q4 — Standard-setting projects the PCAOB should pursue	Section 4
Q5 — Greater alignment with international auditing standards	Section 5
Q6 — PCAOB deployment of technology, including AI	Section 6
Q7 — Enhancing transparency with stakeholders	Section 7

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1. Strategic Priorities in Registration, Inspections, and Enforcement

The PCAOB should prioritize a transition from oversight focused primarily on engagement files and episodic testing toward oversight of the systems that produce assurance. This does not mean reducing engagement-level accountability. It means recognizing that, in AI-enabled audit environments, engagement quality increasingly depends on the design and operating effectiveness of the firm's quality management system, technology infrastructure, data controls, workflow governance, documentation architecture, and AI governance.

Registration: Improve visibility into audit production technologies

The PCAOB should modernize registration and reporting to improve visibility into the technologies and third-party platforms that materially affect audit execution and audit evidence production. Expanded registration disclosures could support risk-based inspection planning and help the PCAOB identify systemic dependencies across firms.

Specifically, the PCAOB could expand Form 2 or create a supplemental technology profile requiring registered firms to disclose, at an appropriate level of aggregation:

1. whether AI or machine learning tools are used in audit execution;
2. whether third-party AI platforms materially affect evidence production, documentation, or review workflows;
3. the firm's governance model for AI-enabled audit tools, including ownership, oversight, validation, and escalation responsibilities;
4. whether the firm relies on common third-party providers whose failure or compromise could create concentration or systemic quality risks; and
5. whether the firm has policies and monitoring mechanisms designed to prevent unauthorized or undocumented AI use in audit execution.

This type of disclosure would not require public release of sensitive technical information. It would provide the PCAOB with targeted regulatory visibility into audit production technologies that may affect quality, independence, cybersecurity, documentation, and evidence reliability.

Shadow AI and ungoverned agentic use: a near-term risk priority

One near-term priority should be the risk of shadow AI and ungoverned agentic use in audit execution. The risk is not limited to formal AI deployments approved by firm leadership. It also includes the use of unapproved public AI tools, unsanctioned agents, embedded AI features within third-party software, and AI-enabled work performed by service providers that may not be subject to audit-specific governance expectations.

In audit practice, these uses can affect the preparation of workpapers, drafting of audit memoranda, evaluation of evidence, summarization of client data, preparation of analytical procedures, or review of exceptions. If such use is not identified, approved, documented, and supervised, the firm may be unable to assess whether confidentiality obligations were respected, whether client information was exposed, whether the output was reliable, whether independence risks were created, or whether the audit documentation preserves how the work was actually performed.

The PCAOB should consider making shadow AI a specific area of focus in registration, inspections, and enforcement. At a minimum, firms using AI-enabled tools in audit execution should have policies, inventories, approval workflows, training, monitoring, and escalation protocols designed to prevent unauthorized AI use from bypassing the firm's quality control system.

Inspections: Move toward QC-focused system assessments

The PCAOB should continue moving toward a QC-focused inspection model that evaluates firm-level quality management and technology-enabled execution controls, while using engagement-level reviews as validation. QC 1000 provides the right foundation because it is risk-based and requires firms to identify quality objectives, assess quality risks, implement quality responses, monitor performance, and remediate deficiencies.

Publicly available PCAOB inspection data and reports reflect recurring observations regarding firms' testing of data, audit documentation, and reliance on automated tools. These themes underscore the value of system-based inspection modules that evaluate not only the final workpapers, but also the reliability of the systems and workflows that generated or transformed audit evidence.

Enforcement: Clarify accountability in AI-enabled audit environments

The PCAOB should also develop enforcement guidance or staff statements addressing how accountability will be evaluated when audit failures involve AI-enabled workflows. Enforcement expectations should be clear that AI does not reduce auditor accountability. At the same time, the PCAOB should distinguish between failures of professional judgment, failures of system design, failures of governance, failures of supervision, and failures to preserve or review relevant documentation.

Priority enforcement scenarios may include:

1. improper alteration, deletion, or suppression of audit documentation, system logs, evidence lineage, or exception records;
2. excessive reliance on automated outputs without adequate human review;
3. failure to evaluate the reliability of AI-processed or machine-generated evidence;
4. failure to maintain appropriate controls over third-party AI tools that materially affect audit execution;
5. independence or ethics breaches arising from technology vendor relationships, data sharing, or prohibited service arrangements; and
6. use of unauthorized AI tools in a manner that bypasses the firm's quality control system or compromises audit documentation integrity.

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2. Changes to the Inspections Program in Light of QC 1000

QC 1000 provides an opportunity for the PCAOB to consider how inspections should evolve as audit execution becomes increasingly technology-enabled. We do not suggest that every inspection should include the same level of technology review, or that all firms should be subject to identical technology-related procedures. Rather, we recommend that the PCAOB consider piloting scalable inspection modules that may be applied based on the nature and extent of a firm's use of AI-enabled tools, automated workflows, and third-party audit production technologies.

Such inspection modules could include, where relevant:

1. system-based inspection procedures that evaluate the design and operating effectiveness of governance, monitoring, and documentation controls supporting audit execution;
2. Digital Execution Layer review as an inspection lens for AI-enabled evidence pipelines, where automated workflows materially affect audit evidence, documentation, or review processes; and
3. standardized inspection data packs, such as logs, evidence lineage records, version inventories, exception trails, and reviewer sign-offs, where such artifacts are necessary to understand how audit evidence was produced or transformed.

The Digital Execution Layer, or DEL, should not be viewed as a parallel quality control framework. Rather, it is a practical way to operationalize QC 1000's existing expectations for technological resources, documentation, monitoring, remediation, governance, and due professional care in AI-enabled environments.

These data packs should support source-to-conclusion traceability, allowing inspectors, where relevant, to understand how an audit conclusion was supported by underlying evidence, source data, transformations, system activity, reviewer actions, exceptions, and versioned AI or workflow components. This would improve reproducibility-based inspection review without requiring the PCAOB to prescribe a specific technology architecture.

Where relevant, inspection modules should also consider whether the firm has designed and implemented controls to identify and manage shadow AI risk, including:

1. whether the firm maintains an inventory of approved AI tools, agents, and embedded AI features used in audit execution;
2. whether engagement teams are trained on prohibited or restricted AI uses;
3. whether the firm monitors for unauthorized AI use in audit workflows;
4. whether AI-generated or AI-assisted outputs are clearly identified in audit documentation; and

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5. whether the firm has escalation and remediation procedures when unapproved tools are used.

These procedures should be scalable. For a firm with limited use of AI-enabled tools, foundational controls may be sufficient. For a firm using AI-enabled workflows to materially affect audit evidence, documentation, risk assessment, or review, more robust inspection procedures would be appropriate.

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3. Inspection Information and Reporting Enhancements

Stakeholders would benefit from inspection reporting that more clearly links engagement deficiencies to underlying QC root causes, while respecting confidentiality restrictions that apply to nonpublic quality control criticisms.

We recommend that the PCAOB enhance inspection reporting in three ways.

A. Link recurring engagement deficiencies to QC root causes

Quality control criticisms in Part II of inspection reports are initially nonpublic and become public only if the firm fails to remediate them to the Board's satisfaction within the applicable remediation period. Within those constraints, the PCAOB could provide more aggregated information linking recurring engagement deficiencies to anonymized QC root-cause categories, such as methodology design, training, supervision, monitoring, technology governance, documentation controls, or data reliability.

B. Expand machine-readable inspection datasets

The PCAOB already provides machine-readable inspection data. We recommend expanding those datasets and related metadata to include more standardized deficiency categories, control themes, remediation indicators, and, where appropriate, technology-related classifications. This would help investors, audit committees, academics, and firms better understand inspection trends.

C. Communicate how QC 1000 and Form QC will shape inspections

As QC 1000 becomes effective, stakeholders will need to understand how Form QC reporting will inform inspection planning, inspection reporting, and remediation expectations. The PCAOB should provide transparent communication about how QC 1000 reporting will be used without converting Form QC into a public ranking mechanism or discouraging candid self-assessment by firms.

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4. Standard-Setting Projects the PCAOB Should Pursue

We recommend targeted guidance rather than broad, premature rewriting of auditing standards. The most immediate need is to clarify how existing PCAOB standards apply when audit evidence is generated, transformed, summarized, reviewed, or documented through AI-enabled systems.

A. AI-era audit evidence guidance under AS 1105

The PCAOB should consider interpretive guidance or targeted amendments under AS 1105, Audit Evidence, addressing machine-generated evidence, AI-assisted analytical procedures, automated data transformations, and evidence reliability in AI-enabled audit workflows.

Such guidance should address:

1. how auditors should evaluate the relevance and reliability of AI-processed evidence;
2. what procedures are necessary when data is transformed by automated tools before review;
3. how auditors should evaluate the source, completeness, accuracy, and integrity of machine-generated outputs;
4. when model validation or workflow validation is necessary to support evidence reliability; and

5. how professional skepticism should be documented when AI-generated outputs appear persuasive but may be incomplete, biased, or unsupported.

B. Audit documentation guidance under AS 1215

The PCAOB should also consider guidance under AS 1215, Audit Documentation, addressing documentation integrity and reproducibility in automated and agentic workflows.

At minimum, guidance should clarify what constitutes sufficient documentation when evidence is generated through automated systems, including expectations for system logs, evidence lineage, version records, exception retention, reviewer actions, and reproducibility protocols.

Guidance under AS 1215 should also consider how audit documentation can preserve a reviewable evidence path in AI-enabled workflows. Such documentation should allow an experienced auditor or inspector to understand the source of the evidence, the transformations applied, the tools or workflows used, the exceptions identified, the human review performed, and the audit conclusion supported.

C. Sampling, internal control reliance, and direct-source evidence

The PCAOB should also consider a longer-term standard-setting or research project addressing how AI-enabled tools, full-population analytics, blockchain-based records, API-connected systems, and continuous auditing capabilities affect traditional audit concepts such as sampling, internal control reliance, and substantive evidence.

Historically, auditors often relied on a combination of management's internal controls and sample-based testing because direct examination of complete transaction populations was not practical. That logic remains relevant, particularly where auditors are engaged to perform an integrated audit of internal control over financial reporting. However, emerging technologies may allow auditors to obtain more direct and independent evidence from source systems, transaction populations, system logs, and automated evidence pipelines.

The objective should not be to reduce the importance of internal control or weaken ICFR expectations. Rather, the PCAOB should clarify how auditors should evaluate the relative weight of different evidence sources when technology enables broader, more continuous, or more direct testing. In some cases, full-population analytics and source-system evidence may complement control testing. In other cases, they may affect the auditor's decision about the extent to which reliance on certain controls is necessary to support the financial statement audit. Guidance would be particularly useful on how auditors should document these judgments, evaluate the reliability of source data, and determine when technology-enabled procedures provide sufficient appropriate audit evidence.

This work could include consideration of AS 1105, AS 1215, AS 2301, AS 2315, and, where applicable, AS 2201 because AI-enabled audit execution affects not only what constitutes reliable evidence and sufficient documentation, but also the nature, timing, extent, population coverage, and control-reliance strategy of audit procedures.

D. Guidance on approved, restricted, and unauthorized AI use

The PCAOB should consider whether staff guidance is needed on documentation and supervision expectations that apply when AI tools are used in engagement execution, including how firms should distinguish between approved AI-enabled workflows, restricted uses, and unauthorized or undocumented AI use.

This guidance could address:

1. how firms should identify AI-assisted work in audit documentation;
2. how engagement teams should document human review of AI-generated outputs;
3. how firms should preserve evidence of prompts, inputs, assumptions, outputs, exceptions, and overrides where relevant to audit conclusions;

4. how firms should train professionals on prohibited or restricted AI uses; and
5. how firms should respond when engagement personnel use unapproved AI tools.

E. Related standard-setting areas

The PCAOB should also evaluate whether AI-era dependencies require targeted guidance related to:

1. use of service organizations and third-party technology providers;
2. use of specialists or specialist-like AI tools;
3. supervision and review in distributed or automated execution environments;
4. independence implications of AI vendors serving both audit firms and audit clients; and
5. cybersecurity, confidentiality, and data transfer considerations when AI tools process audit-relevant information.

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5. International Alignment

We do not suggest that the PCAOB should conform its standards to any international framework where doing so would dilute U.S. investor protection, PCAOB inspection authority, or U.S. independence requirements. However, because audit firms increasingly operate across jurisdictions, the PCAOB should continue to identify areas where QC 1000 and international quality management frameworks can be made more interoperable from an implementation perspective.

In particular, the PCAOB should focus on practical interoperability in areas such as documentation expectations, monitoring evidence, remediation concepts, technology governance, and AI-related quality risk assessment. This would help multi-jurisdictional firms implement coherent quality management systems while preserving the distinct requirements of the U.S. regulatory regime.

The objective should not be harmonization for its own sake. The objective should be to reduce unnecessary friction where quality objectives are comparable, while maintaining the PCAOB's investor-protection mandate and U.S.-specific oversight requirements.

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6. PCAOB Deployment of Technology, Including AI

The PCAOB should deploy technology, including AI, to strengthen investor protection, improve inspection targeting, enhance trend analysis, and expand transparency. However, regulatory AI must be governed with at least the same discipline that the PCAOB expects from audit firms.

We recommend that the PCAOB develop a Regulatory AI Platform with the following safeguards:

1. strong model governance and validation;
2. explainable and auditable risk-scoring outputs;
3. clear documentation of how AI-assisted analytics inform inspection planning;
4. human oversight over high-impact regulatory decisions;
5. safeguards against bias, overreliance, and opaque decision-making;
6. due process protections for firms affected by AI-assisted risk targeting; and
7. alignment with established public-sector AI risk management principles, including the governance, mapping, measurement, and management functions described in the NIST AI RMF.

The PCAOB should avoid "black box" regulatory decision-making. Where AI is used to prioritize firms, engagements, industries, or risk areas for inspection, the methodology should be sufficiently explainable to preserve regulatory legitimacy and stakeholder confidence.

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7. Enhancing Transparency with Stakeholders

The PCAOB can enhance transparency by improving the clarity, comparability, and usability of its public outputs.

We recommend that the PCAOB:

1. expand machine-readable inspection data and explanatory metadata;
2. provide clearer public summaries of recurring inspection themes;
3. explain how QC 1000 implementation and Form QC reporting will influence inspection planning;
4. clarify how remediation outcomes affect what becomes public;
5. publish aggregated technology-related inspection themes where appropriate;
6. communicate how the PCAOB itself is governing any use of AI in inspection, enforcement, standard-setting, or stakeholder transparency; and
7. provide educational materials to help firms, especially smaller and emerging firms, understand expectations for approved AI use, restricted AI use, and shadow AI risk management.

Transparency should not require disclosure of confidential firm information or sensitive technology details. Rather, the PCAOB should provide more structured, comparable, and decision-useful information to investors, audit committees, firms, academics, and other stakeholders.

Conclusion

Our recommendations align with the Chairman's Advance–Clarify–Transform framework. Extending QC 1000 through Digital Execution Layer controls would advance oversight into the AI era. Targeted guidance on AI-era audit evidence under AS 1105, audit documentation under AS 1215, and technology-enabled audit execution concepts would clarify expectations for firms and inspectors. Exploring an Assurance-Systems Certification framework would transform how audit production quality is evaluated, compared, and strengthened over time.

Agentic CPA Inc. believes that AI-enabled and agentic audit systems, when properly governed, represent a significant opportunity to improve audit quality and strengthen the profession. These tools can help address structural pressures that have accumulated over time, including standards complexity, resource constraints, inconsistent execution, documentation burdens, and limitations inherent in purely sample-based approaches.

In our view, the strategic question is not only how AI should be controlled, but how audit standards should evolve when technology changes the nature, timing, extent, and independence of the evidence available to auditors.

We appreciate the PCAOB's early engagement with stakeholders and would welcome further dialogue on QC-focused inspections, Digital Execution Layer governance, AI-era evidence documentation, source-to-conclusion traceability, shadow AI risk management, and responsible regulatory use of AI.

Respectfully submitted,

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May 15, 2026

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

Re: PCAOB Release No. 2026-001, *PCAOB Strategic Priorities*

Dear Members of the Public Company Accounting Oversight Board:

Thank you for the opportunity to comment on the strategic priorities of the Public Company Accounting Oversight Board (PCAOB or Board). Our response herein is focused on Question 5, which asks how the PCAOB can achieve greater alignment of its auditing standards with international auditing standards. We appreciate the Board's focus on this topic, recognition of the increasingly global nature of the capital markets, and consideration of interoperability of auditing standards that serve the public interest.

All U.S. standard setters share a common objective: serving the public interest by promoting high-quality audits. Purposeful alignment, informed by collaboration and transparency, advances this shared mission while appropriately preserving jurisdiction-specific responsibilities. Against this backdrop, greater alignment of PCAOB standards with international auditing standards, where appropriate, would meaningfully support audit quality and the public interest. Such alignment would also improve consistency across U.S. audit requirements, easing transitions for entities entering or exiting PCAOB's jurisdiction and supporting auditors who routinely apply multiple sets of standards in practice.

Benefits of Alignment

Many audit firms operate globally and design methodologies that must accommodate the International Standards on Auditing (ISAs) developed by the International Auditing and Assurance Standards Board (IAASB), and for issuer audits, PCAOB standards as well. In the U.S., engagements are also performed in accordance with the AICPA's Generally Accepted Auditing Standards (GAAS) and Generally Accepted Government Auditing Standards (GAGAS) promulgated by the U.S. Government Accountability Office (GAO), both of which are aligned with the ISAs.[1] When firms and practitioners have to undertake and incorporate changes to methodologies and documentation to account for different standards, there is a significant burden including technological changes, training, and monitoring. Alignment of PCAOB standards with ISAs as appropriate (and thereby with GAAS and GAGAS) would reduce unnecessary complexity, fragmentation and implementation and execution risk,

[1] The ASB Operating Policies provide details regarding the ASB's consideration of the ISAs.

allowing firms and auditors to focus resources on matters most critical to audit quality and investor protection.

ASB Deliberative Processes and Interaction with IAASB

Based on our experience, the approach to alignment with the ISAs employed by the AICPA's Auditing Standards Board (ASB) has proven effective, workable, and beneficial to the public interest and users of financial statements. The ASB has a strategic objective to converge, as appropriate, with the ISAs, while remaining firmly grounded in the public interest and the U.S. legal and regulatory environment. The ASB's transparent process includes its own research and outreach, detailed deliberation of standards in public meetings, exposure of standards for public comment, consideration of all feedback, and voting on final standards in public meetings. The ASB's experience and transparent process would provide useful insights for the PCAOB as it considers its standard-setting process going forward.

Importantly, the ASB has a process in place to monitor the ongoing projects of the IAASB throughout the entire standard-setting cycle and provide input and feedback as those standards are developed.[2] This monitoring is achieved through the assistance of an ASB designated task force focused on international audit standard setting which meets on at least a quarterly basis with the ASB to discuss IAASB meeting materials and related issues. The ASB's process provides early visibility into emerging issues, allows consideration of and feedback regarding possible approaches, and identifies potential implementation challenges, enabling the ASB to consider these matters concurrently with the IAASB.

As mentioned above, as part of its consideration regarding initiation of a standard-setting project, the ASB conducts research and outreach to help inform standard-setting decisions and priorities. When applicable, the ASB shares that research with the IAASB (and has also shared this research with PCAOB staff). For example, the ASB, under the leadership of one of its academic members, conducted independent research related to projects on AU-C Section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* and AU-C Section 240, *Consideration of Fraud in a Financial Statement.* In addition, the ASB and the IAASB have conducted joint research in relation to potential changes to the auditor's report. All of the research has informed ASB feedback to the IAASB through various means, including through sharing the results directly with the IAASB, dialogue at IAASB and Jurisdictional Standard Setters meetings, commentary on IAASB meeting materials, and formal comment letters during exposure periods of proposed standards.

When the ASB decides to pursue an auditing standard project similar to that undertaken by the IAASB, the ASB often uses the international standard as the starting point.[3] The ASB will then evaluate whether alignment is appropriate in light of the needs of U.S. stakeholders, and the ability for requirements to be implemented clearly and consistently within the U.S. legal and regulatory

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[2] As explained in the ASB's Strategic Plan 2026-2030, one of the keys to the ASB fulfilling its mission is continually contributing to, and drawing from, the development of high-quality international auditing and assurance standards and guidance issued by the International Auditing and Assurance Standards Board (IAASB) and acting in ongoing dialogue with the standard-setting work of other U.S. standard-setters, such as the AICPA Professional Ethics Executive Committee (PEEC), the PCAOB, and the Government Accountability Office (GAO).

[3] With respect to the AICPA Attestation Standards, the longevity and inclusion of those standards in law and regulation resulted in the decision to maintain such standards as structured and written by the ASB, rather than adopt the format and structure of the IAASB's International Statements on Assurance Engagements.

environment. The ASB strives to minimize differences in wording, to avoid unnecessary complexity and execution challenges as auditors and firms seek to faithfully comply with applicable standards. At the same time, the ASB, through its deliberative process, may decide to clarify particular requirements and guidance, and, as a result, make other modifications appropriate for the U.S. non-issuer environment. These differences occur only when there is a clear rationale, and substantive differences are transparently documented and explained in ASB meeting materials and Appendix B of GAAS. During this process, the ASB also considers the work of the PCAOB, in determining whether to make changes to its standards. This disciplined approach has supported alignment while preserving appropriate differences in specific areas; some recent examples of differences between GAAS and the ISAs include retaining the ability to make reference to other auditors, addressing U.S. specific reporting requirements and other matters unique to the non-issuer environment, and excluding ISA requirements that apply solely to listed entities.

PCAOB Interaction with the IAASB

We encourage the PCAOB to engage actively with the IAASB and increase participation in global standard-setting efforts throughout the ISA development cycle. Early and ongoing dialogue allows international standards to be informed by U.S. regulatory perspectives and audit practice experience, which in turn can reduce the need for divergence later in the process. Without sustained engagement throughout the standard-setting lifecycle, there is a significant risk of standard-setting outcomes that are not practicable in the U.S., which increases complexity, challenges consistent implementation, and ultimately may detract from audit quality. We acknowledge that there will continue to be instances in which it would be appropriate for the PCAOB to maintain differences (e.g., requirements related to expressing an opinion on internal control over financial reporting). In addition, while international auditing standards are developed to serve a global public interest, they do not necessarily reflect the specific capital market needs of a particular jurisdiction. However, using a process in which the PCAOB standards substantially aligns with the language used in the ISAs, and then adds requirements or modifies particular requirements as appropriate for the U.S. issuer environment, would be extremely beneficial to the overall objective of audit quality.

Facilitating Performance Under Differing Standards

Where differences are necessary, it would be helpful for the PCAOB to articulate the departure from international standards and the nature of such differences (e.g., whether they are wording differences without an expected execution difference or differences in requirements).[4] We also believe it would be beneficial for the PCAOB to identify differences from GAAS in greater detail, to help auditors, audit committees, investors, and other stakeholders better understand the differences between what is required for an issuer audit as compared to an audit of a non-issuer. Transparent explanations of these differences, including how and why PCAOB requirements differ may also result in influencing other standard setters to align with PCAOB standards. To provide such transparency, we suggest that the PCAOB consider tools that have been successfully used by the ASB and others, such as detailed crosswalks or reconciliation matrices. While the PCAOB has made available its "Find an Analogous Standard" tool,[5] it only provides very high-level information to understand which PCAOB standard

[4] Some efforts have been made by the PCAOB in the past to leverage international standards and provide comparisons. For example, see the PCAOB's Concept Release: Potential Approach to Revisions to the PCAOB Quality Control Standards.
[5] https://pcaobus.org/oversight/standards/auditing-standards/analogous-standards

relates to which ASB and IAASB standard. We believe that a more detailed, publicly available comparison of the standards, which highlights the specific differences, would be a highly effective tool. Enhanced tools can help isolate differences, inform decisions about how to achieve the differential requirements, and provide an accessible onramp for auditors, entities and audit committees transitioning from a private company audit to a public company audit, or from a public company audit to a private company audit. Appendix B of the AICPA Auditing Standards, which documents substantive differences between GAAS and ISAs, is one example of how to operationalize such transparency. Working towards alignment should minimize differences over time; however, we understand that audits of U.S. issuers will include additional requirements.

Opportunities for Alignment

As the PCAOB considers opportunities for alignment, targeted analyses of recently revised international and jurisdictional standards may also be informative. For example, the PCAOB as part of its project to consider targeted changes to QC 1000 may want to examine the differences between QC 1000, *International Statement on Quality Management* No. 1, and *Statement on Quality Management Standards* No. 1, to assess whether additional alignment would be beneficial for enhanced application and execution. In addition, examining revisions to standards such as ISA 240 (Revised), *The Auditor's Responsibilities Related to Fraud in a Financial Statement Audit* (and the similar revisions being contemplated by the ASB to AU-C Section 240) or comparing PCAOB requirements in areas such as risk assessment with the most recent versions of ISA 315 and AU-C Section 315, could help identify areas where alignment in concept and language may be achievable, and improve understandability and application of PCAOB standards, thereby enhancing audit quality.

Means of Collaboration Among Standard Setters

Opportunities exist to collaborate among U.S. standard setters and leverage each other's work, such that all stakeholders benefit. The ASB and GAO, as well as other regulators within the U.S., are simultaneously responding to common issues or challenges, such as the impact of technology on the audit. For example, the ASB, ASB staff, and the AICPA's Assurance Services Executive Committee AI Working Group are currently developing guidance related to the use of AI and its implications for the audit —an area we recognize may also be a priority for the PCAOB. We believe this provides an excellent opportunity for collaboration to provide clear, consistent guidance in an evolving and critically important area.

Currently, the PCAOB, GAO, and ASB meet on a biannual basis to share workplans and priorities; additional collaboration among the U.S. standard setters would be beneficial to achieve our common goals and respective responsibilities for safeguarding the public trust and supporting audit quality. For example, consideration should be given to undertaking a joint project, joint research, or identifying areas in which the work of the other standard setter can be appropriately leveraged. Further collaboration among standard setters can reduce duplicative efforts, enhance consistency, and promote more efficient and effective application of the standards—benefiting investors, audit committees, and entities navigating different audit regimes.

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In closing, we believe that thoughtful and purposeful alignment, grounded in the public interest, has demonstrated clear benefits to all stakeholders. The ASB's experience shows that alignment with international standards—paired with transparent, principled decisions about necessary differences—can support high-quality audits, improve clarity for practitioners and users, and reduce unnecessary complexity and implementation challenges. We appreciate the Board's consideration of stakeholder perspectives on this important topic. We would be pleased to meet with you and share our perspectives as the PCAOB considers and formulates its approach to alignment.

Sincerely,

Jennifer Burns

Jennifer Burns
AICPA Chief Auditor

Halie Creps
Chair, AICPA Auditing Standards Board

cc:
Kurt Hohl, Chief Accountant, U.S. Securities and Exchange Commission
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May 15, 2026

By email: comments@pcaobus.org

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

Re: PCAOB Release No. 2026-001, PCAOB Strategic Priorities

Dear Office of the Secretary:

Baker Tilly US, LLP (Baker Tilly) appreciates the opportunity to comment on the strategic priorities of the Public Company Accounting Oversight Board (PCAOB or Board) in response to PCAOB Release No. 2026-001, *PCAOB Strategic Priorities*. Baker Tilly serves a broad spectrum of smaller and middle market public companies, registered broker-dealers, and other stakeholders in the US capital markets.

We commend the Board for its efforts to seek stakeholder input as it develops its strategic plan. We believe audit quality is best supported through oversight that is informed by thoughtful collaboration with stakeholders and is clear and consistent in its application.

Among the areas we believe should be prioritized by the Board is the establishment of a more consistent and risk-based inspections program that is scalable for firms and issuers of different sizes. This is particularly important in the smaller and middle market, where audit firms operate with more concentrated portfolios and resource structures commensurate with the size of their practices. Consequently, the practical effects of shifts in the Board's strategic priorities can have an outsized impact compared to larger firms. Our more detailed responses to questions posed in the request for public comment are set forth below.

Q1. What should the PCAOB focus on as its strategic priorities in registration, inspections, and enforcement over the next two to five years to further its statutory mission?

As one of the Board's most important tools for promoting audit quality, we believe it is critical for the inspections program to operate in a manner that is consistent, sustainable and focused on matters of significance to investors. In our experience, we have encountered inconsistencies in the execution and outcome of inspections over time. This variability in execution leads to various negative outcomes, ranging from difficulty in retaining public company audit professionals to uncertainty in performance expectations in conducting audit procedures. Anecdotally, we are aware that inspection uncertainty may have caused audit teams to design procedures in an overly conservative manner with the objective of avoiding inspection scrutiny, rather than applying a risk-based approach focused on the matters of greatest importance to users and complying with the standards as written. We believe these situations result in an inefficient allocation of auditor resources that is not accretive to audit quality and, ultimately, increases the costs borne by public company investors. Accordingly, we encourage the Board to make consistency in inspection design, execution, and communication a central strategic priority that is sustainable beyond the term of the current board.

We believe that effective oversight must be both rigorous and scalable. This view is informed by our experience serving smaller and middle market issuers. As one example, firms with smaller and more concentrated issuer portfolios may have the same larger or more complex engagements selected repeatedly over multiple inspection cycles. Having the same engagement selected over multiple inspection cycles creates operational

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strain on engagement teams and may not represent the most effective use of inspection resources in promoting audit quality, as the same audit (often with the same areas of focus) is repeatedly subjected to scrutiny. In the middle market, where audit professionals often serve both public and private company engagements, continuous inspection pressure can also discourage talented auditors from concentrating on public company work. Over time, this dynamic can also place middle market firms at a competitive disadvantage if clients perceive that moving to a larger firm would reduce the likelihood of recurring inspection attention on their audit.

For these reasons, we believe one of the Board's highest priorities should be establishing an evolved inspections program that is consistent and transparent in execution, focused on matters of significance to investors, and scalable across firms and issuers of different sizes.

Q2. What changes should the PCAOB make to its inspection program including, but not limited to, changes in light of its new quality control standard (QC 1000)?

We support an inspection program that gives greater weight to how firms design, operate, and monitor their systems of quality control, while remaining risk-based and proportionate in application. We believe the implementation of QC 1000 provides the Board with an opportunity to modernize its inspection approach so that it is more closely aligned with sustained audit quality rather than relying principally on individual engagement findings as the basis for broader conclusions. In doing so, the Board should recognize that firms with differently sized issuer portfolios may design and operate controls differently while still achieving quality objectives that are appropriate in the circumstances, and tailor each firm's inspection accordingly.

During the early phases of QC 1000 implementation, we encourage the Board to emphasize consistency in application and practical understanding of the new requirements during the inspection process. In our view, firms should have an opportunity to refine their systems of quality control based on early experience before the inspection process hardens around unsettled interpretations, particularly given the lack of a formal consultation mechanism, as discussed further in our response to question 7.

We also encourage the Board to make the remediation process more timely and efficient. Where remediation conclusions are delayed for extended periods, the process becomes less useful to investors and less effective as a mechanism for promoting meaningful improvement, particularly if the audit procedures for the subsequent period have already been executed.

More defined criteria for when a quality control criticism is warranted, and what constitutes satisfactory remediation, would also further improve transparency and oversight effectiveness.

Q3. What inspection information would be most useful to stakeholders, and how could inspection reporting be enhanced under a quality-control-focused inspection program?

We believe inspection reports could provide more useful information to stakeholders if they more clearly differentiated the relative significance of reported findings. In particular, the current presentation of Part I.A deficiencies does not sufficiently distinguish between matters of different severity or consequence. Without additional context, users may have difficulty understanding what a reported finding indicates about overall audit performance, whether at the engagement or firm level. We encourage the Board to revisit its approach to reporting inspection results, including the manner in which findings are described, contextualized, and communicated to stakeholders, to enable users to better assess the significance of reported findings.

Inspection reporting would also be strengthened by providing all stakeholders with greater transparency into how deficiencies are evaluated and communicated. A consistent, principles-based framework for assessing the severity of deficiencies — grounded in risk, materiality, and the totality of audit evidence — would help ensure that findings are interpreted in proportion to their significance. In our view, this would reduce the risk that isolated or less consequential matters are perceived as equivalent to more significant issues and would enhance the ability of audit committees and other users to make informed judgments about auditor performance.

We also encourage the Board to reconsider how deficiency rates and inspection results are presented and compared across firms. As currently reported, percentage-based measures may not provide a meaningful basis for comparison among firms with substantially different issuer portfolios, engagement concentration, and risk profiles. As noted previously, firms with a relatively modest number of issuer clients and a limited number of larger or integrated audits may experience recurring inspection focus on a small number of engagements. That concentration can disproportionately affect reported results relative to the overall scale and composition of their practice. Without additional context regarding portfolio concentration, market capitalization, and the complexity and diversity of a firm's client base, generic reporting metrics may obscure important differences among firms and may not provide stakeholders with a balanced, contextual view of inspection outcomes.

Q4. What standard-setting projects should the PCAOB pursue?

We support modernization of PCAOB standards where there is a demonstrated need for change and a clear basis for concluding that such change would enhance audit quality. We believe particular attention could be given to older standards that may no longer reflect current practice, evolving risks, or changes in the broader environment. To guide any modernization efforts, the Board could consider whether the IAASB has taken on projects to address such matters, which could provide the PCAOB with a practical starting point for potential updates to its standards. In our view, leveraging efforts of the IAASB in certain areas would be an efficient means of improving audit quality while reducing costs for stakeholders of US public companies.

At the same time, we encourage the Board to remain disciplined in its standard-setting agenda and to consider carefully whether change is warranted, particularly in light of the pace of standards change and the cumulative effects of newly-adopted standards on practitioners. Consistent with the themes discussed above, we believe standard setting should be informed by broad stakeholder input, including the views of auditors, audit committees, investors, issuers, and other stakeholders.

In areas involving rapidly evolving technologies, such as digital assets or artificial intelligence (including generative artificial intelligence (GenAI)), we encourage the Board to embrace technological change and utilize existing advisory groups and other stakeholder outreach to explore how such changes could improve audit quality before adding standard setting projects. In most cases, interpretive guidance informed by stakeholder outreach may be a more timely and effective means to convey the Board's views than a formal standard setting project. We would be supportive of the PCAOB providing interpretive guidance that clarifies how existing standards apply both to audits of companies that use GenAI in financial reporting processes and to firms' own use of GenAI tools. In our view, that approach would better preserve flexibility, allow the Board to respond nimbly to developments in practice, and avoid introducing new standards that may quickly become outdated or prove unworkable.

Q5. How can the PCAOB achieve greater alignment of its auditing standards with international auditing standards?

We support greater alignment with international auditing standards with the standards of the PCAOB. Greater harmonization would reduce duplication and unnecessary differences, improve efficiency and effectiveness in firms' audit methodology and training, and promote consistency in an increasingly global economic environment. Where the PCAOB determines that divergence may be appropriate, we encourage the Board to rigorously evaluate the costs and benefits of the divergence, including working with stakeholders to obtain a comprehensive assessment of the costs early in the standard setting process. If the Board ultimately concludes the divergence is necessary, we encourage the Board to articulate clearly the basis for that decision and the investor protection objective that outweighs the associated cost.

Q6. In what ways should the PCAOB consider deploying technology, including AI, to help further its investor-protection mission?

We support the PCAOB's thoughtful use of technology, including AI, to enhance its effectiveness and efficiency. We believe any such use should be deliberate, transparent, and tied to clearly defined objectives. In our view, the Board should ensure that technology deployment is accompanied by appropriate governance, transparency

around purpose, and disciplined use of data. Similar to the use of AI and other advanced technologies by issuers and firms, we believe the PCAOB can achieve meaningful efficiencies and other benefits by using innovative technologies in furtherance of the public interest.

Q7. How can the PCAOB enhance transparency with its stakeholders?

We believe the PCAOB can enhance transparency most meaningfully by fostering timely dialogue and substantive, collaborative engagement with stakeholders. In our view, greater transparency is not limited to public reporting or formal communications by the Board, but should also include providing clearer, more practical avenues for firms to understand expectations and address significant technical questions as they arise.

We believe audit quality could be enhanced through the establishment of a proactive consultation mechanism through which auditors may seek timely feedback on audit approaches or quality control matters in areas involving significant judgment. In practice, significant interpretive questions may arise during audit planning or execution, or in other contexts, such as when matters are identified through the inspection process. In those circumstances, clearer consultation channels would promote consistency, reduce unnecessary uncertainty, and help ensure that matters involving significant professional judgment are evaluated in a more transparent and informed manner. The Securities and Exchange Commission has various consultation avenues which could inform the PCAOB's establishment of similar processes.

To be effective, such a mechanism should provide stakeholders with a clear understanding of whether, when, and how matters may be elevated for consultation, as well as the process by which the PCAOB determines whether to object to a particular audit approach or conclusion. Greater transparency in these areas would improve the quality of dialogue between the PCAOB and the firms and support a more consistent and effective oversight framework.

* * * * *

We appreciate the opportunity to provide feedback on the Board's strategic plan and would be pleased to further discuss our perspectives with you. Please contact John Donohue (john.donohue@bakertilly.com) or Porter Loud (porter.loud@bakertilly.com) with any questions.

Sincerely,

Baker Tilly US, LLP

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May 15, 2026

Ms. Phoebe W. Brown
Secretary
Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006

PCAOB Release No. 2026-001, Request for Public Comment PCAOB Strategic Priorities

Dear Ms. Brown:

BDO USA, P.C. is pleased to respond to the Public Company Accounting Oversight Board's (PCAOB or the Board) Release No. 2026-001, *Request for Public Comment: Draft 2026-2030 PCAOB Strategic Plan* (Draft Strategic Plan). We commend the Board's proactive and transparent initiative to solicit input from a broad range of stakeholders concerning its oversight activities, technology advancements, and enhanced stakeholder transparency. The request for comment reflects an opportunity to thoughtfully reassess the PCAOB's priorities considering a changing financial reporting environment, evolving stakeholder expectations, and the growing influence of technology, including artificial intelligence (AI). We value the opportunity to engage with the PCAOB and share our perspectives to help inform the Board's strategic direction and future activities.

We agree that the PCAOB's future agenda should remain grounded in its core investor-protection mission while also being sufficiently agile to respond to emerging risks, changes in market practice, and the continuing evolution of firms' quality control systems, including their implementation of QC 1000.

Since its creation, the PCAOB has played a valuable role in significantly improving audit quality in the public company audit profession in promoting informative, accurate, and independent audit reporting in the public interest. We share the Board's commitment to protecting investors and advancing audit quality, which remain fundamental to confidence in the capital markets. As the PCAOB considers its strategic priorities, we encourage a practical, risk-focused, and collaborative approach that keeps pace with

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evolving quality control standards and firms' advancements in quality control systems and technology.

We respectfully offer the following comments for the Board's consideration in the spirit of advancing audit quality, supporting the long-term strength and attractiveness of the public company and broker-dealer audit profession, and promoting continued confidence in the capital markets. We would welcome continued dialogue with the PCAOB and its staff as these priorities and related initiatives evolve.

Question 1: What should the PCAOB focus on as its strategic priorities in registration, inspections, and enforcement over the next two to five years to further its statutory mission?

Over the next two to five years, the PCAOB should align its strategic priorities with areas most likely to enhance investor protection and improve audit quality. Across standard setting, inspections, and enforcement, the Board should emphasize materiality, harmonization, and clarity in these oversight activities. The Board should also promote an oversight framework that is durable and consistently applied over time, enabling investors, audit committees, issuers and auditors to respond with greater confidence and less uncertainty, all in the furtherance of the ultimate goal of investor protection.

To make these principles actionable, we offer the following:

1. *Materiality*: The PCAOB's oversight activities should be centered on matters that are material to investors, audit committees, preparers, regulators, other users of the financial statements. Prioritizing issues based on their significance and potential impact will better promote investor protection, strengthen audit quality, and strengthen confidence in the capital markets. Oversight activities involving inspections and enforcement should focus on consequential deficiencies that would be of significance to investors and other users of the financial statements. That approach will help ensure that regulatory attention and resources, including the resources of other stakeholders in the financial reporting process are directed where they can have the greatest public interest benefit.

2. *Changing Environment & Undue Reliance Soley on Standard Setting*: The PCAOB should also acknowledge the significant evolution of the audit environment, including the growing complexity of business operations, the increasing use of emerging technologies, and shifting stakeholder expectations regarding the relevance and timeliness of information. In doing so, it should take into account the broader financial reporting ecosystem and articulate with greater precision

both the implications of these developments and the corresponding expectations for auditor behavior.

At the same time, the PCAOB should be careful not to place undue reliance solely on standard setting when addressing issues that may stem more broadly from changing business models, technological innovation, and evolving stakeholder communication needs. In such areas, a more balanced approach - one that also considers market-based solutions - may be more effective.

3. *Harmonization as a Primary Objective*: In the past, the Board and its staff have sought through releases and related materials to explain why certain requirements differ from other standard-setting frameworks, but those explanations have in some instances not been sufficiently precise or compelling. More importantly, they do not reflect harmonization as a clear and meaningful standard-setting objective. As a result, stakeholders have reasonably questioned the underlying rationale for areas of divergence, including whether any such divergence met the standard of being maintained only where absolutely necessary to achieve the Board's mission of protecting investors.

   We recommend that, in establishing priorities, the Board adopt a permanent standard-setting framework that is disciplined, consistent and transparent, while leveraging the work of other standard-setters where appropriate. The PCAOB is uniquely positioned as a standard setter because it has direct insight from inspections, audit firm's remediation of quality control deficiencies, and enforcement activities. That perspective should not only inform the Board's own agenda but should also be shared, as appropriate through the Board's public reporting mechanisms - including Rule 4010 reporting – to help inform and influence other standard setters addressing similar issues. Doing so would promote greater transparency, support more coordinated and effective standard setting, and better advance audit quality and investor protection.

   A framework grounded in that level of transparency would assist all participants in the financial reporting ecosystem and would be fully consistent with the Board's investor-protection mission. Where the Board chooses to retain differences from other standards – whether those differences are foundational or merely terminological – it should articulate with greater specificity why divergence is needed, why alignment would not be appropriate, and how the expected benefits justify the resulting operational, training, methodology, and compliance costs borne by audit firms and ultimately passed onto investors,

particularly where those costs do not produce commensurate benefits. Absent a clear commitment to harmonization as a central objective, divergence will continue to drive significant cost without a corresponding investor-protection gain.

4. *Stakeholder Engagement*: We encourage the Board to deepen its coordination with domestic and international regulators and standard setters, including the IAASB, ASB, and FASB. Meaningful, ongoing dialogue among these bodies can help the Board identify emerging risks more proactively, foster consistency where appropriate, and support the development of well-informed, balanced solutions that advance audit quality while protecting investors without imposing unnecessary burdens.

   In addition, we encourage the Board to continue strengthening stakeholder engagement as a central component of its oversight activities, including inspections, enforcement and standard setting. We support the Investor Advisory Group and the Standards and Emerging Issues Advisory Group as important mechanisms for informed dialogue on current and emerging issues. We believe that broader and more deliberate engagement throughout the full life cycle of the Board's projects could further enhance the quality, practicality, and effectiveness of its work. In particular, targeted outreach to a wide range of stakeholders—including investors, preparers, audit committees, and auditors, and organizations such as the Center for Audit Quality—would help ensure that the Board's priorities and responses are informed by operational realities as well as investor needs.

   Expanded use of roundtables, task forces, subcommittees, and other consultation mechanisms—while leveraging and coordinating with comparable forums employed by other standard setters to reduce redundancy and identify the most effective and efficient solutions—could further position the Board to obtain practical, diverse, and scalable input, enhance its assessment of costs, benefits, and unintended consequences, and support timely and effective responses through standard setting, practical implementation guidance, or other communications.

   We were pleased to hear Chairman Logothetis share during the PCAOB Standards and Emerging Issues Advisory Group meeting on May 6, 2026 that

when the PCAOB publishes their strategic goals and priorities, they will also release their first standard-setting agenda consultation.

5. *Practical Implementation Guidance & Good Practices in Sufficient Detail*: The Board should place meaningful emphasis on supporting the implementation of both existing and newly adopted auditing and related professional practice standards through practical, timely, and sufficiently detailed guidance. Such support could be provided through adopting releases, accompanying rule text, or other interpretive communications and other existing Board mechanisms—including the Board's Rule 4010 and PCAOB Spotlights—to share observations and effective practices with far greater specificity than it has historically done. For example, under PCAOB Rule 4010, *Board Public Reports*, the Board may publish general summaries or reports about its inspections, including criticisms or potential flaws in firms' quality control systems, and it may do so without disclosing the names of those firms. We believe that "general summaries" could also include what the Board has seen as good practices, provided in sufficient detail to enable broader impact on enhancing audit quality.

   Greater transparency and a clearer understanding of the Board's expectations would help audit firms implement standards and remediation efforts more effectively and efficiently while significantly improving audit quality across the profession. Clearer and more actionable implementation guidance could have a meaningful and far-reaching impact in promoting high quality audits and achieving the Board's important mission of protecting investors.

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)?

Our primary recommendation is that the PCAOB redesign its inspections program to place greater emphasis on a firm's system of quality control, while reducing its relative focus on individual engagement-level file reviews.

We were encouraged to hear Chairman Logothetis announce at the PCAOB Standards and Emerging Issues Advisory Group meeting on May 6, 2026 that the PCAOB intends to convene an inspections task force composed of experts from across the financial reporting ecosystem to help inform the redesign of the inspections program. We support this initiative and respectfully encourage the Board to ensure the task force includes broad and balanced representation, including audit practitioners from firms

of all sizes, so that its recommendations are informed by investor protection considerations, practical experience, and operational realities.

We also offer the following observations on the current approach, which we believe may be useful in informing the redesign.

Proportionate, Risk-Based Scaling of Engagement Inspections

As the PCAOB considers moving towards a quality control-focused inspections model, it should remain mindful of the need for engagement inspections to be appropriately calibrated to a firm's size, practice composition, and risk profile. In prior years, some firms have been subject to a disproportionately high number of engagement inspections relative to their total issuer population, a dynamic that can diminish confidence in the consistency and credibility of a risk-based approach.

A more balanced degree of consistency in the percentage of issuer and broker-dealer audits inspected across firms would enhance the integrity of the program, while preserving the PCAOB's ability to respond appropriately to differing risk circumstances.

In addition, a more proportionate approach would lessen unnecessary disruption to engagement teams and firm quality resources, allowing greater focus on the planning, execution, supervision, and review of audits. By reducing avoidable distraction and strain on current-year audit activities, such an approach can better support audit quality while still preserving rigorous and effective regulatory oversight.

While we recognize that risks vary across firms and that a one-size-fits-all approach is not always the best means of protecting investors, at least with respect to the proportionality of inspected audits we believe all stakeholders would benefit from a more consistent approach. That matters from the standpoint of investors, audit committees, and overall market resilience because frequent inspections of the same engagement partners can divert time from current audit execution and may result in the unintended consequence of discouraging firm's most experienced partners from taking on issuer audits—outcomes that could reduce audit quality and increase concentration thereby limiting competition.

Accordingly, as the PCAOB places greater emphasis on evaluating firms' systems of quality control, it should also consider whether an effective quality control system warrants a reduced number of engagement inspections needed to achieve appropriate oversight. A scaled, risk-based framework of this kind would better align inspection

effort across firms and support investor protection, enhance audit quality, and promote competition in the issuer and broker-dealer audit market.

Timing of Engagement Inspections Should Better Support Audit Quality

The PCAOB should consider adjusting the timing of engagement inspections so that the process does not interfere with the periods when audit teams are most heavily engaged in current-year audit execution. Inspected firms commit substantial resources to the inspection process not only of the engagement teams themselves but also national office personnel who support those teams. As a matter of audit quality and investor protection, inspections are most effective when they provide meaningful oversight without drawing key personnel away from the audit's critical phases of planning, execution, and reporting.

For that reason, the PCAOB should avoid conducting inspections during firms' busiest period when engagement teams and national office personnel are focused on interim and year-end reporting and audit completion activities. A scheduling approach that is better aligned to the audit cycle would reduce unnecessary disruption while preserving the Board's ability to carry out its oversight activities.

The PCAOB Should Use a Measured, Learning-Oriented Initial Implementation of QC 1000

In light of QC 1000, the PCAOB should consider a phased or "soft rollout" approach to inspections of firms' systems of quality control during the first year of implementation. Where a new standard requires firms to design, implement, operate, and evaluate an updated system, the most constructive regulatory approach is often to use the initial cycle to gather information, identify implementation themes, and provide feedback before embedding observations into formal inspection outcomes. The PCAOB has used comparable transition approaches before, including in areas such as the implementation of critical audit matters and, historically, in its early inspections of internal control audits. A measured transition approach would promote consistency, improve the quality of implementation across firms, help the Board identify and communicate common implementation themes, and better align the inspections program with sustainable quality improvement rather than relying solely on inspections or enforcement to communicate findings during the transition period.

A transitional model would also produce more decision-useful information for the PCAOB, firms, audit committees, and investors. It would allow the Board to identify common implementation challenges under QC 1000, communicate those themes to the market, publish practical implementation guidance, and refine its inspection focus in later cycles. Consistent with the PCAOB's prior approach in the 2006 inspection

cycle for internal control audits, the Board could reserve formal reporting in the first year for unusual circumstances involving especially serious concerns, while otherwise limiting its communications to feedback and observations. That approach would support faithful implementation of QC 1000, encourage candid engagement between firms and inspectors, and strengthen the long-term effectiveness and credibility of the quality control-focused inspection program.

Clarification of the Remediation Framework to Promote Audit Quality

We encourage the PCAOB to provide updated and transparent guidance on how it interprets the statutory standard that a firm address quality control criticisms "to the Board's satisfaction." While we recognize and appreciate the need for regulatory flexibility, greater clarification - through the articulation of objective criteria to guide the Board's assessment – would better enable firms to design effective remediation efforts and reduce unnecessary ambiguity.

The 2013 *Staff Guidance Concerning the Remediation Process* (Staff Guidance) and the 2023 Spotlight: *Additional Insights on the Remediation Process* have been helpful, and we note the Spotlight's statement that staff was evaluating the Staff Guidance, including the criteria used in assessing firms' remediation efforts, to determine whether changes may be needed. In that context, we believe any updates to the guidance would present a valuable opportunity to further strengthen the remediation framework as an important mechanism for advancing audit quality and investor protection. Greater transparency into how the Board applies its stated criteria—such as change, relevance, design, implementation, execution, and effectiveness—would help promote more effective, timely, and durable remediation efforts across firms.

Recognizing that it is not always feasible to complete remediation within the one-year timeframe contemplated by the Sarbanes-Oxley Act, the PCAOB's existing guidance references a "substantial progress" standard to assess whether there has been meaningful progress towards remediation. We believe this standard of "substantial progress" appropriately supports the purposes of the Act while also providing appropriate incentives for firms to focus their resources on effective remediation. Accordingly, we recommend that the Board formally adopt, and consistently apply, this "substantial progress" standard as one of the primary objective criteria for assessing remedial efforts.

Further, as audit firms have become increasingly sophisticated in their monitoring activities including root cause analysis over time, the Board's evaluation of whether remediation has been achieved "to the Board's satisfaction" should meaningfully consider both the evolution of identified root causes and the progress being made in addressing them, even where the quality control criticism at its surface may remain

unchanged. In particular, the Board should recognize that a firm's system of quality control, including its monitoring and remediation processes, can serve as an important framework for overseeing the firm's identification of root causes, the design and implementation of remedial actions, and the evaluation of whether those actions are operating effectively over time.

We also believe additional guidance would be beneficial with respect to:

- how the stated criteria are applied in evaluating whether remediation is satisfactory;
- how design, implementation, execution, effectiveness, and sustainability are considered in the overall assessment;
- how progress made within the 12-month period is evaluated;
- the types of evidence that best demonstrate successful remediation under each criterion; and
- whether more formalized examples, timelines, or feedback mechanisms could help firms understand expectations earlier in the process.

Clarification in these areas could provide a stronger platform for firms to design and implement remedial actions that are responsive to inspection findings, sustainable in practice, and ultimately more effective in advancing audit quality and protecting investors.

We also encourage the Board to utilize its broad base of knowledge and insights on good practices to be more instructive to inspected firms on what constitutes effective remediation. While we appreciate that there is discussion between the inspected firm and the Board's staff on a firm's remediation plans, a clearer understanding of what the Board believes would be effective remediation will benefit and expedite the remedial process and align the Board's and the inspected firm's goals of continuous audit quality improvement.

As noted above, we also encourage the Board to make greater use of its ability to publish general summaries or reports describing criticisms or potential deficiencies in firms' quality control systems without identifying particular firms (e.g., through PCAOB Rule 4010). Such reporting could also highlight good practices observed by the Board,

providing valuable insights to a broader audience and meaningfully enhancing audit quality across the profession.

Create Incentives for Effective Firm Remedial Efforts

The Sarbanes-Oxley Act created a framework that encourages firms to remediate inspection findings—whether on individual engagements or on a firm's overall system of quality control. A firm's comprehensive and effective root cause analysis is fundamental to developing its remedial efforts.

We note that, at cross-purposes to those goals, a firm's own root cause analyses have been used by the PCAOB in subsequent PCAOB enforcement proceedings. In other instances, the volume of remedial efforts has been viewed as evidence of the significance of an inspection finding, which creates a disincentive for firms to engage in thorough remediation efforts.

A firm's efforts to identify the causes of, and remediate, any identified issues should be encouraged. Attempts to turn these efforts into "admissions" in enforcement proceedings would undermine legitimate and valuable efforts of a firm to be self-critical for fear that same self-critical analysis will be used against the firm in an enforcement action.

To eliminate this tension, we recommend that the Board establish a "self-evaluative qualified privilege" that excludes from evidence in PCAOB enforcement matters a firm's root cause analysis as well as its remediation efforts.

Question 3: What inspection information would be most useful to stakeholders, and how could inspection reporting be enhanced under a quality control-focused inspection program?

Inspection Reporting Should Prioritize Direct Evidence, Investor Relevance, and Clarity

Inspection reporting would be most useful to stakeholders if it more clearly distinguished between matters supported by PCAOB obtained direct evidence and matters identified as indicators of potential quality control issues based on engagement-level findings. In particular, Part II matters should be communicated to a firm with clear explanation of whether the criticism is based on the PCAOB's direct testing of the relevant elements of the firm's system of quality control or whether it is based on patterns or themes observed through engagement findings that may warrant

further evaluation. The existence of Part I.A engagement findings alone may not always provide the same level of support as direct testing of the relevant quality control elements. Inspection reporting would be enhanced if the PCAOB more clearly differentiated between observed control deficiencies, risk indicators, and areas identified for additional scrutiny.

For engagement-level reporting, the PCAOB should focus public reporting on matters most meaningful to investors—particularly deficiencies that resulted in, or created a meaningful risk of, an unsupported audit opinion, with emphasis on issues that led to restatements or affected areas of greatest significance to the issuer's business. For example, in a financial institution audit, findings related to the allowance for credit losses are likely more decision-useful than matters involving less significant accounts. Consistent with that objective, inspection reporting would be enhanced if it provided greater context regarding the significance of individual findings, including whether the matter relates to a significant risk, a core audit procedure, or an area central to the issuer's financial reporting. Providing that context would help stakeholders better understand which findings are most relevant to their assessment of audit quality and auditor performance.

By contrast, Part I.A matters already identified through the firm's own monitoring processes before PCAOB inspection should not be reported by the PCAOB in Part 1.A rather than being presented in a manner that suggests they were first identified by the PCAOB, because doing so can obscure the important distinction between execution issues and a monitoring system that is functioning as intended. Excluding such matters from Part I.A would more appropriately reflect the fact that the firm identified them through its own processes prior to inspection and would avoid conflating firm-detected matters with deficiencies identified by the PCAOB. That distinction would also give stakeholders more useful insight into whether the firm's monitoring processes are operating effectively.

Now that the Board has a few years of experience with the newer additions to the public inspection report – Parts 1.B and 1.C - we encourage it to evaluate whether those sections are providing meaningful value, particularly where the information does not relate directly to unsupported audit opinions and could be addressed more appropriately through other regulatory mechanisms (e.g., through Part II as a potential quality control criticism, where applicable, or through the Board's Rule 4010 reporting mechanism). A more focused reporting model based on materially significant matters

would make inspection reports clearer, more comparable, and more useful to investors, audit committees and other users.

Question 4: What standard-setting projects should the PCAOB pursue?

The PCAOB should give further consideration to the cumulative effect of standard setting including where there is divergence from other standards and the operational impact of changes on audit firms. In some instances, the organizational consequences of implementation of new standards may result in dramatic changes in how the audit firms operate and perform audits. Particularly for smaller firms, efforts to absorb change may redirect limited resources from other efforts to improve audit quality and may therefore be counterproductive.

We recommend that the PCAOB prioritize standard-setting and guidance projects in areas where audit practice and financial reporting are evolving more quickly than the existing standards. In our view, two areas merit particular attention and may benefit from additional guidance or rulemaking: (1) the use of technology and AI in the audit and by issuers and broker-dealers, and (2) the auditor's responsibilities with respect to digital assets.

The Use of Technology and AI in the Audit and By Issuers and Broker-Dealers

One important area that may warrant additional guidance or potential rulemaking is the expanding use of technology in both the audit and the issuer's and broker-dealer's financial reporting process, including the role of automation, AI-enabled tools, and digital agents in performing audit procedures, facilitating supervision and review, and shaping how issuers and broker-dealers generate information, operate controls, and support financial reporting judgments. Current standards were developed in a more human-centered environment and may not fully address how audit responsibilities should be fulfilled when technology performs or supports aspects of execution, monitoring, evaluation, or decision-making. Recent PCAOB staff outreach confirms that generative AI is already being explored both in audits and in financial reporting and has identified emerging questions relating to supervision and review, the reliability and auditability of AI-generated content, data governance, source-data integrity, and the controls surrounding the development and use of these tools.

A project in this area could help clarify for auditors the circumstances under which technology-enabled controls, application controls, or automated procedures may provide sufficient audit evidence, as well as the degree of human oversight required, including consideration of the reliability, governance, and oversight of such tools. It could also help address how auditors should evaluate information produced by issuers

and broker-dealers when key processes, judgments, or controls are supported by AI or other advanced technologies. This may be especially important where preparer use of AI introduces new risks or amplifies existing risks in financial reporting and internal control, including risks related to consistency, transparency, segregation of duties, and the use of third-party models or data.

The Auditor's Responsibilities with respect to Digital Assets

The PCAOB should consider practical implementation guidance addressing the auditor's responsibilities when auditing entities with material digital asset activities, particularly in areas involving ownership, control, and safeguarding of digital assets. Current PCAOB standards were not developed with blockchain-based assets, private keys, wallet structures, or on-chain/off-chain recordkeeping in mind. As a result, there appears to be diversity in practice regarding what audit evidence is sufficient to support conclusions about a company's rights to digital assets, whether the company has sole or shared control over those assets, and how auditors should evaluate arrangements involving custodians, exchanges, omnibus accounts, or other intermediaries. While the PCAOB Staff Spotlights have been helpful to inform practice, additional PCAOB direction would promote greater consistency, strengthen audit quality, and further enhance investor protection in this area.

In particular, practical implementation guidance would be helpful on how auditors should evaluate ownership and control when legal title, beneficial ownership, and access to private keys may not align neatly, and when wallet arrangements involve commingling of customer or entity assets. In practice, blockchain visibility alone may not resolve whether a registrant truly controls a specific quantity of assets, whether assets are segregated or exposed to claims of others, or whether a wallet address reflects sole ownership versus pooled holdings. PCAOB practical implementation guidance could help clarify expectations for testing management's assertions in these circumstances, including the interaction of on-chain evidence, custodial records, contractual terms, and internal controls over safeguarding and reconciliation. From a stakeholder perspective, greater clarity in this area would help reduce inconsistency,

improve transparency, and better align audit execution with the risks that digital asset activities can pose to investors and the public markets.

Question 5: How can the PCAOB achieve greater alignment of its auditing standards with international auditing standards?

In addition to our comments in response to question 1 above, we believe the PCAOB should significantly build on the coordination that exists with the IAASB through earlier, more frequent, and more substantive engagement before standards are amended or guidance is contemplated.

Alignment is often easier to preserve when potential differences are evaluated during the development process rather than after standards are finalized. A more structured process for comparing proposed standards, supported by appropriate economic analysis for the differences where applicable, would help the PCAOB determine whether convergence or divergence is warranted in a particular area and would reduce the risk of unnecessary differences becoming embedded over time. Such a process would not require identical standards in all cases. Rather, it would help ensure that differences are deliberate, well understood, and justified by the PCAOB's statutory mandate and the needs of U.S. capital markets. This would support a more disciplined, consistent, and durable standard-setting process over time. This approach also recognizes the relevant policy question is whether investors would be better served by reducing unnecessary variation in standards, and that the appropriate objective is convergence—or harmonization—rather than uniformity for its own sake.

Another example of how the PCAOB can best achieve greater alignment with international auditing standards is to first undertake a more formal and rigorous, side-by-side comparison of PCAOB standards and the International Standards on Auditing ("ISAs") at the beginning of a standard-setting project. In many areas, the two sets of standards appear to address similar underlying objectives, even where they differ in terminology, structure, or drafting style. A structured and formal baseline comparison would help identify which differences are truly substantive and which instead reflect alternative wording, organization, or emphasis. Differences in standards may arise not only from objectives and requirements, but also from formatting, wording, organization, and presentation—all of which can affect understanding, application, and oversight. A formally structured baseline comparison process would also provide a more transparent foundation for convergence by helping investors, audit

committees, regulators, and other stakeholders understand where differences are meaningful and where the standards are already broadly consistent in concept.

As part of that process, the PCAOB should seek to promote consistent terminology where PCAOB standards and ISAs are intended to address the same core concept. Using more consistent terminology would improve comparability and reduce avoidable confusion regarding whether different wording is intended to convey a different requirement. For example, differing terminology such as “expert” and “specialist” may create avoidable confusion if the standards are intended to address a similar underlying concept but do not clearly explain whether the difference is substantive or instead reflects differences in wording or presentation. Where different terminology is retained, the PCAOB could improve transparency by clearly articulating the reason for the distinction and its practical implications for application, oversight, and compliance.

More generally, where one framework includes incremental procedures or requirements not found in the other, the PCAOB could articulate more clearly why a difference is necessary and how it is expected to enhance investor protection. That type of transparency would be consistent with the approach of seeking to avoid unnecessary differences where possible, while remaining mindful that some differences may be needed to align with U.S. federal securities law, SEC rules, other PCAOB standards, or risks identified through oversight activities. A more specific explanation of retained differences would also help stakeholders to better assess whether divergence is being preserved only where necessary and whether the expected benefits justify the resulting operational, training, methodology, and compliance costs borne by audit firms and ultimately passed on to investors.

Finally, the PCAOB should recognize that alignment depends not only on the wording of the standards, but also on how they are applied in practice. Discussions with other audit oversight bodies can help move toward convergence not only in written standards, but also in how those standards are implemented. In some cases, greater consistency may be achieved through clearer practical implementation guidance, particularly where similar concepts are interpreted differently in practice because of differences in terminology, examples, explanatory material, or implementation expectations. Additional guidance may be especially useful in areas involving less complex audits or narrower risk profiles, where stakeholders would benefit from

greater clarity regarding how core objectives should be achieved in a manner that is rigorous, understandable, and capable of being applied consistently.

Overall, the most effective path to greater alignment would build on the PCAOB's coordination with the IAASB and other standard setters through a structured convergence process that begins with alignment on the issues and begins with a side-by-side baseline comparison, promotes consistent terminology where feasible, clearly explains retained differences, and supports more consistent interpretation and application through appropriate practical implementation guidance.

Question 6: In what ways should the PCAOB consider deploying technology, including AI, to help further its investor-protection mission?

BDO supports the PCAOB's thoughtful use of technology, including AI, where it can enhance the Board's effectiveness in advancing investor protection, regulatory consistency, and timely insight into emerging risks. In our view, the most valuable uses are likely to be those that improve the Board's ability to analyze large volumes of information, identify patterns and outliers across inspections, remediation, standard setting, and enforcement activities, and communicate more timely, decision-useful insights to market participants, while preserving appropriate human judgment, due process, and accountability in matters involving significant regulatory consequences.

The PCAOB also could deploy technology and AI to improve the accessibility, consistency, and transparency of its own processes, for example, by identifying horizontal themes from inspections and remediation activities, informing risk-based standard-setting priorities, and enhancing public reporting through anonymized summaries, trend analyses, or other mechanisms that help firms, audit committees, issuers, and investors understand areas of recurring concern and emerging good practices. Any such use should be accompanied by clear governance, validation, confidentiality protections, and appropriate safeguards to help ensure outputs are reliable, explainable, and used in a manner consistent with the Board's statutory mission. The PCAOB may also wish to begin with targeted use cases before expanding to more consequential applications.

Question 7: How can the PCAOB enhance transparency with its stakeholders?

The PCAOB can enhance transparency with stakeholders by providing clear, detailed, and consistent communication regarding its standard-setting activities, inspection observations, expectations for change, and consultation processes. Stakeholders would benefit from greater visibility into the Board's strategic and standard-setting

priorities, including open Board discussions that are not overly scripted, broader opportunities for early-stage two-way dialogue with relevant stakeholders, and clearer explanations of how stakeholder feedback informs the PCAOB's agenda. Transparency would also be improved through more direct communication regarding areas of significant stakeholder interest, including audit committee communications, inspection findings, materiality-related concepts, and recurring inspection themes, so that stakeholders better understand both the Board's objectives and the practical implications of its work for investors, audit committees, and other market participants.

Transparency can also be improved if the PCAOB more clearly explains the expected impact of change—not only what changes are being proposed or pursued, but also why they are being made, what outcomes the Board expects, and what auditor behavior those changes are intended to drive, including within the firm's quality control system.

This should include clearer communication regarding common deficiency themes, good practices, implementation challenges, and remediation expectations, as well as how those observations relate to audit quality trends and the PCAOB's broader investor-protection objectives. Providing more decision-useful information about inspection themes and quality control matters would help audit committees, investors, and other stakeholders better understand where risks are recurring, how firms are expected to respond, and how the PCAOB's activities are intended to improve audit quality over time.

We commend the PCAOB for its plans to stand up a formal consultation process within the Office of the Chief Auditor to provide timely guidance on complex or novel auditing issues. To further strengthen transparency and promote more consistent application in practice, we encourage the Board to look to the SEC's Financial Reporting Manual (FRM) as a useful model for communicating staff views on recurring interpretive questions, significant issues that arise, and how those matters are resolved, particularly where the relevant fact patterns do not fit neatly within existing guidance.

A centralized, regularly updated resource of this kind would preserve the benefits of case-specific consultation while also making important interpretive insights more broadly accessible to firms, audit committees, preparers, investors, and other stakeholders. Following an FRM-style model would reduce uncertainty, promote more consistent application of standards in practice, and improve audit quality by sharing recurring interpretative insights more broadly across the profession. It would also enhance transparency into the PCAOB staff's thinking, promote greater consistency *within* the PCAOB itself as staff apply judgment in carrying out their respective

oversight activities, help narrow the expectations gap with stakeholders, and strengthen confidence in the Board's oversight framework.

Finally, as noted above, we recommend the PCAOB consider broader use of PCAOB publications including, where necessary Rule 4010 reports, when it observes trends or good practices that, if adopted, could improve audit quality. Those reports would also be an effective and transparent tool for communicating consistently observed areas where the Board believes existing practices fall short of achieving acceptable audit quality. Doing so would level the playing field by providing increased and more timely information both to audit firms and to users of the financial statements. Observations of trends relating to firms' systems of quality control would be particularly beneficial to all stakeholders.

* * * * *

We appreciate the opportunity to share our perspectives on the Board's strategic priorities and would welcome continued dialogue with the Board and its staff. If you would like to discuss our comments further, please contact Lillian Ceynowa at lceynowa@bdo.com.

Sincerely,

BDO USA, P.C.

BDO USA, P.C.

cc:

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Steven D. Laughton, Board member
Mark A. Calabria, Board member
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April 3, 2026

Public Company Accounting Oversight Board
1666 K Street NW
Washington, DC 20006-2803

RE: PCAOB No. 2026-001

Dear Board Members:

I appreciate the opportunity to comment on Release No. 2026-001, Request for Public Comment – PCAOB Strategic Priorities. I commend the Board for undertaking a fresh assessment of how best to articulate its goals and objectives in support of its statutory mission to protect investors and promote informative, accurate, and independent audit reports. I am also pleased that the Board is seeking stakeholder input at this early stage.

Rather than responding directly to the specific questions in the Release, I offer several observations based on my longstanding involvement with the PCAOB and related standard-setting activities that I believe warrant consideration in developing the new strategic plan.

By way of background, my engagement with the PCAOB dates to its inception, including testimony during the legislative process leading to the Sarbanes-Oxley Act of 2002. Over the past two decades plus, I have submitted comment letters on numerous auditing proposals and served two terms on the PCAOB's former Standing Advisory Group. Prior to retirement, I was a national office partner at Ernst & Young, served two terms as Chairman of the Financial Accounting Standards Board, and was Executive Professor of Accounting at the University of Georgia for more than fifteen years. I also

served on several corporate boards and chaired audit committees at large public companies, including during periods of significant accounting, auditing, and governance challenges. Although I am no longer directly involved in practice, I maintain a strong interest in the PCAOB's work.

Engagement with Outside Experts

I was encouraged to learn of the PCAOB's Audit Practitioner Fellowship Program. Similar programs at the SEC and FASB have long demonstrated the value of incorporating individuals with recent, practical experience into the standard-setting process. I am confident this initiative will enhance the work of the Office of the Chief Auditor.

At the same time, I believe the PCAOB could further benefit from more consistent and open engagement with experienced professionals outside the organization, including those with SEC or FASB fellowship experience now serving in accounting firm national offices as well as former PCAOB staff now in practice. These individuals possess deep expertise and are actively involved in interpreting and implementing PCAOB standards.

I agree with the Chairman's statement emphasizing the need to deepen engagement with stakeholders and improve accessibility to those developing standards. One practical step would be to adopt a "fatal flaw" review process like that used by the FASB, whereby near-final drafts are reviewed by knowledgeable external experts to identify unintended consequences or implementation challenges. In addition, field testing of proposed standards – another practice successfully used by the FASB – could help assess whether new requirements are operable and likely to improve audit quality.

Transparency in the Standard-Setting Process

I was encouraged by the Board's stated commitment to openness but remain concerned that public meetings typically do not include substantive discussion or debate. My experience at the FASB demonstrated that open deliberations – where staff recommendations are actively discussed and challenged – lead to better outcomes and a more informed constituency.

I urge the Board to consider increasing the transparency and interactivity of its meetings and to move away from what may appear to observers as an overly legalistic process with Board members mainly reading from prepared scripts. Greater openness, combined with enhanced external engagement, should improve both the quality and credibility of PCAOB standards.

Quality Control Standard QC 1000

I support the Chairman's direction to seek additional public input on QC 1000. Comments submitted to the SEC indicate that certain aspects of the final standard may not have been fully anticipated by accounting firms, in part due to changes made after exposure.

Given the likelihood that revisions will be necessary and take some time for further consultation, exposure, and redeliberation, I recommend that the Board formally suspend the effective date of QC 1000. This would reduce uncertainty for accounting firms and allow sufficient time to ensure that the final standard achieves its intended objectives.

Advisory Groups

The PCAOB's advisory groups play an important role, and I suggest reconsidering both their composition and function. The overlap in membership between the Investor Advisory Group (IAG) and the Standards and Emerging Issues Advisory Group (SEIAG) may dilute the distinct perspective each group is intended to provide. Separate membership, with no or minimal overlap, would help preserve the clarity of input from each constituency.

In addition, the SEIAG could play a more formal role in the consultation process being developed within the Office of the Chief Auditor, particularly in providing practical perspectives from those responsible for implementing standards.

I also encourage the Board to consider establishing a dedicated Audit Committee Advisory Group. Audit committees are central to the oversight of

independent audits, yet their perspectives may not be fully reflected within the current advisory structure.

Inspection Process

While my direct experience with inspections is limited, I offer one observation based on prior service as an audit committee chair. During an inspection, I was asked to participate in an interview without the presence of company management. Although I ultimately agreed, I remain concerned that excluding company representatives could lead to incomplete or inaccurate information being conveyed. Allowing appropriate participation by company officials could enhance the quality and reliability of information obtained during inspections and ensure that all relevant parties have a clear understanding of the matters discussed.

Conclusion

As an interested observer rather than current active participant, my comments are necessarily selective. I expect that the Board will receive a wide range of valuable input from stakeholders, and I hope my limited observations are helpful as part of that process.

I would be pleased to elaborate on any of these points if that would be useful. I appreciate the Board's effort to develop a thoughtful and effective strategic plan and look forward to your continued progress.

Sincerely,

/Signed Dennis R. Beresford/

Dennis R. Beresford, CPA

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May 15, 2026

Ms. Phoebe W. Brown
Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006-2803

Re: PCAOB Release No. 2026-001, Request for Public Comment on Strategic Priorities

Dear Ms. Brown:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the Board) strategic priorities, and we applaud the PCAOB's approach to obtaining a broad range of stakeholder input to help inform the development of the 2026-2030 Strategic Plan and to guide the PCAOB's focus areas for future standard-setting activities. CBIZ CPAs is an annually inspected firm with more than 100 issuer audits, and we are committed to constructive engagement that advances investor protection and audit quality. In the pages that follow, we address each of the questions posed in the Request for Public Comment on Strategic Priorities (Request for Comment). We also have considered other questions included in PCAOB Board member statements published in connection with the Open Board Meeting considering the Request for Comment held on March 31, 2026. Where they relate to the main questions posed in the Request for Comment, we have included our responses there and have addressed certain of these incremental questions after the seven in the Request for Comment.

Our responses are grounded in three foundational principles. First, audit quality is strong and will continue to improve when standards are clear, risk-based, and applied consistently across firms and engagements. Second, regulatory stability benefits all participants in the financial reporting ecosystem by enabling firms and preparers to invest confidently in people, technology, and processes that sustain quality over time. Third, transparency about priorities, expectations, and outcomes is the bedrock of consistent and effective regulation, fostering accountability across the profession and building trust with investors and other stakeholders.

We look forward to continued dialogue and collaboration with the Board and staff as the PCAOB refines its strategy and implements its priorities.

Request for Comment Questions

1. *What should the PCAOB focus on as its strategic priorities in registration, inspections, and enforcement over the next two to five years to further its statutory mission?*

Inspections

Since its inception, the PCAOB inspections program has had a positive impact on audit quality, and we commend the PCAOB for the steps taken to improve the utility, timeliness, and readability of inspection reports. Given this approach to continuous improvement and responsiveness to market conditions, we believe more could be done to:

- better demonstrate the relationship among inspection report findings, audit quality, and the potential investor impact. (Please see Question 3 for more detail); and
- streamline information requests from firms to focus on what is necessary to execute on statutory obligations.

We also applaud the PCAOB's Spotlights and Audit Focus publications for making the Board's activities and observations more accessible to auditors, audit committees, investors, and preparers. These materials have improved visibility into inspection priorities, common findings, and areas of emerging risk, and they help stakeholders anticipate where execution challenges may arise.

To increase their usefulness, we encourage a shift toward more timely and interpretive communications issued closer to key milestones in the inspection, reporting, and standard-setting cycle and focused on how expectations are applied in practice rather than restating standards and rules. A helpful model that could be used for these communications is the Securities and Exchange Commission's (SEC) "Dear CFO" letters, which provide issuers with timely, practical guidance on complying with SEC rules and help to clarify areas where multiple interpretations may arise. "Dear Auditor"/staff observations letters, issued at regular intervals, could synthesize questions received through the newly announced Office of the Chief Auditor (OCA) consultation process, highlight emerging issues observed in inspections, and offer non-authoritative interpretive guidance and examples to promote consistent implementation and application. This format would help bridge the gap between formal standard-setting and day-to-day practice, especially when new or complex requirements are introduced, while potentially improving audit quality across the profession without compromising the rigor of oversight.

We appreciate the Board's commitment to modernizing requirements related to firm quality control through the issuance of PCAOB QC 1000, A Firm's System of Quality Control (QC 1000). To maximize clarity, effectiveness, and consistency, we urge the PCAOB to streamline the standard, emphasize principles over prescription, and align more closely with ISQM 1, where appropriate. QC 1000 would benefit from clearer scoping, sharper definitions of quality objectives, and more explicit acknowledgment that firms may achieve those objectives through different, risk-based approaches. Avoiding duplicative and highly prescriptive documentation requirements and scaling expectations to firm size, risk profile, and network arrangements will help ensure that the standard focuses on what matters most to audit quality while remaining practical to implement. We look forward to providing feedback on the forthcoming supplemental request for comment and encourage the PCAOB to continue to provide guidance and illustrative examples based on learnings from recent audit firm engagement.

We also recommend the PCAOB issue targeted guidance, illustrative examples, and case studies of how the Board will evaluate compliance with QC 1000 (including how it weighs evidence from monitoring and remediation). This would give firms, audit committees, and other stakeholders concrete illustrations of what "good" looks like, and increase predictability, reduce unintended burdens, and better align firm and PCAOB efforts to achieve sustained improvements in audit quality.

Enforcement

The PCAOB's enforcement program will best protect investors if it prioritizes conduct that demonstrably harms investors and behaviors that are clear, significant violations of PCAOB rules and standards. An approach that emphasizes intentional or reckless misconduct, what SEC Chair Atkins has characterized in the context of SEC enforcement as "genuine harm and bad acts,[1]" maximizes deterrence and scales the PCAOB's resources appropriately. We encourage the Board to articulate these priorities transparently and to calibrate sanctions to the severity of conduct, investor harm, and the firm's remediation and cooperation, so that enforcement outcomes are predictable, proportionate and well communicated.

When the root causes identified in enforcement actions suggest that existing standards and rules are not sufficiently clear or that expectations vary in application, we urge the PCAOB to consider targeted updates to standards or issuing guidance that promotes more consistent compliance. Timely staff guidance, illustrative examples, FAQs, and cross-references to relevant standards can reduce ambiguity and help prevent recurrence of issues surfaced in enforcement. With the anticipated OCA consultation program, there likely will be opportunity, where appropriate, for "real time" clarifications that are aligned with inspection insights and mindful of cost-benefit considerations and statutory protections. These actions could strengthen audit quality without relying on after-the-fact enforcement to define expectations.

As the allocation of enforcement responsibilities between the PCAOB and the SEC is further deliberated, we encourage transparency around the principles that guide case referrals, parallel proceedings, and remedies, while fully honoring the confidentiality requirements of the Sarbanes-Oxley Act (including restrictions applicable to inspection and enforcement information). Providing a high-level responsibility matrix, examples, or joint statements could help stakeholders understand how matters will be triaged and resolved and promote consistent treatment.

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)?*

Changes to the inspections program in light of QC 1000

As mentioned in Question 1, we applaud the PCAOB's openness to continue to improve the inspection process. In our view, the PCAOB's inspections program should evolve to more explicitly incorporate a firm's system of quality control (QC system). Focusing on implementation and inspection of QC 1000 will advance investor protection more effectively than expending time and resources attempting to craft a universal definition of audit quality that would likely consider the same principles embedded in QC 1000 and may not keep pace with evolving business models, technologies, and risks. A QC system-focused inspection regime would result in a more integrated, risk-based model that adapts specific engagement testing to the demonstrated design and operating effectiveness of a firm's QC system. Where a firm's QC system shows strong risk assessment, monitoring, and responsive remediation with credible evidence from internal inspections and root cause analysis, PCAOB inspections should place greater reliance on system

[1] SEC Chair Atkins Keynote Address at the 25th Annual A.A. Sommer, Jr. Lecture on Corporate, Securities, and Financial Law, October 7, 2025

level evidence and reduce duplicative engagement level reperformance. Conversely, where QC systems are immature or ineffective, inspections should expand engagement testing and emphasize systemic remediation. This proportional approach aligns incentives for sustained investment in quality management and better targets regulatory resources to areas of higher investor and audit quality risks.

As mentioned in response to Question 1, to support this shift, the PCAOB should clarify how evidence from QC 1000 will inform inspection planning, execution, and reporting. We recommend the PCAOB provide transparency around how QC system assessments will influence engagement selection and the nature, timing, and extent of other inspection procedures; and describe how system level and engagement level findings will be synthesized. Transparent linkage between QC system evaluations, engagement outcomes, and related reporting will enhance consistency and comparability across firms and inspection cycles. However, it will be important for the PCAOB to consider the implications of a QC-focused inspection regime on how it assesses findings. The reporting approach should be refined so that the same deficiency is not counted at both the QC system and engagement level and to address potentially misleading proportions of engagement findings (i.e., a strong QC system could lead to fewer engagement level selections such that the overall percentage of findings could actually be higher).

Consistency in inspection execution

As the PCAOB begins evaluating firms' QC systems, consistency in inspection execution will be even more critical. We encourage the Board to reinforce common inspection methodologies, training, and review protocols to promote uniform application across teams, jurisdictions, and firm sizes. Clear, public guidance on how inspectors will evaluate risk assessments, monitoring and remediation cycles in line with QC 1000 will help reduce variability. This guidance for inspectors could include illustrative examples and case studies to clarify expectations, particularly in complex or judgment-driven areas. Such transparency can reduce variability in inspection outcomes when inspections teams change and enhance stakeholder confidence in the process. Additionally, regular knowledge sharing among inspection teams, sufficient subject matter expertise related to complex and judgmental audit areas, and post-inspection cycle feedback to firms can further enhance predictability and comparability.

Consideration of firms' activities during and after engagement inspections before issuing final inspection reports

As part of the inspections reporting process, we recommend dialogue between the inspections team and the firm about activities undertaken to address deficiencies identified during the inspection process and the root cause analysis (RCA) for significant inspection findings. If an engagement level inspection finding is identified early in the inspection process and takes necessary actions to address the finding before the full inspection is finalized, the PCAOB could consider this in the final reporting. Further, when a firm presents well-supported RCA that identifies whether issues are isolated versus systemic and describes timely, targeted remediation, that information, complemented by the PCAOB's assessment of a firm's QC system, should inform pervasiveness and severity judgments in the final report. These firm activities should also inform the PCAOB's determinations of Part II quality control criticisms (QCC) rather than inferring QCCs based on the existence of deficiencies without understanding the facts, circumstances, and root causes. A defined process that includes considering activities undertaken by firms during the inspection process, sharing preliminary views on pervasiveness, and inviting RCA input within

a set timeframe could improve the factual accuracy and balance of inspection reports, reduce disputes, and better align outcomes with the actual risk to investors. Where credible RCA indicates limited pervasiveness and effective remediation already underway, the report could reflect that context in describing the significance of findings and expected impact on future engagements.

Practical implementation and scalability

Finally, the inspections program should explicitly address scalability and differences in firm structures. Guidance that considers how mid-size and smaller firms would scale QC 1000 requirements for varied organizational models, geographic footprints, and use of networks or shared services will help ensure that inspection teams evaluate outcomes rather than prescribe a single model of compliance. For example, inspections could recognize alternative, proportionate controls that achieve the same objectives (centralized monitoring, shared tools, or external resources) and evaluate effectiveness relative to the firm's risk profile. Calibrating inspection focus to firm size and complexity, while holding all firms to the same quality objectives, will promote consistent, high-quality implementation across the market without imposing unnecessary burden.

3. *What inspection information would be most useful to stakeholders, and how could inspection reporting be enhanced under a quality control-focused inspection program?*

As the PCAOB continues to evolve its inspection program to place greater emphasis on firms' QC systems, it is important to revisit the balance between transparency and confidentiality in inspection reporting, while adhering to statutory protections. Many stakeholders, including investors and audit committees, have expressed a desire for greater insight into how a firm's QC system impacts inspection outcomes. The PCAOB should continue to seek the input from users of the inspection reports to help determine the right balance of information presented.

We believe stakeholders benefit most from inspection reports that move beyond lists of deficiencies and provide relevant context including regarding the influence of the QC system on the scope, approach, and outcome of the inspections. Explanatory commentary that details the rationale for engagement selections, whether based on QC system strengths or the presence of judgmental audit areas requiring closer scrutiny, could significantly improve the usefulness and interpretability of the report.

Executive summaries

We recognize that current inspection reports include executive summaries and believe these are helpful to orient the user to key inspection results. The PCAOB could consider including in the summary details about the QC system assessment and how the results impacted inspection procedures.

Inspection results

Leveraging certain aspects of the inspections reports of today, the PCAOB could continue to report the percentage of engagements with one or more Part 1A deficiencies, rather than listing issuer A, B, C etc. and indicating the precise number of engagement selections in each report. Both the current reports and related summaries (such as the PCAOB's Spotlight publications) aggregate findings into percentage rates

of deficiency and frequently break down deficiencies by audit area such as internal controls or revenue recognition while offering high-level statistics and trend data over multiple years. Aligning the individual firm reporting to the summary reporting allows for meaningful comparison without inadvertently creating perceptions about a firm's QC system strictly based on the number of engagement selections in a particular year and would improve the usefulness and interpretability of inspection reports for investors, audit committees, and firm management alike.

Notwithstanding the suggestion above, if the PCAOB decides to include information about deficiencies identified in each individual engagement, the PCAOB also could consider developing a framework to help determine the potential investor impact of findings to further enhance transparency and relevance. For instance, Part IA findings, defined as instances where, "at the time it issued its audit report(s), the auditor had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or ICFR,"[2] may, at first glance, have a greater potential investor impact. However, Part IA findings are not all equally impactful to an audit opinion providing reasonable assurance, and the framework could help inform how investors interpret these types of findings. For example, an engagement team may not have appropriately identified a disclosure as significant, or they could not have audited a materially significant revenue stream. Both would be identified as a Part 1A finding, but they would not be equally severe or impactful to the issued audit opinion. To provide further perspective over the severity or impact of deficiencies, the PCAOB could consider providing additional context in the inspection report regarding the relative severity and impact to the audit opinion of the Part 1A findings. Further, Part IB findings, defined as, "deficiencies that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s)such as misapplication of documentation requirements with a supported opinion,"[3] may have lower investor risk. Providing additional context and illustrative examples of potential investor impact will help stakeholders gauge the relative severity and potential market consequences of inspection findings.

While the PCAOB has historically kept quality control findings confidential in Part II unless they remain unremediated, the move toward a quality control-focused model creates an opportunity to determine whether the QCCs, which were based on engagement-level findings rather than QC system findings, are necessary under a reimagined, QC system-focused regime.

Links to standard-setting

Inspection reports could also make clear connections between frequent areas of inspection findings and potential gaps or ambiguities in existing standards or rules. Where inspection results consistently identify certain audit areas such as challenges in auditing revenue or goodwill and intangibles, the PCAOB could highlight these themes and disclose the process undertaken to consider whether updates to standards or new guidance are warranted to promote more consistent compliance and improve audit quality. This linkage and subsequent action are increasingly important as preparers and auditors are beginning to utilize AI, digital assets/blockchain, and other emerging technologies in areas where standard-setting and regulation has not necessarily kept pace with innovation in financial reporting and auditing. Providing transparency around this assessment could help inform investors of the relative severity of the findings in these areas.

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[2] PCAOB Inspection Procedures
[3] Ibid.

Enhanced reporting would articulate how QC system evaluations alter inspection scope, clarify the Board's judgment on investor impact, and connect recurring issues to potential improvements in standards or guidance. By providing this holistic view, the PCAOB will support informed decision-making by investors, enhance audit committee oversight, and drive continuous improvement across the audit profession.

4. *What standard-setting projects should the PCAOB pursue*?

We support a proactive, transparent standard-setting agenda that enables timely guidance on emerging risks and technologies while maintaining clear, operable, and scalable audit requirements. We applaud the recently announced standard-setting agenda consultation process and believe it will be a positive step in focusing the PCAOB's efforts on standard-setting activities that support the dual mission. We encourage the PCAOB to make this a standing, periodic process as it actively solicits input from investors, audit committees, preparers, and firms. Input on the front end is just one step in effective standard-setting. Regular feedback loops such as post-issuance reviews, webinars, roundtables, and Q&A updates can help align interpretations and surface areas where standards may need targeted revision.

The PCAOB also could better utilize the standing advisory groups (i.e., the Standards and Emerging Issues Advisory Group and the Investor Advisory Group) in the standard-setting lifecycle. They would have much to offer in both the standard-setting agenda development process as well as the more detailed work of drafting and reviewing updates to standards, staff guidance, and other standards-related proposals ahead of publishing or public requests for feedback. We also encourage the use of topic specific task forces with multi-disciplinary membership to help inform work on existing or evolving issues, like the model used to develop the Data and Technology Task Force several years ago. These designated groups, as well as the public agenda consultation process, will help ensure robust stakeholder engagement to identify the most pressing issues that are or could impact audit quality.

We believe the specific standard-setting priorities should include the following:

<u>Finalize QC 1000</u>

Finalizing QC 1000 should remain a top priority. We fully support modernizing firm quality control systems, provided the standard is clear, proportionate, and aligned with a risk-based approach. Please see responses to previous questions for additional details.

<u>Develop a principles-based framework for using AI in the audit</u>

Given rapid adoption of artificial intelligence, including predictive models, generative AI, and agentic AI, we recommend the PCAOB establish a non-authoritative principles-based framework that clarifies how existing PCAOB standards apply and where targeted updates or interpretive guidance are needed. We believe this approach could be done more expeditiously than looking at each impacted auditing standard separately, and transparency about the auditor's responsibilities will support the public interest and help avoid both expectation and performance gaps.

The framework could include:

- Scope and definitions:
  - Distinguish between AI used as audit evidence (e.g., anomaly detection, risk assessment, substantive analytics); AI used as an enablement tool (e.g., drafting, summarization, workflow support, original document review); and AI used as administrative support (e.g., drafting initial client emails, industry research).
- Documentation expectations:
  - Describe what auditors should document either centrally or in engagement specific documentation when using AI tools as audit evidence, as an enablement tool or as administrative support.
  - Clarify what level of documentation and related supervision and review would be necessary when AI is used purely for administrative support (no effect on audit evidence), as an enablement tool, or as audit evidence.
- Human involvement, supervision, and review:
  - Articulate "human-in-the-loop" responsibilities: who might design/approve AI-enabled procedures, how competence may be maintained, how outputs could be corroborated, and how skepticism is applied to AI-generated content.
  - Emphasize reviewer expectations for evaluating the reasonableness of AI-assisted procedures and conclusions based on the types of use in an audit (i.e., administrative, enablement, audit evidence).
- Quality control and firm level responsibilities:
  - Link AI use to QC 1000: governance, risk assessment, model/tool approval, testing/validation, change management, vendor management, training, and monitoring/remediation.
  - Outline suggested minimum requirements related to risk-based safeguards for bias, drift, hallucinations, and security/privacy, with examples of evidence from monitoring to support reliance in inspections.
- Reliance on third-party and network tools:
  - Suggest expectations for due diligence over third-party AI providers (e.g., CoPilot) and network-developed tools (e.g., SOC reports, access controls, validation evidence), including how deficiencies or limitations could be addressed.
- Interaction with existing standards:
  - Clarify how AI use intersects with auditor risk assessment, responses to assessed risks, use of specialists, IT considerations, and audit evidence.
  - Provide examples illustrating appropriate AI-assisted procedures across common areas (e.g., risk assessment, fraud brainstorming, internal controls over financial reporting, analytical procedures, and population completeness testing).

We recommend phasing this work: begin with the issuance of a framework and illustrative examples or other non-authoritative guidance to promote consistent near-term practice, followed by targeted standard amendments if gaps persist. The framework could provide a recommended baseline such that any separate disclosures on the use of AI in audits would be unnecessary.

Coordination with other standard setters and regulators will help avoid divergent requirements and reduce the implementation burden on firms and should be a PCAOB priority. The Financial Reporting Council[4] and the Committee of Sponsoring Organizations of the Treadway Commission[5] recently released guidance to help firms mitigate risks associated with the use of AI in the audit and could be instructive as the PCAOB contemplates its next steps.

Taken together, a standing agenda consultation process, finalization of QC 1000, and a principles-based AI framework will equip auditors and stakeholders with clear, operable expectations and support sustained improvements in audit quality.

5. *How can the PCAOB achieve greater alignment of its auditing standards with international auditing standards?*

We support deeper alignment between PCAOB auditing standards and the International Standards on Auditing (ISAs) where it advances investor protection and audit quality without sacrificing U.S.-specific public interest objectives. The PCAOB should pursue alignment through a transparent, structured program that minimizes unnecessary divergence, provides clear rationale when U.S.-specific requirements are retained or added, and coordinates timelines to reduce implementation burdens for firms operating across borders.

To make alignment durable and effective, we encourage the PCAOB, working in close coordination with the SEC, to engage proactively with international standard setters and their oversight structures. In particular:

- Engage with the Monitoring Group, the Public Interest Oversight Board, and the International Auditing and Assurance Standards Board on practical avenues to streamline decision making and improve transparency around due process.
- Support stable, diversified, and independent funding for international audit standard-setting and oversight, giving due consideration to the Monitoring Group's public interest reforms, so that standards benefit from robust resourcing without compromising independence.
- Promote balanced stakeholder input, including investors, audit committees, preparers, and the profession, so that practitioner expertise informs feasibility and operability, while public-interest perspectives set outcomes and guardrails. Structured avenues for profession input (e.g., advisory panels, field testing, and targeted outreach) can strengthen standards without granting undue influence.

PCAOB participation in joint liaison groups, coordinated project planning, and concurrent exposure of related proposals can shorten convergence cycles and reduce the risk of costly contradictory or overlapping requirements.

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[4] Financial Reporting Council Generative and Agentic AI Guidance
[5] Artificial Intelligence | COSO

Alignment with ISAs may disproportionately benefit larger firms whose methodologies are already built on international frameworks. Mid-size and smaller firms that historically look first to the PCAOB's and AICPA's auditing standards and rely on off-the-shelf U.S.-based audit methodologies and platforms will face a more material transition. To avoid unintended burden and disruption, the PCAOB could:

- Provide practical scalability guidance, including alternative approaches that achieve the same objectives for firms with simpler structures and limited resources.
- Offer phased transition periods to allow for necessary AICPA standard-setting activity to "catch up" if alignment makes sense.
- Leverage joint PCAOB/AICPA communications to promote consistent terminology and facilitate training for firms whose systems and education pathways are U.S.-centric.
- Use inspection feedback to identify where smaller firms need additional guidance (rather than immediately prescriptive add-ons), aligning support with areas of greatest risk.

By acknowledging different starting points, the PCAOB can advance alignment without disadvantaging firms that have historically oriented to U.S. standards.

6. *In what ways should the PCAOB consider deploying technology, including AI, to help further its investor-protection mission?*

We encourage the PCAOB to deploy technology carefully, transparently, and with appropriate governance to enhance the speed, consistency, and usefulness of its oversight activities. Certain technologies may assist with data analytics, economic analysis, and secure collaboration platforms to strengthen due process and evidence-informed decisions.

Technology tools could assist staff in organizing and summarizing comment letters on proposed standards and inspections policies (e.g., topic clustering, sentiment and stance detection, and extraction of suggested edits), while preserving human judgment over conclusions. Some standard-setting and professional bodies have evaluated AI-enabled tools to synthesize feedback and manage large bodies of technical input and could be useful resources as the PCAOB contemplates next steps. Adopting similar techniques paired with clear human oversight can speed analysis without sacrificing quality outcomes.

Analytics could also be designed to help understand who and how often information on the PCAOB website is routinely accessed. They could help determine whether investors, audit committee members, academics, or others are reaching certain PCAOB publications (e.g., inspection reports) and auditor reporting (e.g., Form AP and Form QC, when submitted) to inform improvements to data accessibility, information utility, among other things.

Finally, the new OCA consultation process to provide timely guidance on complex or novel auditing issues, when launched, will provide multiple opportunities for technology-enabled data analysis, including with respect to frequency of topical issues addressed, audit areas and related standards or rules discussed, issuer industry, size of accounting firm, timing of consultation, aging of active consultations, and outcomes and/or results.

7. How can the PCAOB enhance transparency with its stakeholders?

Transparency is foundational to the PCAOB's credibility and effectiveness. This Request for Comment, together with the recently announced standard-setting agenda consultation and formal consultation process within OCA are significant steps in enhancing transparency at the PCAOB. Throughout this letter, we have provided the PCAOB suggestions for enhancing transparency to help achieve more meaningful, actionable, and accessible information sharing.

In addition, we recognize that the advisory groups discussed in Question 4 are critical to the transparency of the Board's standard-setting process, helping stakeholders understand the objectives of the various projects and related challenges from the perspective of members. While the meeting agendas, plenary sessions, and break-out group report outs are public, it is not clear how the PCAOB Board and staff consider the feedback in standard-setting or other relevant activities. If, as mentioned above, the advisory groups took a more active role in the details of the standard-setting process, such as reviewing outlines and/or early drafts of requests for comment, and their thematic feedback was made publicly available, stakeholders would have a view into more phases in the lifecycle of a project.

We agree with Chair Logothetis that, "the PCAOB functions best when it is informed by the perspectives of participants from the full financial reporting ecosystem,[6]" and believe that transparent engagement with all of these stakeholders is critical to audit quality and serving the public interest. It helps to identify what's working well, what issues are emerging, and what actions the PCAOB should take to further its mission.

Other Questions

How should we evaluate the audit quality and independence implications of outside ownership in registered accounting firms through alternative practice structures (APS)?

CBIZ CPAs is strategically associated with CBIZ, Inc. (NYSE: CBZ) through an alternative practice structure. This structure separates CBIZ's non-attest practice from the attest services provided by CBIZ CPAs, maintaining objectivity and integrity, and ensuring freedom from conflicts of interest.

In accordance with the AICPA and state board requirements, CBIZ CPAs is an independent CPA firm 100% owned by CPAs and primarily provides attest services. All professional judgments and other decisions related to CBIZ CPAs' services are made by, or under the supervision of, CBIZ CPAs' shareholders and are made according to CBIZ CPAs' policies and quality control procedures.

Audit quality is paramount regardless of ownership and governance structure. We believe that core values of public accountants that support audit quality, which include ethics, independence, technical expertise, and regulatory oversight, are common across all practice structures. Like traditional accounting firm structures, investors in attest firms subject to an APS prioritize audit quality and regulatory compliance, so they work to help ensure systems and processes are in place to minimize independence and conflict issues to help prevent any reputational damage. Given this commonality, we believe that regulations related to upholding these values should be applied universally, with acknowledgement that a practice structure that is deemed "alternative" does not, by default, make its activities more at risk from an independence and ethics perspective.

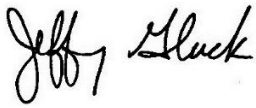
[6] PCAOB Chairman Logothetis Statement on PCAOB Strategic Priorities, March 31, 2026

Should a registered accounting firm's governance structure, such as operating under an APS, be subject to a reporting requirement to the PCAOB and should that reporting be public?

We recommend that the PCAOB first assess the decision-usefulness to relevant stakeholders of any incremental reporting on registered firms' governance structures such as operating under an APS before imposing new requirements. Much of this information is already available. APS arrangements are typically described on the attest firm's website, and in publicly funded structures key APS details appear in the non-attest firm's annual reporting. Given this existing transparency, any incrementally required PCAOB reporting should be targeted to genuine information gaps rather than duplicating disclosures that stakeholders can readily access today.

We appreciate the opportunity to provide our perspectives on the Board's strategic priorities, and we look forward to engaging with the Board and its staff further as the Strategic Plan is developed. If you have any questions or would like to discuss our views further, please contact Jeff Gluck (jgluck@cbiz.com) or Adam Clark (Adam.Clark@cbiz.com).

Very truly yours,



Jeffrey Gluck
CBIZ CPAs P.C.

By email: comments@pcaobus.org

Cherry Bekaert LLP
Your Guide Forward

April 30, 2026

Ms. Lorene Rosenberg
Public Company Accounting Oversight Board
1251 Avenue of the Americas
New York, NY 10020

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's Request for Public Comment regarding its 2026–2030 Strategic Plan. As a Top 20 accounting firm that audits fewer than 100 issuers and is therefore subject to triennial inspections, we strongly support the PCAOB's mission to protect investors and promote audit quality.

Our perspective is informed by the realities of firms that perform public company audits at scale, but without the benefit of annual inspection feedback loops. For firms like ours, PCAOB standards, guidance, and inspection practices must function not only as an enforcement mechanism, but as a clear, practical roadmap for continuous improvement between inspection cycles.

We believe the PCAOB can further its statutory mission by providing clearer expectations, more consistent guidance, and a stronger emphasis on helping firms improve, rather than penalizing minor or technical foot faults that do not impair investor protection.

1. Strategic Priorities for Registration, Inspections, and Enforcement

For firms inspected only once every three years, clarity and predictability in PCAOB expectations are essential. We recommend that the PCAOB's strategic priorities emphasize:

- Clear articulation of inspection expectations, particularly in areas involving judgment (e.g., risk assessment, audit evidence sufficiency, supervision).
- A more explicit distinction between audit quality issues and technical or documentation deficiencies, as all findings are not created equal or indicative of true quality issues.
- Guidance designed for use between inspections, enabling firms to address emerging themes proactively rather than retrospectively.

From an enforcement standpoint, we encourage continued focus on significant matters, such as independence violations, integrity issues, and systemic quality control failures, while avoiding enforcement outcomes that could discourage sound professional judgment or drive unnecessary over-auditing.

2. Inspections Program Enhancements (Including QC 1000)

As the PCAOB transitions to a QC-focused inspection model under QC 1000, proportionality is particularly important for triennially inspected firms. We recommend:

- Clear differentiation between design deficiencies and operating effectiveness issues in quality control systems.
- Practical examples of "effective" QC responses, including examples appropriate for firms with fewer issuer audits.
- Recognition of firm scale, complexity, and risk profile when evaluating QC systems and remediation efforts.

- Guidance reiterating that auditing standards covering ICFR, sampling, and documentation are not applicable for monitoring under QC 1000, as stated by the Office of Chief Accountant. Clear distinction is needed between expectations on QC 1000 versus Firm audits of Issuers.
- During inspections, provide timely observations and specific improvement opportunities (not merely generalized comments), so firms can begin remediation while facts and context are fresh.

Absent such guidance, there is a risk that QC 1000 inspections may be experienced primarily as retrospective critiques rather than as constructive assessments that promote sustainable audit quality. Additionally, there is a risk that applying auditing standards to QC 1000 monitoring requirements will require a significant amount of time for firm resources, which will draw resources away from focusing on the quality of actual audits.

3. Inspection Reporting and Usefulness to Stakeholders

Inspection reports could be significantly more useful to firms and other stakeholders if they:

- Distinguish clearly between:
  - Deficiencies that may affect audit reliability, and
  - Matters primarily related to documentation form or process.
- Include root-cause insights that firms can translate into concrete improvements.
- Provide guidance on which findings rise to level of being included as a Quality Control criticism (themes, isolated incidents, repeat findings, etc.).

4. Standard-Setting Priorities

We encourage the PCAOB to prioritize standard-setting initiatives that:

- Clarify existing requirements rather than layering additional prescriptiveness onto areas already governed by judgment-based standards.
- Reflect how audits are performed in modern, technology-enabled environments.
- Include implementation guidance at or near the time standards become effective, particularly for firms without frequent inspector interaction.

Well-calibrated standards, paired with timely guidance, foster compliance and consistency more effectively than post-hoc interpretations arising through inspections.

5. Alignment with International Auditing Standards

We do not have specific comments on this area.

6. Use of Technology and AI

We support thoughtful adoption of technology and AI by the PCAOB, particularly to:

- Identify systemic audit quality risks rather than isolated, low-impact deviations.
- Improve consistency across inspection teams and inspection cycles.
- Provide guidance to firms on acceptable use of technology, data analytics, and AI in audit planning, execution, and documentation.

Technology should enhance insight and consistency, not expand focus on immaterial differences in form.

7. Transparency and Ongoing Engagement

For firms inspected every three years, ongoing transparency outside the inspection cycle is critical. We recommend that the PCAOB:

- Publish anonymous, fact-pattern-based examples illustrating inspection expectations.
- Provide earlier signaling of emerging inspection themes.
- Expand educational outreach tailored to firms subject to triennial inspection cycles.

Increased transparency and dialogue would enable firms to self-correct and improve audit quality years before formal inspection feedback is received.

For triennially inspected firms, the PCAOB's standards, guidance, and inspection philosophy must serve as a reliable guide for continuous improvement, not merely as a mechanism for post-cycle criticism. We believe the PCAOB can most effectively protect investors by emphasizing clarity, proportionality, and constructive guidance, while reserving enforcement for matters that truly threaten audit integrity.

We appreciate the Board's consideration of these comments and look forward to continued engagement as the PCAOB develops its 2026–2030 Strategic Plan.

Respectfully submitted,

Cherry Bekaert LLP

CHERRY BEKAERT LLP

Robert A. Conway, CPA and Expert Witness

Input to the PCAOB Strategic Plan for 2026 to 2030

May 15, 2026

To The Public Company Accounting Oversight Board:

The PCAOB's stated mission is to protect the interests of investors. Every decision you make in your strategic planning process should be guided by the protection of investor interests. My comments are rooted in a fact-based assessment of the current state of the PCAOB and how the PCAOB can better protect the interests of investors.

Observation #1

Data suggests that the PCAOB may be excessively focused on internal controls over financial reporting at the expense of GAAP compliance.

Are Inspections Achieving the PCAOB's Mission to Protect Investor Interests?

PCAOB inspection reports identify instances where a finding led to a financial statement reissuance restatement. The inspection reports also identify instances where a finding led the issuer and the auditor to conclude that their prior opinions on internal controls over financial reporting ("ICFR") should no longer be relied upon. In the table below, I have tallied the number of such instances from all Big Four reports for the inspection years beginning with 2012 and concluding with 2024 (the most recent period for which Big Four inspection reports are available). Below is a summary:

	Results of PCAOB Big Four Inspections	
Inspection Years	Financial Statement Audits Restated	Internal Control Opinions Withdrawn
2012 - 2014	11	13
2015 - 2017	6	17
2018 - 2020	3	10
2021 - 2023	2	4
2024	2	2

The number of Big Four inspections conducted each year has stayed relatively constant at approximately 220 inspections per year.

Beginning with the 2014 inspection year, the PCAOB included tables in each Big Four report identifying the auditing standard the auditor failed to comply with and the number of

instances of failed compliance within each standard. Summarized below are the number of inspection deficiencies identified for 1) the PCAOB's only audit standard on internal controls over financial reporting and 2) all other PCAOB auditing standards combined:

		Big Four PCAOB Inspection Years 2014 through 2024	
PCAOB Standard	Description of Standard	Quantity of Deficiencies Identified	Percent of Total
AS 2201	Internal Controls over Financial Reporting	1,208	48%
Reported Deficiencies from all other PCAOB Standards (listed below):		1,320	52%
		2,528	100%
AS 1105	Audit Evidence		
AS 1201	Supervision		
AS 2101	Audit Planning		
AS 2110	Risks of Material Misstatement		
AS 2305	Substantive Analytical Procedures		
AS 2310	Confirmations		
AS 2315	Audit Sampling		
AS 2401	Consideration of Fraud		
AS 2410	Related Parties		
AS 2415	Going Concern		
AS 2501	Auditing Estimates		
AS 2505	Letters of Audit Inquiry to Attorneys		
AS 2510	Auditing Inventories		
AS 2801	Subsequent Events		
AS 2810	Evaluating Audit Results		

Over the entire 11-year period (from 2014 through the 2024 inspection years), 48% of all PCAOB identified deficiencies arose from the PCAOB's single audit standard on internal controls over financial reporting (AS 2201). For the individual years in that period, the deficiencies arising from the ICFR standard ranged from a low of 40% to a high of 54% of all deficiencies. The trend in this statistic shows no sign of declining over time.

Among the questions that come to mind are:

1. Did financial statement GAAP auditing by the Big Four dramatically improve as suggested by the steep decline in financial statement audit restatements identified by PCAOB inspections? Or did other factors come into play? For instance, did pressures to expedite report issuance cause inspectors to shy away from the challenging task of identifying GAAP non-compliance in favor of ICFR non-compliance which might be easier and faster to sustain? What is the Board's interpretation of this data?

2. Major changes to GAAP for revenue recognition, leasing, and current expected credit losses were effective beginning in 2018, 2019, and 2020, respectively. I would encourage the Board to conduct a "look back" analysis to see if any areas subject to inspection were subsequently restated. This will help the Board understand whether the PCAOB was up to the task of inspecting these major changes in GAAP. Consider expanding this analysis to all Big Four inspection selections starting in 2018.

3. Withdrawals of ICFR opinions continued at a comparable rate across the first three three-year periods. On the surface, this may be an expected result given the difficulty both issuers and auditors have experienced implementing the PCAOB's standards on internal controls over financial reporting. Does the PCAOB concur?

4. Do the results reflect a greater emphasis by the PCAOB on inspecting ICFR relative to GAAP and substantive auditing compliance as time progressed?

5. The Board should consider whether PCAOB's ICFR findings undermine the PCAOB's credibility when they highlight control matters that are not realistically impactful.

First and foremost, investors want to know whether the numbers are right. Many material weaknesses in internal controls are often identified only after a financial statement restatement has been identified. Few financial statement restatements have been identified as the result of first identifying internal control deficiencies.

An academic study titled "PCAOB Inspections: Public Accounting Firms on Trial"[1] based on surveys and interviews of large audit firm auditors and noted, among other things, that:

> "*Respondents collectively perceive that audit quality has improved as a result of inspections. In fact, some partners perceive that they have become so good at auditing that* ***there exists a concern that being a good auditor has come at the expense of being a good accountant*** *owing to the focus on developing expertise in auditing standards (i.e., internal controls and documentation) over expertise in accounting standards (e.g. revenue recognition), particularly at ranks below manager*."

Investors are not well served when audit firms "teach to the test," aligning their focus with the PCAOB's focus on ICFR to the detriment of auditing for accounting accuracy. This isn't just academic theory, it's a reality being voiced by the Big Four. One partner at a Big Four audit firm recounted his experience from a three-week inspection noting that, "Not once did the PCAOB ask an accounting question. Everything was about internal controls." Another partner at a Next Four firm echoed the same sentiment, noting that, "The inspectors' focus has become almost exclusively myopic toward ICFR."

[1] Westermann, Cohen, and Trompeter; "PCAOB Inspections: Public Accounting Firms on Trial" (May 15, 2018); Contemporary Accounting Research, https://doi.org/10.1111/1911-3846.12454Digital

Why Are PCAOB Inspections Overly Focused on ICFR?

In a public forum, a former PCAOB official shared his thoughts about the PCAOB's focus on ICFR over GAAP compliance. His response was twofold. First, as the PCAOB had matured, it lost its cadre of retired audit partners who were there from the beginning. It also eliminated a retired partner seasonal program that had elevated the PCAOB's technical skills related to GAAP compliance. What was left behind were less experienced former auditors whose technical accounting skills may have dulled over their lengthy tenure at the PCAOB. ICFR findings became the low hanging fruit.

Second, he noted that potential GAAP findings arising from a PCAOB inspection were required to be vetted by the SEC (the final arbiter of GAAP for public companies). He noted that early on in the PCAOB's existence, the SEC took the side of the issuer and the auditor on questions of GAAP compliance raised by the PCAOB. This embarrassed the PCAOB and naturally made the PCAOB gun-shy about raising GAAP issues at all.

Concerns about untimely inspection report issuance were being pressed repeatedly by various PCAOB stakeholders. GAAP issues take longer to resolve due to the required SEC consultation. Perhaps this caused some inspectors to shy away from potential GAAP findings? Sound familiar? I am reminded of the Madoff whistleblower Harry Markopolos and his decade long effort to convince the SEC to investigate Bernie Madoff. Markopolos repeatedly argued that the SEC had institutional incentives that favored quickly closing investigations and processing cases administratively rather than aggressively pursuing complex fraud investigations.

When Jim Doty became Chairman of the PCAOB in 2011, his rallying cry to the Inspection Division was to "Be bold, fearless, and feared." That was inspiring. However, over time, that message may have faded.

Lost Political Capital

The excessive focus on ICFR has cost the PCAOB a degree of respect from its many stakeholders. My view is that a keener focus on GAAP and substantive auditing might have averted all this talk about absorbing the PCAOB into the SEC.

On a related note, former PCAOB Chair Erica Williams sought to improve audit firm compliance by assessing large penalties for certain compliance matters that many saw as disproportionate to the underlying issues. **My view is that the PCAOB didn't need bigger fines, it needed better findings.**

Possible Action Items to Address Observation #1

The Board should assess whether PCAOB inspections are appropriately focused on GAAP compliance and whether its existing cadre of inspectors are sufficiently skilled to identify departures from GAAP.

Specific action items could include:

- Limit ICFR inspections to one or two key audit areas for each issuer inspection.
- Collaborate with the SEC more closely, including making SEC technical resources available to the PCAOB on a rotational basis to assist in the PCAOB's identification, development, and confirmation of key GAAP findings. Also, consider re-instituting the retired audit partner seasonal worker program.
- If GAAP issues are not resolved in a timely manner, proceed to issue the inspection report, noting that there are X number of GAAP issues yet to be resolved. Once those issues are resolved, issue an amended report. I suspect that this mechanism will incentivize the auditor and issuer to seek timely resolution of any GAAP issues.
- In the other direction, I suspect that the SEC's Division of Corporation Finance can make fruitful inspection referrals to the PCAOB based on lingering concerns that an issuer may not have been completely forthright in their comment letter responses. I have been surprised throughout my career by how many times I have read issuer responses to comment letters where every word is true, but collectively, the response is misleading (often by selective omission of important facts). A little collaboration between the SEC and the PCAOB can benefit both organizations and better protect investors.
- Identify restatements of periods previously inspected by the PCAOB along with commentary as to whether the subject area of the restatement was within the PCAOB's inspection scope and if so, an evaluation as to whether the PCAOB should have detected the issue at the time of its last inspection.

Observation #2

Indications of regulatory capture threaten the PCAOB's mission to protect investor interests.

Regulatory Capture Evident in QC 1000

The PCAOB's Quality Control Standard 1000, planned to be implemented by December 15, 2026, logically requires monitoring of audit operations. The PCAOB's QC Standard allows each audit firm to decide "what to monitor" and determine "what constitutes reasonable levels of performance." The obvious concern is that the audit firms will set the bar too low on QC 1000 so they can proclaim their quality controls are effective. This strikes me a bit like asking the fox to report back on the safety of the hens in the henhouse. This is essentially a throw-back to the profession's self-regulatory "peer review" approach which was deemed to be a complete failure post Enron / Worldcom and the failure of Arthur Andersen. In a twist of irony, it was the profession's failure at self-regulation that led to the creation of the PCAOB. Yet today, the PCAOB is writing standards that favor a heightened degree of self-regulation.

Audits are not like widgets stamped out with perfect uniformity. The quality of each audit can vary considerably for a whole host of reasons such as excessive staff leverage, excessive workloads, high staff turnover, low audit team year-over-year continuity, varying staff experience levels, lack of sufficient industry expertise, partners and managers who are behind where they need to be in their review cycle due to their own workload issues,

etc. If an audit rolled down the assembly line with metrics indicating a heightened risk that audit quality may have been compromised, one would expect that remedial procedures would be applied to assure that audit quality was not compromised. These circumstances warrant a prescriptive solution from the PCAOB that perhaps incorporated ways for regulators, audit committees, and investors to assess the firms, such as using the concepts of Firm and Engagement Performance Metrics. But that is not what happened.

Allowing the audit firms to "write their own test – then tell if they passed" by each using their own risk-based approach to quality controls over the management and monitoring of their human capital will not drive serious change. Instead, it will allow the largest audit firms to perpetuate the status quo by enabling those firms to put their own stamp of approval on their quality controls, despite their checkered past, including realities of how the largest audit firms mismanage their human capital.

Another Example of Regulatory Capture – "Follow the Money"

There were 39 unique respondents[2] to the SEC's request for public comment on the PCAOB's proposed standards to provide transparency to "Firm and Engagement Performance Metrics." Below is a summary of the respondents both "For" and "Against" the proposed standard:

Type of Respondent	For the Standard	Against the Standard
CPA Firms (4 Big Four, 4 Next Four and 9 others)	0	17
Audit Committee Associations	0	2
Recipients of Money from the Audit Firms	0	**12**
Finance Employee with a CPA	0	1
Investor Advocates	7	0
Totals	7	32

What do the 12 public commenters listed below, who all voted against the standard, all have in common?

AICPA	Three State CPA Societies
Center for Audit Quality	Two Academic Organizations
The Small Firm Section of the CAQ	The US Chamber of Commerce
Canadian CAQ	Two Consultants to Audit Firms

Answer: They are all members of the category in the table above titled "Recipients of Money from the Audit Firms." None of these respondents disclosed that their public

[2] The overall standard was comprised of two separate but interrelated standards. In some cases, the respondents submitted the same comment to both parts of the interrelated standards. The tally above focuses on the number of individual voices without duplication. In instances where multiple individuals were signatories to one joint letter, that was counted as a single respondent.

comments may have been biased because of 1) money they (or the entities they represent) accepted from the audit firms or 2) they were beneficiaries of on campus recruiting by the Big Four. I discount these responses significantly due to the respondents' inherent conflicts of interest or bias favoring the largest audit firms.

With respect to the audit firms, it is not surprising that the CPA firms opposed "Firm and Engagement Performance Metrics." The metrics would expose the truth about how high leverage, excessive workloads at both the staff and partner levels, high turnover, low year-over-year continuity, and low experience levels undermine audit quality. The fundamental truth is that the existing Big Four staffing model is a complete mismatch for the complexity that auditors are expected to master.

The audit firms also complained about the projected cost of Firm and Engagement Performance Metrics. Yet, these same audit firms tout their ability to use data analytics and artificial intelligence to do all kinds of incredible things with data. But they complained loudly when it came to producing Firm and Engagement Performance Metrics. How are they properly monitoring and managing key aspects of audit quality today without such metrics? Is it that they use them (or something similar) but do not want to provide transparency outside the firm?

As it relates to the organizations purporting to represent audit committee members, I see that group as having the potential for self-interests that mimic those of the large audit firms. Some claim to be "independent" audit committee members but have more focus on retaining well-compensated audit committee assignments by not making waves. As with the auditors, investors have very little visibility to the quality of how the audit committees are fulfilling their oversight responsibilities.

At its core, the proposed firm and engagement performance metrics were about "transparency" and "truth in labeling" for audit services. These are "Mom and apple pie" concepts. The objective was to give audit committees additional information that would enable more informed auditor retention decisions and stimulate competition on more than just price and industry experience.

Although the PCAOB made it clear that its proposed rules were not about creating a definitive measure of audit quality, many respondents nixed the proposal on the basis that "if audit quality could not be definitively measured, why approve these rules?" The real question should have been, "Are audit committees better off with this information than without?" The answer to that question is clearly "Yes." Key inputs that drive audit quality CAN be measured. Some respondents simply failed to do their homework.

Investor advocates in favor of the proposal included the Council for Institutional Investors, the Chartered Financial Analyst Institute, Consumer Federation of America, the AFL-CIO, the American Association of Retired Persons, three former PCAOB board members who together penned one public comment and me. The PCAOB's Investor Advisory Group also whole-heartedly supported Firm and Engagement Performance Metrics as did four out of five PCAOB board members.

In an ideal world, the SEC would have coordinated with the PCAOB to rework the proposed standard and more clearly communicate the merits of this proposed standard. There also would have been more refined cost estimates that leveraged each firm's touted skills in data analytics, artificial intelligence, and existing processes. But that is not what happened. Instead, the proposals for Firm and Engagement Metrics fell victim to both Regulatory and Political capture. **Lost in the fray was the PCAOB's important mission to protect the interests of investors.**

During the Advisory Committee on the Auditing Profession meeting in 2008, former PwC senior Partner and SEC Chief Accountant Don Nicoliasen (and ACAP Co-Chair) said it best: "**The Firms compete primarily on the basis of cost. That's been the history of the profession and it has been disastrous for investors and for the firms**." At its core, Firm and Engagement Performance Metrics was about providing an opportunity to begin to change how the audit firms compete for audits. Absent any change in the paradigm for competition, history will surely repeat itself – and the results will continue to be "**disastrous for investors and the firms**."

The journey of Firm and Engagement Performance Metrics began in with the formation of the Advisory Committee on the Auditing Profession in 2007 and a public comment that same year that identified this opportunity. With a gestation period of nearly 18 years, the future of this proposal came down to counting the days on the calendar until the end of SEC Chair Gensler's term. Not surprisingly, I understand there was hesitation on the part of outgoing SEC Chair Gensler to hastily approve something that he knew was strongly opposed by the incoming administration.

In the ideal world of the Sarbanes-Oxley Act, the retention of the auditor by the audit committee was intended to improve auditor and audit committee independence from management. Unfortunately, it is no secret that audit committees look to management for a recommendation on auditor retention – a fact that auditors know all too well. So auditors are torn between two roles: 1) being objective and skeptical when dealing with management and 2) seeking management's endorsement when the auditor retention decision comes around. Why does this happen? The audit committee has limited visibility to what happens behind the audit curtain. This situation has broad implications as described in 2024 by SEC Chief Accountant Paul Munter:

> **"The Importance of the Audit Committee in Prioritizing and Promoting Audit Quality**[3]
>
> The audit committee has the statutory responsibility to appoint, compensate, and oversee an issuer's auditor. In executing its responsibilities, an audit committee should prioritize and aim to promote audit quality to protect investors. Academic studies highlight the risk that, in some cases, in executing their mandate, audit committees may look to protect the interests of the issuer and its management over the interests of investors. This risk can arise out of an audit committee's association or coziness with the issuer or its management or through management's influence over the audit committee's supervision

[3] SEC.gov | An Investor Protection Call for a Commitment to Professional Skepticism and Audit Quality

of the auditor. We remind audit committees of their role as critical gatekeepers for investor protection through oversight of a high-quality audit and the benefit of having an audit committee that is independent of management.

Commitment to audit quality starts with the independence of the audit committee and its selection and oversight of the independent auditor. Audit committees, in selecting an auditor, should prioritize audit quality. **This will encourage auditors to compete for engagements based on their ability to perform a high-quality audit, with the requisite degree of professional skepticism**. To ensure quality, the audit committee should frequently evaluate its process for assessing the auditor's performance, **including relevant firm or engagement-level metrics.**"

In Summary

I am concerned about the potential ill-effects of regulatory capture of the PCAOB by the auditors, politicians, academics, and other stakeholders.

Recommendations to Remediate Observation #2

- Protection of the interests of investors (aka "The PCAOB Mission") should be top of mind in every decision the Board makes.
- Any re-write of QC1000 should be grounded in protecting investor interests.
- In the future, require all public commenters to disclose relationships (monetary of otherwise) that might bias the public commenter's response. If the commenter believes there are no such relationships, require the commenter to affirmatively state that there are no such relationships.

About the Author

My name is Robert Conway. I have been a CPA for over 45 years. I am a retired KPMG audit partner. I worked at KPMG for 26 years, including 17 years as an audit partner. Following my retirement from KPMG, I joined the PCAOB to pursue my interest in improving audit quality across the profession. I spent nine years at the PCAOB leading both domestic and international inspections of Big Four audit firms. During the last six of those nine years, I was the leader of the PCAOB's Los Angeles and Orange County offices. Since leaving the PCAOB, I have been deeply involved in technical accounting consulting and I have worked extensively as an expert witness in controversies pertaining to generally accepted accounting principles and PCAOB standards. I also published a book titled "*The Truth About Public Accounting – Understanding and Managing the Risks the Auditors Bring to the Audit.*" In 2007, I wrote a recommendation to the US Treasury Department's Advisory Committee on the Auditing Profession ("ACAP") that was widely credited with providing the impetus for ACAP's Final Report recommendation that the PCAOB evaluate the feasibility and potential benefits of providing transparency to input and output metrics that might better inform auditor retention and continuation decisions. This ultimately culminated in 2024 with the PCAOB's proposed Standard on Firm and Engagement Performance Metrics that was subsequently withdrawn in February 2025.

Closing Thoughts

Thank you for the opportunity to share my feedback as you build out your strategic plan. Please feel free to contact me directly if you have any questions about the items I have described herein.

Sincerely,

Robert A. Conway

RetiredAuditPartnerACAP@Live.com

Council of Institutional Investors®
The voice of corporate governance

Via Email

May 15, 2026

Phoebe W. Brown
Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Reference: PCAOB No. 2026-001, Request for Public Comment – PCAOB Strategic Priorities

Dear Secretary Brown and Members of the Public Company Accounting Oversight Board (PCAOB or Board):

The Council of Institutional Investors (CII)[1] respectfully submits this letter in response to the PCAOB's request for public comment (RPC) related to the development of strategic priorities that will inform the Board's 2026-2030 strategic plan.[2] We applaud the Board for its process that includes consultation with investors and other key stakeholders and the solicitation of public comment.

CII is a nonprofit, nonpartisan association of U.S. public, corporate and union employee benefit funds, other employee benefit plans, state, and local entities charged with investing public assets, and foundations and endowments with combined assets under management of approximately $5.2 trillion. Our member funds include major long-term shareowners with a duty to protect the retirement savings of millions of workers and their families, including public pension funds with more than 15 million participants – true and real "Main Street" investors through their pension funds. Our associate members include non-U.S. asset owners with about $5.8 trillion in assets, and a range of asset managers with more than $74 trillion in assets under management.

In 2022, CII strongly endorsed the Board's draft of the current plan, in particular the description of the PCAOB's mission and vision, noting that these were generally consistent with our membership-approved policies.[3] Similar to what we shared previously, the policies that we

[1] For more information about the Council of Institutional Investors (CII), including its board and members, please visit CII's website at http://www.cii.org.
[2] *See* Request for Public Comment, PCAOB Strategic Priorities, PCAOB No. 2026-001 (Mar. 31, 2026), https://assets.pcaobus.org/pcaob-dev/docs/default-source/about/administration/documents/strategic_plans/pcaob-no-2026-001-rfc-sp.pdf?sfvrsn=b6ef3170_2.
[3] *See* Letter from Jeffrey P. Mahoney, General Counsel, CII to Office of the Secretary, Public Company Accounting Oversight Board, ***Re: PCAOB No. 2022-003*** at 1 (Sept. 15, 2022), https://www.cii.org/files/issues_and_advocacy/correspondence/2022/September%2015,%202022%20PCAOB%20letter%20(final).pdf ("CII strongly endorses the Draft Plan's description of the PCAOB's mission and vision.").

believe may be most relevant to the PCAOB now, as it embarks on a new strategic planning process, include the following:

CII Policies

Financial Gatekeepers

> The Council of Institutional Investors believes financial gatekeepers should be transparent in their methodology and avoid, or tightly manage, conflicts of interest. Robust oversight and genuine accountability to investors are also imperative. Regulators should remain vigilant and work to close gaps in oversight. Continued reforms are needed to ensure that the pillars of transparency, independence, oversight and accountability are solidly in place.
>
> Auditors . . ., and other financial "gatekeepers" play a vital role in ensuring the integrity and stability of the capital markets. They provide investors with timely, critical information they need, but often cannot verify, to make informed investment decisions. With vast access to management and material non-public information, financial gatekeepers have an inordinate impact on public confidence in the markets. They also exert great influence over the ability of corporations to raise capital and the investment options of many institutional investors.
>
> . . .
>
> . . . The Sarbanes-Oxley Act of 2002 . . . bolstered the transparency, independence, oversight and accountability of accounting firms. . .. For example, accounting firms now are barred from providing many consulting services to companies. . ..
>
> . . . CII welcomes further examination of financial gatekeepers by regulators, lawmakers, academics and others, to determine what changes, including new rules and stronger oversight, are needed.[4]

Independence of Accounting and Auditing Standard Setters

> Audited financial statements including related disclosures are a critical source of information to institutional investors making investment decisions. The efficiency of global markets—and the well-being of the investors who entrust their financial present and future to those markets—depends, in significant part, on the quality, comparability and reliability of the information provided by audited financial statements and disclosures. The quality, comparability and reliability of that information, in turn, depends directly on the quality of the . . . standards that . . .

[4] Policies on Other Issues, Financial Gatekeepers, CII (adopted Apr. 13, 2010), https://www.cii.org/policies_other_issues#fin_gatekeepers.

auditors use in providing assurance that the preparers' recognition, measurement and disclosures are free of material misstatements or omissions. The result should be timely, transparent and understandable financial reports.

The Council of Institutional Investors has consistently supported the view that the responsibility to promulgate . . . auditing standards should reside with independent organizations.

CII supports U.S. accounting and auditing standard setters cooperatively working with their international counterparts toward a common goal of high quality standards. This means maintaining a high degree of on-going communication among domestic and international standard setters to produce standards that first and foremost result in high quality financial reports, and secondarily result in consistent financial reporting outcomes. CII continues to be open to a transition to a single global set of high quality standards designed to produce comparable, reliable, timely, transparent and understandable financial information that will meet the needs of institutional investors and other consumers of audited financial reports. However, at this time CII does not support replacing U.S. accounting or auditing standards or standard setters with international standards or standard setters. . ..

In order to be high quality, . . . auditing standards must be seen as meeting the needs of the investing public, and the standard setting process must be independent and free from undue influence. Attributes that underpin an effective . . . auditing standard setter include:

- **Recognition of the Role of Reporting** – A recognition that . . . the quality of auditing . . . is a public good, necessary to investor confidence in individual enterprises and the global capital markets as a whole;
- **Sufficient Funding** – Resources sufficient to support the standard setting process, including a secure, stable, source of funding that is not dependent on voluntary contributions of those subject to the standards (for international standard setters, such funding may depend on governmental and stakeholder cooperation from multiple jurisdictions, including the United States);
- **Accountability to Investors** – A clear recognition that investors are the key customer of audited financial reports and, therefore, the primary role of audited financial reports should be to satisfy in a timely manner investors' information needs (this includes having significant, prominent and adequately balanced representation from qualified investors on the standard setter's staff, standard setting board, oversight board and outside monitoring or advisory groups);
- **Due Process** – A thorough public due process that includes solicitation of investor input on proposals and careful consideration of investor views before issuing proposals or final standards; . . .

- **Enforcement** – A clear, rigorous and consistent mechanism for enforcement by regulators of the . . . auditing standards.[5]

Auditor Independence

2.13a Audit Committee Responsibilities Regarding Independent Auditors: The audit committee should fully exercise its authority to hire, compensate, oversee and, if necessary, terminate the company's independent auditor. In doing so, the committee should take proactive steps to promote auditor independence and audit quality. Even in the absence of egregious reasons, the committee should consider the appropriateness of periodically changing the auditor, bearing in mind factors that include, but are not limited to: . . .

- the quality and frequency of communication from the auditor to the audit committee
- the experience, expertise and professional skepticism of the audit partner, manager and senior personnel assigned to the audit, and the extent of their involvement in performing the audit . . .
- the clarity, utility and insights provided in the auditor's report and the auditor's letter to management in relation to the audit
- the level of transparency and robustness of the audit firm with the audit committee and investors, including with respect to audit quality indicators, governance practices and underlying principles, and the financial stability of the audit firm
- enforcement actions (in process or completed), inspection results and fines levied by the Public Company Accounting Oversight Board or other regulators . . .

Investors are the "customers" and end users of financial statements and disclosures in the public capital markets. Both the audit committee and the auditor should recognize this principle.[6]

2.13f Shareowner Votes on the Board's Choice of Outside Auditor: Audit committee charters should provide for annual shareowner votes on the board's choice of independent, external auditor. In practice, if the board's selection fails to achieve the support of a significant majority, such as 80%, of the for-and-against votes cast, the audit committee should: (1) solicit the views of major shareowners to determine why a meaningful minority of shareowners dissented from ratification and (2) take the shareowners' views into considerations and reconsider its choice of auditor.[7]

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[5] Policies on Other Issues, Independence of Accounting and Auditing Standard Setters, CII (updated Mar. 1, 2017), https://www.cii.org/policies_other_issues#indep_acct_audit_standards.
[6] CII Corporate Governance Policies, § 2.13 Auditor Independence (updated Mar. 12, 2026), https://www.cii.org/files/03_07_22_corp_gov_policies.pdf.
[7] CII Corporate Governance Policies, §2.13f Shareowner Votes on the Board's Choice of Outside Auditor.

Considering these and other membership-approved policies and related CII public positions, we offer the following comments in response to seven questions set forth in the RPC.[8]

1. What should the PCAOB focus on as its strategic priorities in registration, inspections, and enforcement over the next two to five years to further its statutory mission?[9]

Inspections

CII strongly supports the PCAOB continuing to focus on increasing the transparency in reporting inspection results as a strategic priority over the next two to five years to further its statutory mission.[10] We continue to believe that the Board has opportunities to enhance the amount of publicly available relevant and reliable information that may be useful to investors by increasing the transparency of inspection reports.[11] As one example, we generally agree with the suggestions of Ken Goldman, former Yahoo CFO, former president of family office management company Hillspire, and current Member of the Investor Advisory Group of the PCAOB (IAG), that the transparency in reporting inspection results could be improved by having inspection reports that '"summarize your key findings so that we have lessons learned' and differentiate between genuine errors and 'paperwork issues.'"[12]

As indicated by our policy on **Audit Committee Responsibilities Regarding Independent Auditors**, many of our members view inspection results as an important factor for audit committees to consider in exercising their authority to hire, terminate, compensate, and oversee the company's independent auditor. The transparency of inspection results, particularly when the results focus on issues relevant to audit quality or auditor independence, could also be an important public source of information for shareholders when voting on the election of a chair and members of the audit committee and on the ratification of the external auditor.[13] As one example, the voting guidelines of a major asset manager state: "We may vote against the audit

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[8] *See* Request for Public Comment: PCAOB Strategic Priorities at 1-2.
[9] Request for Public Comment: PCAOB Strategic Priorities at 1 (emphasis added).
[10] *See, e.g.,* Letter from Jeffrey P. Mahoney, General Counsel, CII to Office of the Secretary, Public Company Accounting Oversight Board, ***Re: PCAOB No. 2022-003*** at 9 ("CII strongly supports the objective of increasing transparency in reporting inspection results.").
[11] *Id.* ("We agree that the Board should make '"publicly available relevant and reliable information that is useful to . . . stakeholders [including] . . . increasing the transparency of . . . inspection reports.'"); *cf.* Noah Levin & Alan Wilson, PCAOB Requests Public Comment on Strategic Priorities in First Open Meeting Under Chairman Logothetis, WilmerHale (Apr. 8, 2026), https://www.wilmerhale.com/en/insights/blogs/keeping-current-disclosure-and-governance-developments/20260408-pcaob-requests-public-comment-on-strategic-priorities-in-first-open-meeting-under-chairman-logothetis ("George Botic . . . specifically encouraged stakeholders to provide input across several key areas, including: . . . opportunities to enhance the PCAOB's inspection program and public inspection reports.").
[12] Courtney Vien, Accounting, PCAOB Chair Addresses the Board's Credibility Problem, CFO Brew (May 5, 2026), https://www.cfobrew.com/stories/pcaob-chair-jim-logothetis-addresses-the-boards-credibility-problem.
[13] *See* CII Corporate Governance Policies, 2.13f Shareowner Votes on the Board's Choice of Outside Auditor.

committee members where the board has not facilitated quality, independent auditing [and] [w]e look to public disclosures for insight . . . ."[14]

Enforcement

CII also strongly supports the PCAOB, in cooperation with the Securities and Exchange Commission's (SEC) Division of Enforcement, focusing on increasing the transparency of enforcement actions as a strategic priority over the next two to five years. We have long shared the reported concerns about enforcement transparency recently described by SEC Accountant Kurt Hohl:

> SEC Chief Accountant Kurt Hohl . . . expressed excitement in working with the new Board members and encouraged them to look for opportunities to do things differently, including within the overlapping enforcement responsibilities of the SEC and the PCAOB. In so doing, Hohl noted the differing processes between the two, pointing out that, unlike the SEC, the PCAOB is statutorily required to keep its investigations and inquiries confidential until a settlement or final decision has been reached. *Because of this, Hohl observed, accounting firms try to "slow roll" PCAOB enforcement matters so that disclosure does not occur until several years later.*[15]

As indicated by our policy on **Audit Committee Responsibilities Regarding Independent Auditors**, many of our members view enforcement actions as an important factor for audit committees to consider in exercising their authority to hire, terminate, compensate, and oversee the company's independent auditor. The transparency of enforcement actions, particularly when the actions focus on issues relevant to audit quality or auditor independence, could also be relevant for shareholders when voting for the election of a chair and members of the audit committee and on the ratification of the external auditor. As one example, the voting guidelines

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[14] BlackRock Investment Stewardship: Proxy Voting Guidelines for Benchmark Policies – U.S. Securities, BlackRock 11 (Jan. 2026), https://www.blackrock.com/corporate/literature/publication/blackrock-investment-stewardship-benchmark-guidelines-us.pdf; *see, e.g.,* Ohio Public Employees Retirement System: Corporate Governance Policy & Proxy Voting Guidelines, Ohio Public Employees Retirement System 5 (Jan. 2026), https://www.opers.org/pubs-archive/corporate-governance/Corporate-Governance-Policy-and-Proxy-Voting-Guidelines.pdf ("Generally, OPERS will vote: . . . Against the lead independent chair or lead independent director and/or members of accountable committees when the Board: . . . [f]ails to facilitate quality, independent auditing or substantial accounting or prevent financial reporting irregularities . . . .").

[15] Margaret Gembala Nelson, Foley Viewpoints, Reading Between the Lines: The New SEC SOX Enforcement Group, Foley (Mar. 31, 2026) (emphasis added), https://www.foley.com/insights/publications/2026/03/reading-between-the-lines-the-new-sec-sox-enforcement-group/; *see* Letter from Jeffrey P. Mahoney, General Counsel, CII to Office of the Secretary, Public Company Accounting Oversight Board, ***Re: PCAOB No. 2022-003*** at 10-11 (agreeing with observations of Daniel L. Goelzer, a founding member of the PCAOB, that "SOX requires that PCAOB enforcement actions be nonpublic until the conclusion of the case—and, if the PCAOB loses, that the case remain nonpublic forever [and] [n]onpublic proceedings encourage delay, discourage settlements, and deprive the public of a real-time understanding of the kinds of auditing lapses that the board believes require sanctions.").

of a major asset manager state: "[T]o the extent that . . . the audit firm has violated standards of practice, we may also not support ratification."[16]

China-Based Audit Firms

CII strongly supports the PCAOB focusing a material amount of its inspection and enforcement resources on China-based registered audit firms as a strategic priority over the next two to five years to further its statutory mission, including its access to inspect and investigate registered audit firms headquartered in China in accordance with the Holding Foreign Companies Accountable Act (HFCAA).[17] CII publicly supported the passage of the HFCAA and its implementation by the SEC.[18] In a 2021 letter to the SEC, we explained the basis for that support:

> As the leading voice for effective corporate governance and strong shareholder rights, CII believes that accurate and reliable audited financial statements are critical to investors in making informed decisions, and vital to the overall well-being of our capital markets. Consistent with our membership approved policies [on **Financial Gatekeepers** and **Independence of Accounting and Auditing Standard Setters]** we have long been troubled by the lack of cooperation of China's regulators with the SEC and the Public Company Accounting Oversight Board (PCAOB) and their efforts to promote high quality audits of financial reports of Chinese companies that are listed on U.S. exchanges. In recent years those concerns have grown as the number of Chinese companies listed has increased significantly. What is also concerning is that many of those companies have adopted variable interest entity (VIE) and dual-class stock structures, both of which are complex and involve risks that are not fully understood by many market participants.[[19]]

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[16] BlackRock Investment Stewardship: Proxy Voting Guidelines for Benchmark Policies – U.S. Securities, BlackRock at 11.

[17] *See, e.g.,* FACT SHEET: PCAOB Imposes Historic Sanctions on China-Based Audit Firms, Investors Are More Protected Today Because of HFCAA (Nov. 30, 2023), https://pcaobus.org/news-events/news-releases/news-release-detail/fact-sheet-pcaob-imposes-historic-sanctions-on-china-based-audit-firms ("The Public Company Accounting Oversight Board (PCAOB) today announced the first major enforcement settlements with mainland Chinese and Hong Kong firms since **securing historic access to inspect and investigate firms headquartered in China and Hong Kong in 2022** in accordance with the Holding Foreign Companies Accountable Act (HFCAA)."); *see generally* Holding Foreign Companies Accountable Act, Pub. L. No. 116–222; 134 Stat. 1063 (2020), **https://www.congress.gov/bill/116th-congress/senate-bill/945/text.**

[18] *See, e.g.,* Letter from Jeffrey P. Mahoney, General Counsel, CII to Vanessa A. Countryman, Secretary, Securities and Exchange Commission, Re: File No. S7-03-21 at 5 (May 5, 2021), https://www.cii.org/files/issues_and_advocacy/correspondence/2021/May%205%202021%20S7-03-21.pdf. ("CII subsequently supported the passage of the HFCA Act. And we now support an effective and timely implementation of the HFCA Act by the Commission.").

[19] *See* Emmanuel Tamrat, Behind the Veil: Risks of Chinese Companies and the VIE Structure An Update, CII 4 (Aug. 2025), https://www.cii.org/Files/publications/Behind-the-Veil-Risks-of-Chinese-Companies-and-the-VIE-Structure-Aug-2025.pdf ("The VIE structure has allowed many Chinese companies in select sectors with foreign investment restrictions to indirectly access U.S. capital markets, and this arrangement poses key risks to investors.");

> To be clear, CII is focused foremost on the quality and integrity of U.S. capital markets. Our members have a variety of investment strategies for emerging and frontier markets, and understand risk has to be calibrated to rewards. But we expect that U.S. capital markets should adhere to their articulated standards. And this is not happening where U.S.-listed companies are audited by firms that are not inspected by the PCAOB.
>
> CII's preference is for the PCAOB to inspect the audit work and practices of PCAOB-registered firms in China. However, after more than a decade of negotiations China has refused to permit such inspections. We agree with Daniel Goelzer, former acting PCAOB Chairman and former SEC General Counsel, that '"[i]t isn't sustainable for the U.S. to have an audit inspection requirement and to enforce it against all auditors, except those from China'"[20]

We believe recent developments relating to China-based auditing firms continue to raise questions about the risks to investors and the public confidence in the markets. As one example, we note the recent exchange between U.S. Senator Jim Banks (R-IN) and SEC Chair Paul Atkins at the recent Banking, Housing, and Urban Affairs Committee hearing on the "Oversight of the U.S. Securities and Exchange Commission":

> SENATOR JIM BANKS (R-IN)
> . . . .
>
> China has taken steps to crack down on Western accounting firms that offer auditing services to Chinese companies. Should American investors trust the financial reports they get on a Chinese company if the auditors preparing that report answer to the CCP?
>
> [SEC Chair Paul] Atkins: . . .[T]he SEC swore in new board members for the Public Company Accounting Oversight Board (PCAOB), *and this is a main issue they will work on*.[21]

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see also Letter from Alaska Commissioner of Revenue Adam Crum et al., to The Honorable Paul Atkins, Chairman, U.S. Securities and Exchange Commission 2 (May 20, 2025), https://sfof.com/wp-content/uploads/2025/05/Delisting-Letter.pdf (The Chinese Communist Party (CCP) has cracked down on firms conducting due diligence on Chinese companies, manipulated Chinese stock and bond markets, embedded CCP cells within all Chinese companies, and permitted widespread use of opaque variable interest entity (VIE) structures to circumvent U.S. regulatory scrutiny [and] [t]hese practices, combined with the PCAOB's discovery of significant and pervasive deficiencies in its first-ever inspections of Chinese audit firms, necessitate a close examination of whether China-based companies should be listed on U.S. exchanges.").

[20] Letter from Jeffrey P. Mahoney, General Counsel, CII to Vanessa A. Countryman, Secretary, Securities and Exchange Commission, Re: File No. S7-03-21 at 1-4 (footnotes omitted).

[21] Oversight of the U.S. Securities and Exchange Commission, Before the S. Banking, Housing, & Urb. Aff. Comm., William & Jensen, BGOV 5 (Feb. 12, 2026) (exchange between Senator Jim Banks (R-IN) and SEC Chair Paul Atkins) (emphasis added & on file with CII); *see* Letter from Alaska Commissioner of Revenue Adam Crum et al., at 2 ("China's actions create an environment ripe for fraud and abuse increasing the likelihood that China-based, U.S.-listed companies will violate the disclosure, auditing, or antifraud provisions of the Securities Exchange Act

In this context, CII recognizes the importance of the Board allocating sufficient resources to the inspections of workpapers from registered China-based audit firms. Accordingly, we agree with SEC Chair Atkins's testimony indicating that the Board should have as a strategic objective prioritizing the inspections and enforcement of registered China-based audit firms.

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)?[22]

QC 1000

CII generally supports QC 1000, based in part on our membership approved policy on **Independence of Accounting and Auditing Standard Setters**. We are aware that the PCAOB Chair Demetrios (Jim) Logothetis has indicated that the Board "would pursue 'narrow' changes" to the QC 1000,"[23] before its December 15, 2026, effective date.[24]

In light of the fact that PCAOB Chair Logothetis and three of the four current Board members were not involved in the deliberations of QC 1000,[25] we would respectfully request that any proposed amendments to QC 1000 include consideration of, at a minimum, the following two proposed requirements each of which are generally consistent with CII membership approved policies and CII's prior communications to the Board:

(1) *Requiring for larger firms a "QC Committee" composed entirely of at least three persons independent of the firm.*[26]

[and] [w]hile China has ostensibly granted the PCAOB access to Chinese audit firms, it is questionable whether these inspections are sufficient when the government is acting so exhaustively to obscure accurate information about Chinese companies.").

[22] Request for Public Comment: PCAOB Strategic Priorities at 1 (emphasis added); *see generally* QC 1000, A Firm's System of Quality Control (effective on 12/15/2026), PCAOB (last visited May 14, 2026), https://pcaobus.org/oversight/standards/qc-standards/details/qc-1000--a-firms-system-of-quality-control.

[23] Ellichipuram Umesh, US Audit Watchdog to Revisit Contested Firm Quality-Control Standard, Intl. Acct. Bull. (Apr. 2, 2026), https://www.internationalaccountingbulletin.com/news/us-audit-watchdog-to-revisit/?cf-view.

[24] *See* News Release, PCAOB Postpones Effective Date of QC 1000 and Related Standards, Rules, and Forms, PCAOB (Aug. 28, 2025), https://pcaobus.org/news-events/news-releases/news-release-detail/pcaob-postpones-effective-date-of-qc-1000-and-related-standards--rules--and-forms ("The Public Company Accounting Oversight Board (PCAOB) announced today that it is postponing for one year, to December 15, 2026, the effective date for QC 1000, *A Firm's System of Quality Control*, and other new and amended PCAOB standards, rules, and forms adopted by the Board on May 13, 2024.").

[25] *See* Press Release, SEC Appoints New Chairman and Board Members to PCAOB, 2026-16, U.S. Securities and Exchange Commission (Jan. 30, 2026), https://www.sec.gov/newsroom/press-releases/2026-16-sec-appoints-new-chairman-board-members-pcaob ("The Securities and Exchange Commission today announced the appointment of Demetrios (Jim) Logothetis, as Chairman, and Mark Calabria, Kyle Hauptman, and Steven Laughton, as Board members, of the Public Company Accounting Oversight Board (PCAOB) [and] George Botic will continue his service as a Board member and will remain as Acting Chairman until Mr. Logothetis is sworn in.").

[26] *See* Letter Jeffrey P. Mahoney, General Counsel, CII to Vanessa A. Countryman, Secretary, Securities and Exchange Commission, ***PCAOB–2024–01, Notice of Filing of Proposed Rules on General Responsibilities of the Auditor in Conducting an Audit and Amendments to PCAOB Standards, and PCAOB–2024–02, Notice of Filing***

We reiterate the following summary of the basis for this recommendation from our 2023 comment letter to the Board:

> [O]ur recommend[ation is] . . . derived from our . . . membership approved policies on **Audit Committee Responsibilities Regarding Independent Auditors**, **Auditor Independence**, and **The Board of Directors**.[[27]] Those policies include provisions analogous to the SEC rules for corporate audit committees and the related New York Stock Exchange and Nasdaq Stock Market listing standards.
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> We also believe our recommend[ation] . . . [is] aligned with the . . . Proposal's related findings that: (1) "Firm governance . . . establish[es] the environment that determines how firm personnel carry out responsibilities for the operation of a firm's QC system and the performance of its engagements[;]" (2) "Such an oversight function could reduce negative impacts of commercial considerations on decision making by firms about their QC system and thereby improve incentives to implement QC systems that more fully meet the interests of investors and financial statement users"[;][and] (3) "Some academic research finds that the level of Board independence is associated with benefits."[28]

(2) *Requiring public reporting regarding quality control matters*.[29]

We reiterate the following summary of the basis for this recommendation again from our 2023 comment letter to the Board:

> Unfortunately, [QC 1000] . . . rejects the view of CII and many investors by not requiring any meaningful disclosure about the system of QC to investors. As a result, investors will not know whether firms have developed a feedback loop sufficient to proactively identify deficiencies before they appear in PCAOB inspections. Nor will investors be aware of the resources devoted to the system, the persons responsible for overseeing audit quality, or the firm's own conclusion about the effectiveness of the system.

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of Proposed Rules on a Firm's System of Quality Control and Related Amendments to PCAOB Standards 2 n.8 (June 27, 2024), https://www.cii.org/files/June%2027,%202024%20CII%20letter%20to%20SEC%20on%20PCAOB%20standards%20(final).pdf ("CII recommendations in response to the "A Firm's System of Quality Control and Other Amendments to PCAOB Standards, Rules, and Forms' that were not adopted by the PCAOB include: [] requiring for larger firms a 'QC committee' composed entirely of at least three persons independent of the firm. . . . and [] requiring public reporting regarding quality control matters.'"); *but cf.* Ellichipuram Umesh, US Audit Watchdog to Revisit Contested Firm Quality-Control Standard, Intl. Acct. Bull. (We note "the CAQ said firms were struggling to find suitable independent executives for the oversight boards" a claim we believe is debatable).

[27] CII Corporate Governance Policies, § 2 The Board of Directors.

[28] Letter from Jeffrey P. Mahoney, General Counsel, CII to Ms. Phoebe W. Brown, Office of Secretary, Public Company Accounting Oversight Board 8 (Jan. 19, 2023) (footnotes omitted), https://www.cii.org/Files/Correspondence/January%2019%202023%20CII%20letter%20to%20PCAOB.pdf.

[29] *See* Letter Jeffrey P. Mahoney, General Counsel, CII to Vanessa A. Countryman, Secretary, Securities and Exchange Commission, ***PCAOB–2024–01, Notice of Filing of Proposed Rules on General Responsibilities of the Auditor in Conducting an Audit and Amendments to PCAOB Standards, and PCAOB–2024–02, Notice*** at 2 n.8.

> . . . [We acknowledge] Section 104 of SOX prohibits the PCAOB from disclosing the "portions of the inspection report" that included "criticisms of or potential defects in the quality control systems" unless not remediated within 12 months. . ..
>
> . . . [However,] we believe the QC Form should, at a minimum, be made public with the PCAOB identified deficiencies redacted. . .. for a number of reasons, including the following:
>
> - We believe there is plenty of information in the QC Form that would be beneficial to investors for investment or proxy voting decisions even if all information about efficiencies was omitted;
>
> . . . .
>
> - We believe the logic of [QC 1000's] . . . approach is circular: It creates a QC Form, includes information subject to mandatory confidentiality obligations, then uses those obligations to justify non-disclosure to investors;
> - We believe the [QC 1000] . . . approach appears inconsistent with the practice of the PCAOB in other areas, including inspection reports which specifically acknowledge the incompleteness of the information and caution against excessive reliance; and
> - We believe the overall benefits of the [QC 1000] . . . would be reduced without public issuance of the QC Form to investors because, in part, the PCAOB would already be aware of deficiencies in the firm's QC systems and of related firm remediation efforts prior to the release of the Form QC.[30]

For all the above reasons, it remains our view that "public disclosure of incomplete information to investors about the firms' QC systems is superior to no disclosure of information."[31]

Risk-Based Method

CII generally supports the PCAOB considering as part of its risk-based selections for issuer audit inspections[32] the corporate law of the issuer's state of incorporation. We note that our membership approved policies include a provision that reflects the view that corporate law in the jurisdiction in which an issuer is incorporated may have a significant impact on investors rights and protections.[33] Generally consistent with that policy, empirical data indicates "that Nevada . .

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[30] Letter from Jeffrey P. Mahoney, General Counsel, CII to Ms. Phoebe W. Brown, Office of Secretary, Public Company Accounting Oversight Board at 14-15 (footnotes omitted).
[31] *Id.* at 15.
[32] *See* PCAOB Inspection Procedures: What Does the PCAOB Inspect and How Are Inspections Conducted?, PCAOB (last visited May 14, 2026), https://pcaobus.org/oversight/inspections/inspection-procedures ("In selecting issuer audits for review, we generally use both risk-based and random methods of selection, and we generally focus our attention on audit areas we believe to be of greater complexity, areas of greater significance or with a heightened risk of material misstatement to the issuer's financial statements, and areas of recurring deficiencies.").
[33] CII Corporate Governance Policies, § 1.8 Incorporation and Reincorporation ("Companies should incorporate in jurisdictions with strong investor rights and protections [and] [c]ompanies should not reincorporate in jurisdictions

. a state with lax corporate law, attracts firms that are 30–40% more likely to report financial results that later require restatement than firms incorporated in other states, including Delaware."[34] In other words, a correlation may be evident between less investor protective Nevada corporate law and an issuer's propensity for financial restatement after its incorporation in Nevada. As a result, we believe the Board should consider the corporate law of the jurisdiction in which an issuer is incorporated as a factor to be considered as part of the PCAOB's risk-based selections for issuer audit inspections.

3. What inspection information would be most useful to stakeholders, and how could inspection reporting be enhanced under a quality control-focused inspection program?[35]

See our responses to questions 1 and 2.

4. What standard-setting projects should the PCAOB pursue?[36]

CII strongly supports the PCAOB pursuing, consistent with our policy on **Audit Committee Responsibilities Regarding Independent Auditors**, two standard setting projects over the next two to five years to further their statutory mission.

(1) **Firm and engagement metrics:** CII generally supported the Board's Firm and Engagement Metrics (F&EM) proposal, which was withdrawn on February 11, 2025.[37] CII recommends that the Board revisit this proposal and re-engage with investors and other stakeholders to develop a corresponding final rule. In the previous communication, CII summarized its views on the F&EM proposal including recommendations on how it could be improved.

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where corporate governance structures are less robust than their current jurisdiction of incorporation [and] [a]dditionally, companies should not adopt new articles of incorporation or bylaws which diminish investor rights and protections in conjunction with reincorporation.").

[34] Michal Barzuza & David C. Smith, What Happens in Nevada? Self-Selecting into Lax Law, 27 Rev. Fin. Stud. 3593 (2014), *available at* https://www.jstor.org/stable/24466828; *see also* Michal Barzuza, Nevada v. Delaware: The New Market for Corporate Law, Harv. L. Sch. F. on Corp. Governance (Feb. 26, 2026), https://corpgov.law.harvard.edu/2026/02/26/nevada-v-delaware-the-new-market-for-corporate-law ("In prior work, David Smith and I found that Nevada attracts firms that use aggressive accounting methods and frequently restate earnings—suggesting relatively high agency costs."): *cf.* William J. Moon, Havens for Corporate Lawbreaking, Wash. U. L. Rev. (2025) ("*Notably, emerging jurisdictions supplying corporate law to American corporations, such as Nevada and the Cayman Islands, have broadly eliminated doctrines that enable shareholder suits against directors and officers who turn a blind eye to corporate lawbreaking.*"); *see generally* Havens for Corporate Lawbreaking with William Moon, Voice of Corp. Governance podcast (June 18, 2025), https://podcasts.apple.com/in/podcast/havens-for-corporate-lawbreaking-with-william-moon/id1433954314?i=1000713469480 (discussing the trend of jurisdictions including Nevada and Cayman Islands as undercutting the legal compliance obligations of directors and officers).

[35] Request for Public Comment, PCAOB Strategic Priorities at 2 (emphasis added).

[36] *Id.*

[37] *See* PCAOB; Notice of Withdrawal of Proposed Rules on Firm Reporting and Firm and Engagement Metrics and Related Amendments to PCAOB Standards, Exchange Act Release No. 102,399, File No. PCAOB-2024-006 and PCAOB-2024-07 (Feb. 11, 2025), https://www.sec.gov/files/rules/pcaob/2025/34-102399.pdf.

> [T]he F&EM proposal . . . implements a long overdue 2008 recommendation of the [U.S. Department of Treasury Advisory Committee on the Auditing Profession] . . . to provide investors with decision-useful metrics about audit firms and individual audits. We believe the proposed metrics would provide significant benefits to investors by providing information they currently don't have access to. And we believe that such information could assist investors in making more informed decisions about whether to vote to approve the ratification of the auditor or the election or reelection of the audit committee chair or members, or in exercising their responsibilities for oversight of the audit committees of public companies.
>
> We recommend several improvements to the F&EM Proposal for the Board's consideration, including:
>
> - Requiring a metric not proposed: Percentage of PCAOB Part 1.A infractions of the total tested.
> - Requiring metrics to be disclosed in both the Form AP and Form FM and in the auditor's report.
> - Amending the proposed audit firm's voluntary narrative disclosures from no more than 500 words per metric to no more than 1,000 words per metric.
> - Post-implementation actions:
> - Providing high quality tools to search for and analyze the metrics;
> - Conducting and releasing research on the metrics to show how they might be used by investors; and
> - Establishing a process of periodic reviews to allow for potential improvements to the metrics.[38]

(2) **Critical audit matter amendments:** CII agrees with the recent comments of Board member George Botic that critical audit matters (CAMs) are a "pillar of the PCAOB's efforts to protect investors by promoting transparency in the audit process . . . ."[39] That pillar, however, in our view is not as sturdy as the PCAOB had originally intended and appears to be deteriorating every year as the number of CAMs continues to decline.[40] We, therefore, respectfully reiterate our 2023 recommendation that the Board pursue two amendments to AS

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[38] Letter from Jeffrey P. Mahoney, General Counsel, CII to Ms. Phoebe W. Brown, Office of Secretary, Public Company Accounting Oversight Board 14 (May 30, 2024), https://www.cii.org/files/May%202024%20CII%20letter%20to%20PCAOB%20(final)%20.pdf ("Generally consistent with the audit report language in our Auditor Independence policy, we respectfully recommend the Board consider additional amendments to AS 3101 as part of this Proposal.").

[39] Brian Stickland, New/ Audit & Assurance, 5 Imperatives for Auditors from the PCAOB Chair, J. Acct. (Jan. 12, 2026), https://www.journalofaccountancy.com/news/2026/jan/5-imperatives-for-auditors-from-the-pcaob-chair/.

[40] *See* Auditor Reporting, PCAOB (last visited May 14, 2026), https://pcaobus.org/oversight/standards/pir/auditor-reporting ("The average number of CAMs per audit report has declined over time, and the proportion of audit reports that communicate a single CAM has increased).

3101: *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion* (AS 3101)[41] to improve the disclosure of CAMs.[42]

1. CAMs should include what the auditors found: Our first amendment would require "disclosure of how [CAMS were] . . . addressed in a manner that many investors believe would provide more useful information for decision making.[43] More specifically, we reiterate our 2023 recommendation to amend Section 14(c) of AS 3101 as follows:

   .14 For each critical audit matter communicated in the auditor's report the auditor must:

   . . . .

   c. Describe how the critical audit matter was addressed in the audit~~; and~~, including:

   ~~Note: In describing how the critical audit matter was addressed in the audit, the auditor may describe:~~ (1) the auditor's response or approach that was most relevant to the matter; (2) a brief overview of the audit procedures performed; (3) an indication of the outcome of the audit procedures; and (4) key observations with respect to the matter~~, or some combination of these elements~~.[[44]]

[41] AS 3101: The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion (last visited May 13, 2026), https://pcaobus.org/oversight/standards/auditing-standards/details/AS3101.
[42] *See* Letter from Jeffrey P. Mahoney, General Counsel, CII to Ms. Phoebe W. Brown, Office of Secretary, Public Company Accounting Oversight Board, Re: PCAOB Rulemaking Docket No. 049: Proposed Auditing Standard – General Responsibilities of the Auditor in Conducting an Audit and Proposed Amendments to PCAOB Standards 6 (May 18, 2023), https://www.cii.org/files/Attachment%20May-18-2023-PCAOB-Letter-final.pdf ("Generally consistent with the audit report language in our Auditor Independence policy, we respectfully recommend the Board consider additional amendments to AS 3101 as part of this Proposal [and] [i]n our view, two additional amendments are necessary to address (1) the declining number of critical audit matters (CAMs) disclosed and (2) the failure of the disclosure to include the permitted information requested by CII and many investors regarding the outcomes and key observations of the related audit procedures performed.").
[43] *Id.* at 7-8; *cf.* Emily Elaine Griffith et al., Why do Critical Audit Matters Lack Teeth? Insights from Auditors' Implementation Experiences, SSRN 34 (last revised Jan 23, 2026), *available at* SSRN: https://ssrn.com/abstract=4256853 or http://dx.doi.org/10.2139/ssrn.4256853 ("institutional forces have diluted the PCAOB's original intent such that the resulting disclosures lack bite"); Voice Corp. Governance, Old Institutions, New Report: Auditors' Experiences Implementing Critical Audit Matter Reporting with Karla Zehms, CII (Sept. 27, 2023), *available at* https://www.buzzsprout.com/202904/episodes/13672012-old-institutions-new-report-auditors-experiences-implementing-critical-audit-matter-reporting-with-karla-zehms (describing how the implementation of critical audit matters excluded information that was permitted but not required notwithstanding that many investors would have found the information decision-useful)
[44] Letter from Jeffrey P. Mahoney, General Counsel, CII to Ms. Phoebe W. Brown, Office of Secretary, Public Company Accounting Oversight Board, Re: PCAOB Rulemaking Docket No. 049: Proposed Auditing Standard – General Responsibilities of the Auditor in Conducting an Audit and Proposed Amendments to PCAOB Standards at 7.

2. The number of CAMs reported should increase: As indicated, the average number of CAMs has been decreasing over the years, but the language and intent of AS 3101, survey results,[45] and academic research,[46] indicates auditors should consider increasing the number of CAMs included in their reports.[47] In particular, we note that the decreased number of CAMs appears to relate, at least in part, to AS 3101's "especially challenging" language used in paragraphs 11 and 12. We believe this language (1) has been interpreted narrowly in a manner that results in a fewer number of CAMs being disclosed — about 1.5 and declining — than the PCAOB had intended, and (2) may actually discourage auditors from issuing potential CAMs. Speaking at a 2023 IAG meeting, Martin Baumann, former Chief Auditor of the Board, recommended amending AS 3101 to eliminate the word "especially" in paragraphs 11 and 12.[48] Baumann's recommendation is generally consistent with CII's 2023 recommendation and our current recommendation to the Board.[49]

5. How can the PCAOB achieve greater alignment of its auditing standards with international auditing standards?[50]

CII, consistent with our policy on **Independence of Accounting and Auditing Standard Setters**, strongly supports the PCAOB cooperatively collaborating with their international

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[45] *See, e.g.,* Dennis McGowen, Audit Action, Audit Unveiling the Value of Critical Audit Matters (CAMs) for Investors, CAQ (Sept. 26, 2024), https://www.thecaq.org/aia-unveiling-the-value-of-cams-for-investors ("More than half (58%) of investors surveyed indicated that they prefer to see more CAMs identified in an auditor's report; and when asked what changes to CAMs would benefit their investment decisions, approximately half of respondents shared that both increasing the number of CAMs (52%) and increasing the detail provided in CAMs (51%) would be beneficial.").

[46] *See* Keith Czerney & Daun Jang, An Examination of Critical Audit Matter Disclosure Quality 31 (Jan. 12, 2025) (on file with CII) (finding that auditors report fewer CAMs than expected 88% of the time and supporting the idea that auditors may not be disclosing as many CAM topics as expected); Voice Corp. Governance, Disappearing Audit Disclosure: Changes in the Reporting of Critical Audit Matters with Kate Suslava, CII (June 8, 2023), https://www.buzzsprout.com/2SFJune02904/episodes/13003288-disappearing-audit-disclosurechanges-in-the-reporting-of-critical-audit-matters-with-kate-suslava (noting the decreasing number of CAMs two years after the implementation and urging the PCAOB to educate the public about the significance and meaning of CAMs).

[47] *See* THE SECOND ANNUAL INVESTOR ADVISORY GROUP MOST DECISION-USEFUL CRITICAL OR KEY AUDIT MATTERS FOR 2024, Members of the Investor Advisory Group 13 (Dec. 2025), https://assets.pcaobus.org/pcaob-dev/docs/default-source/about/advisory/documents/second-annual-most-decision-useful-critical-or-key-audit-matters-for-2024.pdf?sfvrsn=ba19a3a8_1 ("Consistent with the MIAG's recommendations for improving CAMs in last year's report, the language and intent of AS 3101, and recent academic research, auditors should consider increasing the number of CAMs included in their reports.").

[48] *See* PCAOB IAG Meeting (June 7, 2023, Part 1 of 2) (Martin Baumann comments during discussion of agenda item: "IAG Subcommittee on Standards Briefing to the PCAOB – Critical Audit Matters"), https://pcaobus.org/news-events/events/event-details/pcaob-investor-advisory-group-meeting-june-2023; *see also* Briefing to the PCAOB – Critical Audit Matters, Subcomm. on Standards, PCAOB IAG Meeting (June 7, 2023), at 14 ("MODIFYING CAM LANGUAGE IN THE STANDARD (AMEND THE RULE)"), https://assets.pcaobus.org/pcaob-dev/docs/default-source/about/advisory/documents/iag-june-7-2023/4.-briefing-cams.pdf?sfvrsn=c27adf0a_3.

[49] *See* Letter from Jeffrey P. Mahoney, General Counsel, CII to Ms. Phoebe W. Brown, Office of Secretary, Public Company Accounting Oversight Board at 7 ("We generally agree with the MIAG that the amendment to . . . delete the word 'especially' addresses 'a concern this term is being used to avoid reporting of a critical audit matter.'").

[50] Request for Public Comment, PCAOB Strategic Priorities at 2 (emphasis added).

counterparts toward a common goal of high-quality standards. We, however, do not currently support the PCAOB replacing its standards or subordinating its standard setting process to international standard setters.

Our view is based, in part, on the SEC's Chief Accountant, Kurt Hohl, recent comments regarding international auditing standards:

> Many people don't know that international standards on auditing are the basis for most firm audit methodology and are used as the baseline for the AICPA [American Institute of Certified Public Accountants] and the development of auditing standards in the United States. There's great interest for my office in the development of international standards of auditing. *There are some problems there in terms of funding, and challenges in terms of governance that we will try to address*.[51]

Consistent with our policy and its views on the importance of funding and governance to the effectiveness of an auditing standard setter, we believe the funding and governance challenges identified by the SEC's Chief Accountant should be resolved *before* the Board considers how to proceed, if at all, in terms of reaching greater alignment between the PCAOB's auditing standards and international auditing standards.

6. In what ways should the PCAOB consider deploying technology, including AI, to help further its investor-protection mission?[52]

CII continues to strongly support as a strategic objective of the Board the ongoing evaluation of developments in technology, including AI, and the consideration of the need for guidance, changes to PCAOB standards, or other action in light of the increased use of technology by registered audit firms and financial statement preparers and in furtherance of the Board's investor protection mission.[53]

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[51] Douglas R. Carmichael, A Conversation with SEC Chief Accountant Kurt Hohl: Highlights from the 20th Annual Baruch College Audit Conference, CPA J. (Apr. 2026) (emphasis added), https://www.cpajournal.com/2026/04/17/a-conversation-with-sec-chief-accountant-kurt-hohl.

[52] Request for Public Comment, PCAOB Strategic Priorities at 2 (emphasis added).

[53] *See* Letter from Jeffrey P. Mahoney, General Counsel, CII to Office of Secretary, Public Company Accounting Oversight Board at 7-8 ("We believe the Board should 'continue to assess whether there is a need for guidance, changes to PCAOB standards, or other action in light of the increased use of technology-based tools by auditors and financial statement preparers.'").

We generally share the following view expressed by IAG Member Jen Sisson, CEO of the International Corporate Governance Network, in connection with the April 2026 IAG meeting discussion of the agenda item on "Artificial Intelligence":[54]

> AI means "the mechanics of how audits get done are going to change," . . . and the PCAOB needs to think about what it needs to do differently to respond.[55]

In addition, CII generally believes, consistent with our policy on **Audit Committee Responsibilities Regarding Independent Auditors**, that the PCAOB could also help further its investor protection mission by deploying technology, including AI, to make more accessible the public information they currently maintain about registered auditing firms. In that regard, we generally support the views of the Members of the IAG in their comment letter in response to this question:

> [W]e propose that the Board consider using AI to create an "answer-bot" or an AI search function so that investors and members of the public might be able to query the public database of inspection reports and other valuable information the PCAOB already possesses. AI has reached the point now where it can access and analyze structured and unstructured data. It also can embed necessary confidentiality restrictions. This use of AI could free up PCAOB staff time in responding to requests and trying to figure out what investors and the public want. In addition, it could unleash the power of crowds to identify interesting and impactful questions.[56]

7. How can the PCAOB enhance transparency with its stakeholders?[57]

CII strongly supports the PCAOB enhancing transparency with its stakeholders, including by "engaging in robust dialogue with stakeholders."[58] We note, as indicated in our policy on **Audit Committee Responsibilities Regarding Independent Auditors**, investors are the "customers" and primary users of audited financial statements. Thus, we believe it is essential that the Board have as a strategic objective engaging in more robust dialogue with investors.[59]

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[54] *See* PCAOB Investor Advisory Group Meeting, Agenda (Apr. 29, 2026), https://pcaobus.org/news-events/events/event-details/pcaob-investor-advisory-group-meeting-april-2026.
[55] Courtney Vien, Accounting, How AI is Reshaping the Audit, CFO Brew (May 11, 2026), https://www.cfobrew.com/stories/how-ai-is-reshaping-the-audit.
[56] Letter from the Members of the Investor Advisory Group to Phoebe W. Brown, Secretary, PCAOB, ***Reference: PCAOB No. 2026-001, Request for Public Comment – PCAOB Strategic Priorities*** 12-13 (May 13, 2026) (on file with CII).
[57] Request for Public Comment: PCAOB Strategic Priorities at 2 (emphasis added).
[58] Letter from Jeffrey P. Mahoney, General Counsel, CII to Office of the Secretary, Public Company Accounting Oversight Board, ***Re: PCAOB No. 2022-003*** at 7.
[59] *See, e.g.,* Letter from Jeffrey P. Mahoney, General Counsel, CII to Office of the Secretary, Public Company Accounting Oversight Board, ***Re: PCAOB No. 2022-003*** at 7.

As we have previously explained:

> [E]ngaging in robust dialogue with the Investor Advisory Group (IAG) and investors generally deserves the Board's special attention:
>
> > CII believes the PCAOB's mission "to protect investors[,]" combined with the general underrepresentation of investors on the PCAOB's board and staff, and in connection with the PCAOB's comment letter process, suggests the need for more, rather than less, input from investors. Our membership[-]approved policies reflect the view that as the "key customer of audited financial reports," investor input is essential to the PCAOB in fulfilling its mission . . ..[60]

We also continue to recommend that the PCAOB consider supporting and allocating sufficient resources to new approaches to enhancing dialogue with investors and other stakeholders including the following CII 2022 proposed initiatives aligned to this priority:

- Develop and issue for public comment an annual survey of the standard setting priorities of the PCAOB, encouraging responses from individual members of the IAG, individual Board members, PCAOB senior staff, and the general public and subsequently issue a public report summarizing the survey results;[[61]] and
- Develop and publicly issue an annual performance review of the PCAOB's activities and accomplishments in pursuing each of its statutory duties, based on established criteria and including commentary on how the Board's performance might be improved.[62]

Finally, we want to express our strong support for the PCAOB adopting as a strategic objective the identification and implementation of public due process procedures for public meetings that are responsive to the recent comments of Dennis R. Beresford, CPA, drawing from his experience as Chair of the Financial Accounting Standards Board:

> I was encouraged by the Board's stated commitment to openness but remain concerned that public meetings typically do not include substantive discussion or

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[60] Letter from Jeffrey P. Mahoney, General Counsel, CII to Office of the Secretary, Public Company Accounting Oversight Board, ***Re: PCAOB No. 2022-003*** at 7.

[61] *Cf.* Priorities of the Financial Accounting Standards Board: 2013 Survey, Financial Accounting Standards Advisory Council (May 2013) (on file with CII) (survey by the Financial Accounting Standards Advisory Council (FASAC) to FASAC members, on behalf of the Financial Accounting Standards Board (FASB), to identify key areas of suggested focus, as well as other initiatives and efforts, for the FASB); Priorities of the Financial Accounting Standards Board: Responses to the FASAC Survey, FASAC (Summer 2013), https://fasb.org/page/ShowPdf?path=2013%20FASAC%20Survey%20Responses%20Final.pdf&title=2013%20FASAC%20Survey%20Results.

[62] Letter from Jeffrey P. Mahoney, General Counsel, CII to Office of the Secretary, Public Company Accounting Oversight Board, ***Re: PCAOB No. 2022-003*** at 7.

> debate. My experience at the FASB demonstrated that open deliberations – where staff recommendations are actively discussed and challenged – lead to better outcomes and a more informed constituency. I urge the Board to consider increasing the transparency and interactivity of its meetings and to move away from what may appear to observers as an overly legalistic process with Board members mainly reading from prepared scripts. Greater openness, combined with enhanced external engagement, should improve both the quality and credibility of PCAOB standards.[63]

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We appreciate the opportunity to provide CII's investor-focused perspective on what the Board's strategic priorities should be. Please contact me (Jeff@cii.org) if you have any questions about the content of this letter.

Sincerely,

Jeffrey Mahoney
General Counsel

[63] Letter from Dennis R. Beresford, CPA to PCAOB, RE: PCAOB No. 2026-001, at 2-3 (Apr. 3, 2026), https://assets.pcaobus.org/pcaob-dev/docs/default-source/about/administration/strategic-plan-comments-2026/4_drb.pdf?sfvrsn=f2b0524f_2.

CPACLUB

May 14, 2026

By electronic submission to comments@pcaobus.org

Demetrios (Jim) Logothetis

Chairman

Public Company Accounting Oversight Board

1666 K Street, NW

Washington, DC 20006-2803

Re: PCAOB Release No. 2026-001, Request for Public Comment on the PCAOB's Strategic Priorities

Dear Chairman Logothetis:

Congratulations on your appointment as Chairman of the Public Company Accounting Oversight Board (the "PCAOB" or the "Board"). We welcome the Board's decision to seek stakeholder input at the outset of its strategic planning process and appreciate the opportunity to share our perspective.

CPA Club Inc. ("CPAClub") is a U.S.-based, licensed accountancy corporation that delivers audit, advisory, quality management, regulatory, training and transformation solutions to public accounting firms and companies through an award-winning model. Our team comprises CPAs with significant Big 4, national-firm, and PCAOB experience, including professionals who previously served in PCAOB roles, in National Quality functions of global firms, and in firm leadership positions with responsibility for systems of quality control. We work directly with PCAOB-registered firms across the size spectrum, from local and regional firms to Top 10 firms, supporting engagement performance, engagement quality reviews, technical accounting, and the design, implementation, operation, and monitoring of systems of quality control consistent with QC 1000. CPAClub was named CalCPA's 2025 Firm of the Year and has been featured in Accounting Today, Associated Press, MarketWatch, and other leading outlets. The observations in this letter are informed by that hands-on, cross-firm implementation experience.

We strongly support the direction signaled in your March 31, 2026 statement, particularly the recognition that a firm's system of quality control is the bedrock of audit quality and that PCAOB inspections should evolve to focus on those systems, with engagement-level reviews serving as validation of the system rather than as the primary lens of oversight.

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Our comments below respond to each of the seven questions in PCAOB Release No. 2026-001, with the greatest emphasis on QC 1000 implementation, inspections, and standard-setting. Two themes run throughout our response. First, QC 1000 should remain the central organizing framework for the PCAOB's firm-level oversight, refined only where requirements are not clearly tied to audit quality. Second, qualified, external service providers can play a valuable, independent role in firms' systems of quality management, and the Board's standards and inspection program should encourage, not constrain, that role.

1. Strategic Priorities for Registration, Inspections, and Enforcement

We recommend that the Board orient registration, inspections, and enforcement around a firm's system of quality management as the central regulatory framework over the next two to five years. In practice, this would involve: (i) reorienting inspections and enforcement toward evaluating a firm's overall system of quality management, with engagement reviews serving primarily to validate or challenge conclusions regarding the system's design and operating effectiveness; (ii) calibrating inspection scope and enforcement priorities based on firm-specific risk profiles rather than applying a one-size-fits-all approach; (iii) once QC 1000 becomes effective on December 15, 2026, holding firms accountable for implementing the standard with the rigor and discipline it requires, recognizing that the Board's decision to defer the original effective date from December 15, 2025 to December 15, 2026 has already provided firms with a meaningful implementation and transition period, and that continued leniency toward firms that have not adequately implemented QC 1000 risks undermining the standard's credibility and intended impact; and (iv) prioritizing enforcement resources toward systemic quality control deficiencies rather than isolated engagement-level matters that a firm's monitoring and remediation processes are specifically designed to identify, evaluate, and address.

2. Changes to the Inspections Program in Light of QC 1000

We strongly endorse the Chairman's articulation that the PCAOB will leverage automation and AI and focus inspections on the bedrock of audit quality (firms' systems of quality management), with engagement-level reviews serving as validation of those systems rather than as the core emphasis. The implementation of QC 1000 is the right moment to operationalize that pivot. We recommend the following:

a. Make a firm's system of quality management the inspection's organizing principle.

Inspections should be structured around a firm's identified quality objectives, quality risks, and quality responses under QC 1000. Inspection teams should evaluate whether a firm's risk assessment is reasonable, whether the responses are appropriately designed and operating, and whether a firm's monitoring and remediation processes are effective. Engagement file

reviews should be planned and reported as evidence about the system, with explicit links between engagement-level observations and the QC system component(s) implicated.

This approach is conceptually similar to the manner in which auditors test the operating effectiveness of a company's internal controls in order to rely on those controls and, in turn, reduce the extent of substantive testing. The same principle could be applied to PCAOB inspections. Where the Board has tested the design and operating effectiveness of a firm's system of quality management and concluded that the system is operating effectively, the number of engagements selected for inspection could be correspondingly reduced. Conversely, where the system is determined to be deficient, the Board should expand engagement-level sampling and apply greater engagement-level scrutiny.

Calibrating engagement-level inspection scope to the assessed strength of a firm's quality management system would also create a transparent and principled incentive for firms to invest in the infrastructure, processes, and monitoring activities that support audit quality. Historically, many firms have underinvested in these areas despite the foundational role they play in consistently delivering high-quality audits.

b. Permit firms to select their own annual evaluation date aligned with their practice calendar.

QC 1000 currently establishes a mandatory annual evaluation date of September 30. We respectfully disagree with imposing a single fixed evaluation date across all firms. Public accounting firms operate on different practice calendars, and busy seasons vary depending on the industries and fiscal year-ends of the clients they serve. While a September 30 evaluation date may align well for some firms, it creates meaningful operational challenges for others, particularly firms whose peak workloads occur near that date or whose global network counterparts evaluate under ISQM 1 using different reporting cycles.

A more practical approach, and one more consistent with ISQM 1 and SQMS 1, would be to permit firms to select an annual evaluation date that aligns with their own practice calendar, provided the date is applied consistently from year to year and appropriately communicated to the Board. This would also enable firms to align their evaluation dates with their AICPA peer review dates, supporting greater convergence and simplified operations. Such an approach would not diminish the rigor of the evaluation process. Rather, it would allow firm leadership and the personnel responsible for the system of quality management to perform the evaluation at a point in the year when they can devote the focused time and attention the process requires.

The Board's inspection planning, fieldwork, and reporting cycles could then be coordinated with each firm's selected evaluation date so that inspection results more effectively inform, and are informed by, the firm's own monitoring, evaluation, and remediation activities.

c. Recognize and credit firm monitoring and remediation.

Where a firm's own monitoring activities have already identified, evaluated, and remediated a deficiency, the inspection report should reflect that the system worked as intended. Treating self-identified, properly remediated matters as evidence of an effective system, rather than as additional deficiencies, incentivizes the very behavior QC 1000 is designed to produce.

d. Use a firm's annual QC 1000 evaluation to inform inspection cadence and intensity.

Just as the scope of engagement-level procedures within an inspection can scale based on the strength of a firm's system of quality management, the cadence and intensity of inspections themselves should also become more risk-based. The PCAOB's current inspection model largely relies on fixed inspection cycles determined by the number of issuer audit reports issued by a firm, with annually inspected firms reviewed each year and other firms generally inspected once every three years. QC 1000's requirement for an annual firm evaluation provides the Board with a significantly more meaningful input that should allow it to move beyond a primarily volume-based inspection framework.

We recommend that the Board calibrate inspection cadence and intensity based on: (i) the conclusions reached in a firm's most recent QC 1000 evaluation; (ii) a firm's demonstrated ability to identify, escalate, and remediate its own quality control and engagement-level deficiencies; and (iii) a firm's overall risk profile.

Where a firm consistently demonstrates effective monitoring and remediation processes, limited deficiencies that are self-identified, and timely corrective action, it is not clear that an automatic fixed inspection cycle necessarily represents the most efficient or effective regulatory response. Conversely, firms with significant unremediated deficiencies, ineffective monitoring activities, or recurring findings should be subject to more frequent and more intensive inspections regardless of where they otherwise fall within a predetermined cycle.

A fixed-cadence inspection model can also unintentionally encourage firms to overprepare during inspection years while devoting comparatively less attention to quality management between inspections. A framework in which inspection cadence and intensity respond directly to a firm's actual quality management outcomes would create a stronger and more continuous incentive for firms to invest in, operate, and improve their systems of quality management throughout the year.

This approach could be particularly impactful for triennially inspected and smaller firms, which today are generally subject to a uniform inspection cycle that may not always align with their actual quality management performance or risk profile. Firms within that population that demonstrate strong systems of quality management could be subject to more proportionate, system-focused inspections, while firms with weaker systems could appropriately face more frequent or more intensive oversight commensurate with their risk.

e. Use technology and analytics to scope and conduct inspections.

We support the deployment of analytics and AI-assisted tools to identify higher-risk areas, standardize evidence collection, and improve consistency across inspection teams. Greater consistency in how evidence is requested, reviewed, and evaluated will improve fairness and predictability for firms and improve comparability for stakeholders.

3. Useful Inspection Information and Enhanced Reporting

Inspection reports should be re-designed around a firm's system of quality management. We recommend that reports include the following at the firm-system level:

- An overview of a firm's practice and the structure of its system of quality management, including identified quality objectives, principal quality risks, and the responses sufficient for a reader to understand the system being evaluated.
- The PCAOB's conclusion on the design and operating effectiveness of a firm's system of quality management, with deficiencies categorized by QC 1000 component (governance and leadership; ethics and independence; acceptance and continuance; engagement performance; resources; information and communication; the monitoring and remediation process), and, where applicable, with separate reporting on the firm's External Quality Control Function (EQCF).
- A clear distinction between (i) deficiencies in the design or operating effectiveness of the system, (ii) deficiencies that a firm's own monitoring identified and remediated, and (iii) engagement-level observations that did or did not signal a system-level concern.
- Trended firm-level performance over time and an audit-committee-oriented summary that translates results into the questions audit committees most need to answer.
- Aggregated, profession-wide reporting that complements firm-specific reports, including thematic observations and common QC 1000 implementation challenges.

4. Standard-Setting Projects the PCAOB Should Pursue

We support the Board's plan to issue a supplemental request for comment on certain provisions of QC 1000 and to refresh its standard-setting agenda based on stakeholder input. Our recommended priorities are below.

a. Stay the course on QC 1000 implementation; avoid further delay or substantive rollback.

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We strongly encourage the Board to maintain the December 15, 2026 effective date for QC 1000 and to resist calls for further delay or substantive rollback of the standard at this stage. The remaining implementation window is already relatively short, and many firms have invested significant time, financial resources, and personnel toward implementing QC 1000 in a thoughtful and principles-based manner. Further delay or material revision at this point would disadvantage firms that approached implementation proactively and in good faith, while creating a competitive imbalance in favor of firms that deferred meaningful investment and preparation.

The rationale for maintaining the current course extends beyond audit firms themselves. Software providers, technology vendors, and content publishers have collectively invested substantial resources in developing QC 1000-aligned systems, methodologies, tooling, and training programs. Significant revisions to the standard at this stage would likely require additional development and implementation cycles across the broader ecosystem, increasing costs and creating unnecessary uncertainty for firms currently transitioning to new platforms, workflows, and monitoring processes.

It is also important to recognize that QC 1000 already trails the IAASB's ISQM 1 framework by several years and effectively follows the AICPA's SQMS 1 by approximately one year. The U.S. public company audit quality management framework should not fall further behind comparable frameworks governing adjacent audit populations, particularly given the global and cross-jurisdictional nature of many PCAOB-registered firms and their affiliated networks.

If, after evaluating implementation experience to date, the Board determines that limited relief is appropriate, we respectfully suggest that such relief be narrowly tailored to firms that are registered with the PCAOB but do not actually perform engagements under PCAOB standards and are therefore subject only to the design-related aspects of the standard. Targeted relief for this limited population would address legitimate cost-benefit concerns without disrupting the implementation efforts of firms actively performing issuer audits and already investing heavily in QC 1000 readiness.

b. Affirm the value of the External Quality Control Function (EQCF).

We support the EQCF requirement and encourage the Board to retain it. In our experience working with firms, the EQCF brings something firms have historically lacked: structured, independent, outside perspective on the design and operation of the firm's system of quality management. That outside perspective is precisely what investors, audit committees, and the Board should expect from a robust QC system. The EQCF reinforces a firm's own governance, challenges internal blind spots, and creates an additional layer of accountability for firm leadership. It is a meaningful enhancement relative to the international framework, and it advances the investor-protection mission.

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c. Encourage the use of qualified, external service providers in firms' quality control functions, particularly for firms below the EQCF threshold.

The independent perspective that the EQCF requirement is intended to introduce is valuable across the broader population of PCAOB-registered firms, not solely for firms above the 100-issuer threshold. Paragraph .28 currently applies only to firms that issued audit reports for more than 100 issuers during the prior calendar year. Firms of that scale generally possess the infrastructure and internal quality control resources necessary to absorb the EQCF role alongside broader established QC functions. By contrast, the vast majority of PCAOB-registered firms fall below that threshold, and it is within this broader population that QC 1000 implementation is likely to be most challenging and where the Board's investor-protection objectives may be most vulnerable to underdeveloped or under-resourced systems of quality management.

Although QC 1000 contemplates the use of external resources in certain contexts, additional interpretive guidance regarding the role of qualified external service providers would be valuable, particularly for smaller and mid-sized firms that may not maintain the internal quality management infrastructure commonly found within larger firms. Many firms below the EQCF threshold do not maintain dedicated quality management personnel, formal national quality functions, or the depth of internal QC infrastructure commonly found at larger firms. As a result, these firms often lack access to the type of structured and independent quality management perspective that paragraph .28 seeks to achieve for larger firms.

Qualified external service providers, including firms specializing in audit quality, quality management, inspections, and regulatory readiness, are uniquely positioned to help bridge that gap by providing independent perspective, specialized expertise, cross-firm insight, and scalable implementation support that many firms cannot reasonably maintain internally. We therefore encourage the Board to continue supporting the use of qualified external providers in quality management roles across the registered firm population, particularly for firms below the EQCF threshold.

More importantly, we encourage the Board to consider developing a voluntary public resource or directory to help firms identify qualified external quality management service providers, similar in concept to the AICPA peer reviewer database. Many smaller and mid-sized firms simply do not know where to turn for credible QC and quality management support as they transition into more formal and operationally rigorous systems under QC 1000. In practice, this creates a fragmented environment in which firms may rely on informal referrals, inconsistent resources, or providers with varying levels of relevant experience.

Without endorsing or certifying any specific provider, the Board could consider establishing minimum qualification considerations, competency criteria, or eligibility requirements for inclusion in such a directory, focused on relevant QC, inspection, regulatory, or quality management experience. A resource of this nature could improve implementation consistency, expand access to experienced quality management professionals, and further support the investor-protection objectives underlying QC 1000.

d. Other agenda priorities.

Beyond QC 1000, we encourage the Board to prioritize standard-setting in areas where the audit environment is changing most rapidly: the auditor's use of technology and AI, audit data analytics, and fraud. In each case, we encourage the Board to coordinate closely with the International Auditing and Assurance Standards Board (IAASB) to minimize unnecessary divergence from international standards.

5. Greater Alignment with Other Auditing Standards

We support meaningful alignment with international auditing and quality management standards, including ISQM 1, as a strategic priority. Where divergence is justified by a documented audit-quality or investor-protection rationale (as we believe is the case with the EQCF), the Board should retain it. Where divergence cannot be tied to a clear audit-quality benefit, the Board should be willing to align. Going forward, we encourage the Board to adopt convergence as a stated principle of standard-setting and to engage formally and frequently with the IAASB, the International Forum of Independent Audit Regulators (IFIAR), and the AICPA.

6. Use of Technology, Including AI

Technology, and in particular AI, can materially enhance the PCAOB's oversight model and benefit firms, the Board, and investors alike. We encourage the Board to pursue three directions: (i) technology-enabled oversight, including the use of analytics and AI to scope inspections, drive consistency across inspection teams, and analyze structured QC system data submitted by firms; (ii) modernized firm reporting, moving from document-centric submissions to structured, machine-readable data so that the Board can analyze QC system trends across the population of registered firms in something approaching real time; and (iii) principles-based guidance on the auditor's use of AI tools in the conduct of audits, including guidance on when and how AI-enabled monitoring tools may serve as legitimate quality responses under QC 1000. The Board should apply the same investor-protection and risk-based discipline to its own use of AI that it expects of registered firms.

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7. Enhanced Transparency with Stakeholders

We commend the Board for soliciting stakeholder input early in the strategic planning process. To build on that foundation, we recommend the Board: (i) publish substantive QC 1000 interpretive guidance, FAQs, and exemplary practices on a recurring cadence; (ii) locate authoritative interpretation in the Office of the Chief Auditor rather than allowing interpretation to be effectively created by inspections or enforcement; (iii) publish ongoing dashboards on inspection metrics, themes, and remediation outcomes alongside firm-specific reports; (iv) publish data on registrations, deregistrations, and EQCF appointments so that the Board, the SEC, and the public can monitor the structural effects of QC 1000 over time; and (v) report annually on the Board's progress against its strategic plan with measurable outcomes for each priority.

Closing

We appreciate the Board's commitment to early stakeholder engagement and its willingness to evolve oversight in step with the audit environment. We strongly support a PCAOB that is principles-based and globally aligned, that focuses oversight at the firm-system level where audit quality is built and sustained, that uses technology to do its work better and more efficiently, and that recognizes the constructive role qualified, external service providers can play in firms' systems of quality management.

We would be pleased to discuss any of the comments above and to share, in greater detail, our experience supporting firms through QC 1000 implementation. Please direct any questions to Brian Yujuico, Senior Vice President at brian@cpaclub.cpa.

Sincerely,

Brian Yujuico

Brian Yujuico, Senior Vice President

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May 15, 2026

Ms. Phoebe W. Brown
Secretary
Public Company Accounting Oversight Board
1666 K Street NW
Washington, DC 20006

Re: PCAOB Release No. 2026-001, *Request for Public Comment: PCAOB Strategic Priorities* (March 31, 2026)

Dear Ms. Brown:

Deloitte & Touche LLP is pleased to respond to the request for public comment from the Public Company Accounting Oversight Board (the PCAOB or the Board) on its strategic priorities. We appreciate the Board's commitment to transparency and engagement by seeking input as it begins to develop its strategic plan.

Since its creation, the PCAOB has been entrusted with protecting investors and furthering the public interest by promoting high quality audits. We commend the Board for seeking broad stakeholder input on how the PCAOB can continue to fulfill the mandate Congress entrusted to it almost 25 years ago, as the capital markets continue to evolve. We agree with Chairman Logothetis that, when considering the Board's strategic priorities, the appropriate place to start is with "the fundamentals of audit quality, investor protection, and disciplined, responsible oversight" emphasizing "innovation, efficiency, and effectiveness."

In considering our views about the PCAOB's strategic priorities, we therefore focused on the fundamentals of the four areas of the PCAOB's duties: registration and reporting, standard setting, inspections, and enforcement. We believe that each of these programs has played a role in improving audit quality in the first quarter century of the PCAOB's existence, and we also believe that the PCAOB should consider how it might modernize these programs so that they continue to support the PCAOB's mission for the next quarter century.

Among the key areas we encourage the Board to consider, which we discuss in more detail in the remainder of this letter, are:

- Coordination both within the PCAOB, as well as with the SEC and other regulators and standard setters (including globally), to avoid unnecessarily fragmented and overlapping requirements that add cost to the system and confusion in our increasingly global capital markets.
- Standards that consider input from all stakeholders and are designed and supported by implementation guidance in ways that help ensure they are technically sound, practically workable, and well understood.

- Inspections that shift focus to a firm's system of quality control and target key risks to audit quality, and that communicate useful information to facilitate stakeholder understanding of the significance of and trends in inspection findings.
- Modernization of the PCAOB's own systems and processes, including through the use of advancing technology, to support the PCAOB's efficient and effective regulatory oversight.

REGULATORY COORDINATION

Coordination both within the PCAOB, as well as with the SEC and other relevant regulators and standard setters, is important to developing and maintaining a regulatory system that effectively uses limited resources and minimizes duplicative and fragmented requirements that add cost and confusion to the system.

Internal coordination. The PCAOB's administration of its primary program areas (standard setting, registration and reporting, inspections, and enforcement) individually has been strong over the years. Based on our experience as a regulated firm, however, we believe that improved coordination among these areas would enable better compliance with PCAOB requirements, as well as better focus of PCAOB resources on key risks to audit quality and investor protection.

For example, better integration of the inspection and standard setting functions, particularly on interpretation and application of standards, would clarify PCAOB expectations related to specific standards from the outset, and therefore allow firms to more effectively build in quality at the start of an engagement, rather than relying on iterative findings through the inspection process. Another potential benefit of better coordination between the inspection and standard setting functions relates to information gained through the inspection program that can support the performance of quality audits (*e.g.,* by sharing "good practices" observed in inspections), as well as inform where additional implementation guidance or standard setting could be beneficial (e.g., in areas with persistent levels of audit findings or evidence of lack of consistent understanding).

As discussed in more detail later in this letter, we also believe the PCAOB should explore whether information it gathers from firms through its registration and reporting program could be refined to focus on the efficient collection of information that is useful to the PCAOB in carrying out its primary programs.

Coordination with the SEC. Congress designed the PCAOB to work closely with the SEC, as evidenced by the SEC's oversight function established by the Sarbanes-Oxley Act of 2002. Close coordination between the PCAOB and SEC benefits both regulators by helping focus on effective and efficient oversight that minimizes duplication and thus maximizes the effect of finite resources. We have observed the SEC and PCAOB working closely together over the years, but we also have observed areas of overlapping or concurrent jurisdiction—including in the areas of auditor independence and enforcement—that we believe could be improved by additional focus on reducing duplication.

> ***Auditor Independence.*** There are opportunities to update PCAOB's independence rules to better align them with the SEC and therefore enable accounting firms and audit committees to more effectively support their functions and strengthen investor protection. While some of the PCAOB's current independence rules provide additional investor protection (*e.g.*, PCAOB Rules 3522: *Tax Transactions* and 3523: *Tax Services for Persons in Financial Reporting Oversight Roles*), we encourage the Board to consider revising or eliminating others that are out of date or redundant and create unnecessary administrative burden and costs.

For example, PCAOB Rules 3524: *Audit Committee Pre-approval of Certain Tax Services*, and 3525: *Audit Committee Pre-approval of Non-audit Services Related to Internal Control Over Financial Reporting,* impose additional audit committee communication requirements that are unnecessary given the SEC's pre-approval requirements in Rule 2-01(c)(7) of Regulation S-X and the expertise of audit committee members, and they do not take into account the increasing use of electronic communications between auditors and audit committees, resulting in administrative burdens for audit committees with no incremental benefit for investors.

Enforcement. Another area in which the SEC and PCAOB have concurrent and largely overlapping jurisdiction is the enforcement of the laws, standards, and rules that govern public company auditors. Closer coordination between the SEC and PCAOB enforcement programs could reduce duplication, maximize resources, and focus on the conduct that poses the greatest risk to investors.

Enhanced PCAOB and SEC coordination in enforcement—including by established protocols addressing which regulator is best positioned to lead specific investigations and how those matters should be staffed—would help both regulators focus limited enforcement resources on the most important matters and thus lead to stronger outcomes for the investing public.

We also encourage the Board to consider how it can better align its approach to enforcement with that of the SEC in matters where the PCAOB does take the lead. This includes focusing on matters that risk harm to investors, by prioritizing intentional or reckless violations of PCAOB auditing standards or the federal securities laws relating to the preparation and issuance of audit reports, rather than matters involving technical violations of PCAOB rules or isolated instances of negligent conduct that may be better addressed through inspections. Focusing on matters that risk the most harm, accompanied by a program that rewards remediation, cooperation, and self-reporting, would also encourage a cooperative and compliance mindset in firms, and thus promote fair and timely resolution of enforcement matters.

Global Coordination. We also encourage the Board to consider whether closer coordination with its counterparts in other jurisdictions would result in more efficient and effective regulation of non-US firms registered with the PCAOB. We understand that the PCAOB originally determined largely not to modify its regulatory approach for non-US firms, in part because at the time the PCAOB was established, few countries had equivalent independent audit regulators. In the intervening years, however, independent regulation of the audit profession outside the US has increased substantially. This is evidenced by the fact that between its founding in 2006 and today, the International Forum of Independent Audit Regulators (IFIAR), in which the PCAOB has taken a leadership role, has grown from 18 members to 56.[1]

Given this, we encourage the Board to consider if there are areas where closer coordination with those regulators would allow it to make accommodations for non-US firms, especially those that issue very few audit reports for US issuers or are required to register only because they play a substantial role in (but are not lead auditors of) audits of a US issuer. We note that regulators in other countries have adopted special regimes for so-called "third country auditors" that include adapted disclosure and inspection requirements that acknowledge the firm's home regulatory regime. Similar accommodations for non-US firms registered with the PCAOB could be constructed in a way that would reduce costs and burdens of registration without limiting the PCAOB's ability to exercise its authority when needed.

[1] *See* https://www.ifiar.org/about/.

As discussed below, we also encourage the Board to consider greater global coordination in standard setting that reflects the increasing global nature of the capital markets.

THE STANDARD SETTING PROCESS

The auditing standards issued by the PCAOB are the bedrock of its regulatory regime. We urge the Board to prioritize three interconnected imperatives to strengthen its standard setting function: (i) align its standards with international auditing standards; (ii) modify the processes used to develop and implement new standards; and (iii) modernize standards, including to address the transformative impact of artificial intelligence (AI) on audits.

International Standards. We were pleased that Chairman Logothetis emphasized, in his statement on the strategic priorities, that minimizing the differences with the international standard on firms' systems of quality control and the PCAOB's new standard on the same subject remains a priority. The current divergence between the PCAOB standards and the International Standards on Auditing (ISAs) creates unnecessary complexity for globally operating audit firms and their clients and imposes burdens on auditors who must maintain proficiency in two distinct frameworks. We believe public interest is best served by auditing standards that are usable across jurisdictions, upon which jurisdiction-specific requirements can be layered where necessary to reflect the local regulatory environment. We encourage the Board to adopt this model as the organizing principle for its standard-setting activities, including by using the ISAs as the base for all new and revised PCAOB standards.

Standards Development and Implementation. Even if the PCAOB uses ISAs as a base for its standards, we understand that the PCAOB would need to engage in its own standard setting processes to consider the appropriateness of those standards as well as whether additional requirements are necessary. To do this effectively requires robust, ongoing processes for engaging a diverse set of stakeholders throughout the standard-setting lifecycle, not solely during the notice-and-comment period for proposed standards.

Early and continuous input from the full spectrum of stakeholders, including large and small firms and both US and international practitioners, is essential to help ensure that standards are fit for purpose and operationally sound before they are finalized. We encourage the Board to consider adopting open deliberative practices (*e.g.,* similar to those employed by the Financial Accounting Standards Board) that would provide stakeholders with visibility into the direction of standard-setting projects and a meaningful opportunity to contribute as those projects evolve. Embedding this kind of structured, transparent engagement into the Board's standard-setting process would not weaken the PCAOB's standard setting; rather it would strengthen the quality and credibility of its standards and reflect a genuine commitment to the public interest. It would also position the PCAOB to provide the input it gathers in the global standard setting process to improve those standards and thus ultimately increase their usefulness as a base for the PCAOB's own standard setting.

Standards alone, however, are only part of the equation. The US audit environment is also best served when standards are consistently understood and applied across audit engagements. We therefore also encourage the Board to complement its standard-setting activities with a formal consultation process within the Office of the Chief Auditor to provide guidance to firms on novel or complex issues, and a sustained commitment to developing implementation guidance, in the form of practical, widely accessible materials that support consistent interpretation and application of its standards.

Modernized Standards. We were encouraged by Chairman Logothetis's announcement that the Board intends, for the first time, to solicit public comment on its specific standard-setting focus areas through a future agenda consultation. The decisions the PCAOB makes regarding the priorities for its standard-setting agenda define the relevance and effectiveness of its auditing standards for years after the agenda is established. We

therefore look forward to participating in the consultation, which we hope will become a permanent component of the PCAOB's standard setting process.

As you consider the agenda, we encourage the Board to focus on modernizing standards and rules, especially the remaining interim standards and rules that are outdated. We also encourage the Board to prioritize addressing evolving technology, especially the transformative impact that AI is having on the preparation and audit of companies' financial statements. Given the pace of change in this area, the Board should focus on principles-based standards and guidance that can be adapted as technology advances.

It is important that the PCAOB considers the implication of AI to its standards and that it does this in coordination with the international standard-setting community to avoid further divergence on an issue of global significance. As the Board advances this work, several key questions should guide its deliberations: What are the most critical gaps to address in the near term, and how should they be sequenced? Do current standards address the risks introduced by issuers' and auditors' use of AI? What aspects of existing standards remain sound in principle but require updated guidance to stay fit for purpose in an AI-enabled environment? What does the competency profile of the future auditor look like, and how should standards reflect the skills and judgment that will be required? How can the Board bring global stakeholders together in this effort, rather than acting alone?

The question is not only how to update discrete standards, but also how to ensure that principles-based standards remain capable of governing an environment that looks fundamentally different from the one in which those principles were first articulated. As management increasingly relies on AI-driven processes, data models, and automated decision-making, the audit must evolve in kind. Core concepts such as professional skepticism, reviewer responsibilities, algorithm assurance, data provenance, and fraud risk will require reconsideration in the new environment.

Consider, for example, paragraph 9 of PCAOB AS 2501: *Auditing Accounting Estimates, Including Fair Value Measurements*, which requires that testing of a company's process for developing an accounting estimate includes evaluating the methods, data, and significant assumptions used. In a conventional modeling context, an auditor can trace a model's logic, test its mathematical accuracy, and assess the consistency of applied judgments. Where management uses an AI model to develop an estimate, however, the auditor's procedures can change fundamentally; they may need to evaluate training data, assess model architecture, examine validation procedures, and review governance over model changes. These are different activities demanding different skills, different methodologies, and different forms of evidence.

In certain areas, the PCAOB may need to coordinate with the SEC so that guidance for management and auditors move together. For example, unique risks may be introduced when issuers embed AI into internal control over financial reporting, i.e., as they move from manual or automated deterministic controls to AI-based probabilistic controls. Coordinated guidance from the SEC regarding management's use of AI in financial reporting, and from the PCAOB regarding auditors' considerations (*e.g.*, following the model of Staff Audit Practice Alert No. 11, *Considerations for Audits of Internal Control Over Financial Reporting* (Oct. 24, 2013)), would help establish expectations for both issuers and auditors from the outset.

Given the breadth and complexity of the challenges of the increased use of AI, we encourage the Board to convene a formal advisory group, drawing on expertise from issuers and auditors, as well as technology, data science, AI governance, and related fields, to help inform its approach. Engaging a diverse range of perspectives will be essential to developing standards and guidance that are both technically sound and practically workable.

THE INSPECTION PROGRAM

The PCAOB's inspection program has led to better audit quality and improvements to firms' processes over the last two decades. Over those decades, firms continued to make significant investments in new audit methodologies, technologies, and talent models both to respond to input from the PCAOB as well as to adapt to changes in the environment in which they operate. Focus by the Board on understanding the advances of the last quarter-century will allow it to consider where it has opportunities to support audit quality through its inspection program in a way that better reflects the current environment and is prepared for the future.

Focus on Systems of Quality Control. As Chairman Logothetis noted, the bedrock of audit quality is a firm's system of quality control (SQC). The profession's efforts to implement the new PCAOB and international standards for quality control provide the PCAOB with an opportunity to shift some inspection focus to those systems. We are encouraged by the Board's consideration of SQC inspection results as a means to complement, and over time help calibrate, the scope of individual engagement inspections. We believe this approach has the potential to focus inspection resources more effectively on audit quality risk.

To realize that potential, however, the PCAOB should develop an inspection framework built specifically for the evaluation of firms' SQCs that recognizes that an SQC is a management system that governs professional behavior, judgment, and culture across a firm. This is fundamentally different than a company's system of internal control over financial reporting, which is designed to provide reasonable assurance regarding the reliability of financial reporting as of, and for, specific time periods. Nevertheless, because inspectors are most experienced with reviewing audit workpapers and documentation, they may have a natural tendency to evaluate a firm's SQC through the same lens applied to audit engagements, including internal control over financial reporting. That would be a mismatch; evaluating whether an SQC achieves its objectives is an inherently holistic and judgmental exercise, and we encourage the Board to engage with firms and other stakeholders to develop an SQC inspection framework that reflects this, before SQC inspections under the new standard are conducted at scale.

An inspection process that is grounded in an appropriately tailored conceptual framework that leverages firms' work on their SQCs and focuses on the relevant risks, will produce more meaningful findings and reveal underlying trends. This will enable more useful information to be communicated to investors, audit committees and other stakeholders, and therefore better serve the Board's mission.

Use of Technology. We also agree with Chairman Logothetis that the PCAOB has an opportunity to leverage technology, including AI, to improve inspections. First, increased understanding of the innovative technologies that firms have implemented will allow the PCAOB to regulate the profession more effectively.

Second, advances in the PCAOB's own use of technology may offer it the opportunity to become more precise in directing its finite resources toward the most strategic areas of oversight. There are several areas we believe are worth exploring to help the PCAOB better tailor inspections to focus on key risk areas and identify anomalies that are of material significance:

- The PCAOB already collects rich data across its inspection, registration and reporting, and enforcement functions. AI-driven risk models could synthesize this data into a more continuous view of firm-level risk to help identify emerging concerns and allocate inspection resources accordingly.

- Pattern recognition applied to audited filings and engagement metadata could surface statistical outliers that warrant closer attention. This population-level surveillance could complement existing engagement-level inspection work.
- A risk-informed model could allow the Board to adjust inspection intensity based on demonstrated quality outcomes—increasing attention where risk indicators are elevated and applying proportionate oversight where firms have established a sustained history of quality.

Inspection Output. Improved focus of inspections could also increase the utility of inspection results—both inside and outside the PCAOB—by making the nature of inspection findings across firms more consistent and comparable, as well as help the PCAOB consider where it could share observations from across the profession. We suggest that, once it has implemented any changes in its approach to inspections, the Board consider how best to communicate those inspection results in a consistent and timely way that also allows users to understand the relative severity of the findings. We have heard from stakeholders that the current format and timing of published inspection results present challenges to their understanding of current quality themes both for individual firms and across the profession.

MODERNIZING PCAOB SYSTEMS

As noted, technology offers the Board a powerful opportunity to become more precise in directing its finite resources toward areas of greatest investor risk. Beyond the inspection program, we also suggest that the Board consider how advances in technology can help modernize its registration and reporting system.

The PCAOB has not substantively updated its annual and special reporting requirements since 2008. We believe the registration and reporting system would benefit from modernization, and we encourage the Board to consider changes that would improve the usability of information contained in public PCAOB filings. For example, registered firms' annual (Form 2) and special (Form 3) reports are required to be filed in a static PDF format, which can require readers to navigate through large documents (including pages of blank portions of forms) or even multiple documents to locate specific information. The Board should consider ways to modernize its registration and reporting system to allow readers to locate relevant information more quickly and easily, including by redesigning the forms and updating the technology used to file them, so that users can easily locate the relevant portions as completed by a firm. The approach the Board took to Form AP, which provides more ready access to information, could serve as a model for improvements to other forms.

Whether or not the Board undertakes to modernize the technology that underlies its firm reporting requirements, we encourage it to consider whether all its current disclosure requirements remain relevant, or if some may have become redundant or otherwise unnecessary. For example, Form 2 requires a list of every audit report a firm has issued during the reporting period in several categories and in a format that is difficult to navigate. This information is largely redundant of information firms publicly provide on Form AP. The Board might also consider whether other information it determined to collect when Form 2 was adopted nearly 20 years ago has been used by the PCAOB or other stakeholders in the intervening years and, if not, remove those requirements (*e.g.,* separate lists of the number of accountants and the number CPAs, or the list of each office of a large firm). We also suggest the Board consider setting materiality or *de minimis* thresholds for some of its detailed filing requirements (*e.g.,* Form 2 and Form AP) to better balance the costs and benefits of preparing and reporting the information.

The Annual Data Request (ADR) through which the PCAOB requests extensive information from firms in connection with the annual inspection program also may be ripe for review, especially as the PCAOB reexamines the focus of its inspection program; the amount of

information required in the ADR has grown substantially over the years and in our experience some of the information is no longer used by the PCAOB.

* * * *

We appreciate the opportunity to provide our perspectives on the Board's strategic priorities, and we look forward to engaging with the Board and its staff as it continues to develop its strategic plan and implement specific priorities.

If you have any questions or would like to discuss our views further, please contact Dipti Gulati at (212) 436-5509 or Trevor Barton at (402) 444-1818.

Sincerely,

Deloitte & Touche LLP

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with confidence

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Public Company Accounting Oversight Board
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15 May 2026

Re: PCAOB No. 2026-001, *Request for Public Comment PCAOB Strategic Priorities*

Dear Ms. Brown:

Ernst & Young LLP appreciates the opportunity to respond to the PCAOB No. 2026-001 request for public comment from the Public Company Accounting Oversight Board (PCAOB or Board) regarding the Board's strategic priorities as it develops its 2026–2030 Strategic Plan. We support the PCAOB's commitment to early and transparent stakeholder engagement and recognize the importance of this effort in shaping a strategic agenda that promotes high-quality, informative and independent audits. We offer our perspectives with the objective of strengthening the transparency, consistency and effectiveness of the PCAOB's mission critical programs.

Overall, we recommend that the PCAOB focus on three key areas: modernization of its inspection program (including inspection reporting), improving transparency in standard-setting initiatives, and reducing regulatory redundancies through improved coordination with the Securities and Exchange Commission (SEC).

We encourage the PCAOB to critically challenge the inspection program to identify opportunities to enhance and modernize the approach. While the existing program has driven significant improvements in audit quality since the PCAOB's inception, we believe periodically reassessing the program holistically, particularly in an evolving technological environment, is essential to maintain a highly effective program. Clearly articulating the objectives of the inspection program and the best way to achieve those objectives is an important first step.

We believe the Board's objectives (once finalized) could be achieved by first evaluating the sufficiency of a firm's system of quality control (SQC) with a focus on firm monitoring activities. This should include a transparent model for performing quality control-focused inspection activities. We also believe that engagement-level inspections should continue to be part of the inspection program based on the results of the evaluation of a firm's SQC. For engagement-level inspections, we also believe a formal engagement deficiency framework should be made publicly available to promote consistent application.

We also encourage the PCAOB to promote greater transparency in its standard-setting initiatives. The Board should establish a continuous stakeholder engagement process to inform the standard-setting agenda and consider international frameworks when embarking on standard-setting projects. Because technological advances can impact all aspects of our operations as well as those of registrants, we

advise the PCAOB to proceed with caution in setting standards in this area. We believe providing interpretive guidance may allow the PCAOB to provide more timely support to auditors given the rapid pace of change.

Finally, we encourage the PCAOB to improve regulatory efficiency by evaluating intersecting activities with the SEC. This could include aligning enforcement processes, collaborating with the SEC to eliminate overlapping independence requirements, and developing an enforcement manual, all of which would reduce unnecessary complexity and costs.

These recommendations could strengthen stakeholder confidence in the PCAOB's oversight, continue to drive improvements in audit quality overall, make the Board's outputs to audit committees and other stakeholders more useful, and enable a regulatory framework that remains adaptable to a rapidly evolving technology environment. As always, we welcome continued engagement with the Board's staff as the PCAOB develops the Board's strategic priorities.

OUR PERSPECTIVES

1. What should the PCAOB focus on as its strategic priorities in registration, inspections, and enforcement over the next two to five years to further its statutory mission?

Registration

With respect to the PCAOB's annual and periodic reporting forms and data requests, we encourage the Board to review the type of information and method of reporting in required disclosures, particularly those associated with annual and other data requests, including those on Forms 2 and 3, and consider whether they are appropriately calibrated to support effective oversight. Registered firms devote significant time and resources to collecting, validating and submitting information in the specific formats prescribed by PCAOB reporting forms.

Maintaining systems to generate information in the specific format required in these requests is onerous, and it is not clear whether the Board or the public actually uses this information. We encourage the Board to challenge the nature and extent of these requests and evaluate whether the benefits of collecting and providing the information justify the associated costs.

We propose the PCAOB consider the following when reflecting on its priorities in this area:

- The usefulness of required disclosures to the likely users of the information, including the extent to which the information is relied upon for oversight purposes
- Opportunities to adjust reporting requirements to align better with the needs of likely users and determine whether the benefits of such disclosure outweigh the costs incurred by firms
- The appropriateness of requiring precise figures instead of reasonable estimates or ranges, where precision does not materially enhance utility
- The inclusion of free text boxes where firms can give additional context and explain the information submitted

- Updates to the forms and related technology to improve the data entry process (such as removal of certain character limitations)
- Acknowledgement that subsequent discovery of immaterial, good faith errors by registered firms do not necessarily warrant amending prior submissions
- Opportunities to use technology to better deliver the data and disclosure

In our view, prioritizing this type of review would help make registered firm reporting more focused, effective and aligned with the Board's oversight objectives.

Inspections

The PCAOB should prioritize implementing protocols to drive meaningful and durable enhancements to an inspection process that is fundamental to achieving the Board's statutory objectives.[1] A modern inspection program should include clear objectives starting with an evaluation of the sufficiency of a firm's quality control system that informs targeted inspections of selected individual engagements.

Durable and continuous improvements in audit quality

The Board should apply its inspection objectives consistently across all phases, including planning, execution, reporting and remediation. During this time of technological advancement, it is especially critical that Board's inspection program move beyond a compliance-oriented approach and function as a regulatory tool to drive durable and continuous improvements in audit quality. See further discussion in our response to question 7.

Focus on significance and consistency

As discussed further in response to question 3, we encourage the PCAOB to include in the public Part I of inspection reports only significant findings where the auditor's opinion was not supported. In our experience, however, inconsistent inspections of audit engagements year over year or among individual inspectors can occur due to differing judgments on the sufficiency of audit evidence or the extent of audit procedures performed. We therefore encourage the Board to implement a standardized framework for evaluating areas significant to the audit and determining significant findings where the auditor's opinion was not supported to drive consistency in the process and across the firms.

Timely and transparent resolution of inspection differences

We appreciate that the PCAOB is designing a formal consultation process to provide timely guidance on complex auditing issues and promotes consistent interpretation of standards within the standard-setting functions rather than by inspection or enforcement activities.[2] We also believe that consultation may be necessary for inspection activities when evaluating complex matters related to the firm's SQC, matters associated with engagement-level inspections or matters where there are inspector-firm disagreements. We encourage the PCAOB to implement consultation processes that can facilitate timely resolution on inspection-related matters concurrent with the related inspection activity.

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[1] Section 104(a) of The Sarbanes-Oxley Act of 2002.

[2] See ***Chairman Logothetis Statement on PCAOB Strategic Priorities***, 31 March 2026.

Reevaluating inspection data requests and timing of inspection activities

Inspection execution also involves substantial data requests across all activities of a firm, resulting in considerable costs to the firm to maintain and retain this information, often solely to comply with the PCAOB request rather than to serve business management needs. Historically, we have not received questions on the majority of what is provided to the PCAOB. We respectfully request that the Board evaluate the data requested and consider potential opportunities to leverage technology to streamline data requests and collection.

We also believe that performing engagement inspections during the traditional January through March filing season is detrimental to audit quality. Additionally, inspecting during the fiscal fourth quarter of off-calendar year engagements is detrimental to audit quality. We respectfully request that the PCAOB consider the timing of an inspection and consider the impact on audit quality for the in-process audit.

Enforcement

We encourage the Board to explore ways to enhance transparency, consistency and procedural protections within the Division of Enforcement and Investigations (DEI). In our view, the DEI program would benefit from a clear articulation of the Board's enforcement priorities. Additionally, the Board could establish clearer procedures for firms and individuals subject to investigation, promote consistent application of investigative practices and support efficient case management. Given overlapping jurisdiction, it could also facilitate greater alignment, where appropriate, with processes and procedures used by the SEC's Division of Enforcement (SEC Enforcement).

Specifically, we believe the Board should consider publishing an enforcement manual addressing the following topics, among others:

- *Enforcement priorities* — We recommend that the Board set forth that PCAOB enforcement will focus on matters featuring (1) intentional or reckless misconduct, in violation of clearly established standards of conduct, as opposed to those involving disputed interpretations of standards or questions of professional judgment, and (2) identifiable harm to audit clients and their stakeholders. We also support the inclusion of a planned approach for DEI coordination with SEC Enforcement to help mitigate duplicative investigations.

- *Supervisory review and internal escalation protocols* — The Board should consider defining clear protocols for supervisory review at key stages of investigations, including regular docket reviews addressing both active and inactive matters, and circumstances in which supervisory approval is expected for certain investigative steps and decisions.

- *Engagement and cooperation* — The Board could encourage timely remediation and self-reporting by committing it will decline taking enforcement action when registered firms (1) voluntarily self-reported the misconduct, (2) fully cooperated with DEI, (3) timely and appropriately remediated any misconduct, and (4) have no aggravating circumstances, as listed in the enforcement manual, that relate to the nature and seriousness of the misconduct. We also recommend adding mechanisms for firms and individuals under investigation to engage with DEI staff and supervisors, as well as a statement on the PCAOB's approach to remedies, and options for penalty offsets or other incentives for timely remediation.

- *Timeliness* — We encourage the Board to address how enforcement resources are prioritized, focusing on more recent conduct, expectations regarding statutes of limitations and tolling agreements, reasonable parameters around the length of witness interviews or testimony, and documenting a policy requiring DEI staff to notify individuals or firms at the earliest appropriate time of the staff's decision not to recommend charges.

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)?

Support the design of a quality control-focused framework

We recommend the PCAOB consider an overall inspection program that uses the evaluation of the sufficiency of a firm's SQC, including the firm's monitoring activities within the SQC as a starting point. For firms with a robust and well-designed SQC, documentation related to risk assessments, quality objectives, quality responses and monitoring results can provide the PCAOB with valuable insight into the design and operating effectiveness of the SQC that would be difficult for the PCAOB to replicate through its own activities based on engagement-level inspections or inspecting certain SQC processes in isolation. Leveraging this information may limit potentially duplicative costs associated with assessing a firm's SQC while providing important context regarding how the firm identifies, responds to and remediates quality risks.

The evaluation of a firm's SQC may allow the PCAOB to meet many of the objectives of the overall inspection program, thereby alleviating the need to rely as heavily on the inspection of selected audit engagements. That is, it seems possible that, after the implementation of QC 1000, the primary objectives of inspecting selected engagements would be to:

1. Verify that engagement teams successfully executed audit methodologies and procedures developed in accordance with a firm's SQC

2. Corroborate the evidence obtained from the PCAOB's evaluation of the firm's SQC

Seek stakeholder perspectives on the design of a QC-focused inspection program

Evaluating the sufficiency of SQC in accordance with QC 1000 represents a fundamental shift for both the PCAOB and inspected firms. Based on our discussions with members of the PCAOB's Office of the Chief Auditor and Division of Registration and Inspections (DRI) staff, we understand an evaluation of the sufficiency of SQC is not comparable to the evaluation of the sufficiency of internal controls over financial reporting (ICFR) in an integrated audit. As such, we recommend that the PCAOB seek public input on the design of the evaluation framework for a firm's SQC. The PCAOB could support an effective transition by providing firms with observations and recommendations based on its preliminary understanding and evaluation of their SQC, in an environment meant to identify learnings and improvements for both parties. Firms could refine their SQC, and the PCAOB could identify lessons learned and inform future enhancements to the evaluation methodology while promoting audit quality through a more effective QC-focused inspection program. We further believe that periodically refreshing stakeholder perspectives would support the continuous improvement of the inspection program.

Make frameworks publicly available

We also propose that the PCAOB consider formalizing and publishing the SQC evaluation and engagement inspection framework, as well as associated protocols to promote more consistent and transparent processes and outcomes, reinforce alignment with quality control standards and bolster stakeholder confidence in the inspection program.

3. What inspection information would be most useful to stakeholders, and how could inspection reporting be enhanced under a quality control-focused inspection program?

A strategic opportunity to reframe regulatory reporting

We believe the Board could enhance consistency and transparency of reported information through ongoing engagement with users and by re-evaluating the structure, content and timing of inspection reports to better deliver decision-useful information to audit committees and other stakeholders.

Based on our experience and discussions with stakeholders and consistent with information shared at recent public meetings (i.e., Standards and Emerging Issues Advisory Group and Investor Advisory Group), it is often challenging for users of inspection reports to understand the significance of matters currently included in Part I.A of the inspection report or how to consider this information in evaluating audit quality at a given firm. We believe that contextualizing and providing a sense of the significance of findings included in Part I of the inspection report would improve consistency in external reporting and promote better stakeholder understanding.

Deficiency framework under QC 1000

Defining inspection deficiencies is a critical first step in modernizing inspection reporting, particularly in the context of QC 1000. Today, firm inspection reports include items that are categorized as Part I.A engagement-level deficiencies. These items are described as those that were of such significance that the PCAOB believes the firm at the time it issued its audit report(s) had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or ICFR. However, in our experience, and in line with our observation regarding consistency within inspections discussed above, we have noted instances where it is not clear that an audit opinion was not supported when additional relevant factors were considered.

We recommend that the PCAOB re-evaluate its deficiency framework to align its application with risk-based principles, include consideration of materiality, and the role of compensating and other procedures performed in addressing assessed risks of material misstatement (i.e., evaluate the totality of evidence obtained). We acknowledge that during the engagement inspection process, the PCAOB might identify instances of missing or incomplete audit work or procedures that may have been performed less effectively than they should have been. To the extent such items are not material to the totality of audit evidence supporting the audit opinion, the Board could consider such items as information to provide to the audit firm and possibly other stakeholders to promote audit quality. The PCAOB could leverage other mechanisms, such as PCAOB staff Spotlight publications, to report on trends or observations that might be of interest to the firms and stakeholders.

Additionally, in our experience, matters identified as Part II quality control criticisms traditionally have been inferred from the PCAOB's experience with individual engagement inspections and have not considered insights from the firm's other SQC activities. As a result, the matters identified in Part II often have not correlated to the results of the firm's root cause analysis. We believe the PCAOB's conclusions regarding the effectiveness of SQC should be anchored to the evaluation procedures that were designed and performed for the purpose of evaluating system-level effectiveness, rather than inferences drawn from engagement-specific outcomes or narrowly determined compliance matters.

We believe that establishing a clear framework for identifying quality control criticisms directly observed (rather than inferred) during SQC evaluation, along with an evaluation of the sufficiency of the firm's SQC in addressing identified risks and objectives, would meaningfully support firm efforts to effectively address the root causes of quality control deficiencies.

Clarifying and accelerating the evaluation and remediation of quality control criticisms

We recommend that the PCAOB provide explicit guidance defining what constitutes satisfactory remediation, aligned with the applicable quality control standards, along with clear expectations and timelines applicable to DRI for issuing remediation determinations in a manner that supports meaningful and timely decision-making for stakeholders. We also believe it is important that the PCAOB challenge how Form QC reporting, the PCAOB's evaluation of sufficiency of a firm's SQC and required PCAOB reporting under the Sarbanes-Oxley Act of 2002 (SOX) interact and reconcile.

Redesign of the current inspection report

Based on the above, in future reporting we believe the PCAOB should challenge the way identified engagement deficiencies are reported. One alternative approach would be to publish the framework for determining whether an inspection finding represents a "failure to support the audit opinion(s)" considering risk, materiality and totality of evidence obtained.

Another approach would be to provide overall summaries of the nature of deficiencies identified across the individual engagements selected for inspection. This would eliminate reporting on isolated instances. Such differentiation could reduce the risk of misinterpretation by report users. Additionally, providing more context on the nature and significance of inspection deficiencies identified would enhance report users' understanding and support more informed audit committee oversight and stakeholder decision-making.

We also recommend that the Board consider the following:

- SOX Section 104(g) specifies that PCAOB-written inspection reports should constitute findings of the Board. Therefore, we believe public sections of inspection reports should be limited to matters identified directly through PCAOB inspection procedures and exclude self-identified matters by firms through their own monitoring activities or resulting from restatements not attributable to inspection deficiencies. Findings that are self-identified by the firm demonstrate a functioning SQC.

- Firm-identified Part I.C independence exceptions should be excluded from inspection reports, especially when the auditor's objectivity and impartiality was not impaired. Separately, for independence matters identified through PCAOB inspection procedures, we encourage the PCAOB to work with the SEC to determine whether public disclosure is warranted in cases of systematic violations rather than overstating technical issues that have been remediated. This would provide a fairer representation of a firm's overall degree of compliance.

In addition, we recommend that the PCAOB discuss Part I.B deficiencies with firms for awareness and exclude from individual public inspection reports, as these matters do not represent instances where the firm failed to obtain sufficient appropriate audit evidence to support its opinion(s). The PCAOB should consider leveraging its staff Spotlight publications for reporting on such trends across the profession.

Timing of inspection report issuance

To complement our suggested enhancements to the inspection content, we believe that more effective timing and sequencing of report issuance would allow firms to implement improvements sooner, which would strengthen audit quality.

We encourage the PCAOB to consider issuing inspection reports more promptly following the completion of fieldwork and presenting deficiencies in a manner that readily facilitates auditor oversight discussions. This could be achieved by separating inspection reporting into two publications:

- A public Part I report, issued on a more timely basis and aligned with the completion of engagement inspections

- A non-public Part II report, aligned with the firm's QC 1000 "as of" date, which we believe should be flexible to align with the firm's operations. Separating the Part II report would allow firms to more effectively evaluate and address system-level deficiencies within their SQC on a more timely basis.

4. What standard-setting projects should the PCAOB pursue?

An opportunity to revisit and improve the standard-setting process

As the Board develops its 2026-2030 Strategic Plan, we encourage a thorough evaluation of the current standard-setting process, with a focus on enhancing stakeholder engagement, increasing transparency and aligning more closely with international standards where appropriate.

Stakeholder engagement

The opinions and priorities of stakeholders change for a variety of reasons, including market shifts and new technologies. Stakeholder feedback can vary depending on when the PCAOB asks for it and the manner in which it is requested. Therefore, we encourage the Board to regularly review both how it gathers input from stakeholders and the frequency of those requests when conducting standard-setting projects. Specifically, we support efforts by the PCAOB to foster dialogue between the Office of the Chief Auditor (OCA) staff and auditors, investors, audit committees, and other stakeholders throughout a standard-setting or rulemaking project.

Transparency

We also encourage the PCAOB to explore ways to make its standard-setting process more transparent. Historically, the PCAOB's standard-setting process has been opaque, and stakeholders rarely understand or appreciate the Board's position on standard-setting matters before rulemaking activities (e.g., a proposal) occur. We believe the Board should consider more transparent deliberations through public dialogue with OCA staff at open meetings or by leveraging the Standards and Emerging Issues Advisory Group (SEIAG) or other task forces where Board members and OCA staff can discuss objectives of standard-setting or rulemaking projects, as well as potential approaches and impact on the audit and financial reporting process.

Improving the transparency of the standard-setting process would allow for more thorough and thoughtful feedback from stakeholders. We also encourage the PCAOB to monitor other regulators like the Financial Accounting Standards Board (FASB) and International Auditing and Assurance Standards Board (IAASB) to consider whether their methods could help improve its own processes. For example, the PCAOB should consider whether a mechanism like the FASB's Emerging Issues Task Force could improve consistency in the interpretation of PCAOB standards.

Alignment with international standards

As discussed further in our response to question 5, we believe that before undergoing new standard-setting projects, the PCAOB should consider the IAASB standard-setting agenda to determine whether ongoing projects could meet shared objectives and be more collaborative, as appropriate, to drive greater consistency in auditing standards globally.

To the extent the PCAOB determines that differences in standard-setting are appropriate, these differences should be clearly described, including the basis for divergence in the context of the US capital markets. The Board could also consider the work performed by the American Institute of Certified Public Accountants (AICPA), which has made some considerations, albeit from a private company audit perspective, to modify international standards based on the US market.

We also encourage the PCAOB to consider information obtained by international or other standard setters in past deliberations on similar projects to determine whether modifications should be made to existing PCAOB standards. We believe that revisions to PCAOB standards should be made only in response to clearly identified issues rather than making updates simply because a standard has not been revised for a significant period of time.

Exercise caution before engaging in standard-setting due to developments in technology

Advancements in technology, such as artificial intelligence (AI), data analysis and quantum computing are or will influence how the profession performs audits, attestations and other procedures in the scope of PCAOB standards. We believe the PCAOB should be cautious about immediately engaging in standard-setting activities in response to these and future developments in technology.

We encourage the Board to continually evaluate how these changing technologies fit into the existing principles-based requirements in PCAOB standards (e.g., risk assessment and audit evidence standards) and consider whether additional interpretive guidance would allow practitioners to consistently apply the principles in current PCAOB standards in the rapidly changing technological landscape.

Over time, the PCAOB's consistent monitoring of these developments will also allow the Board to evaluate whether existing principles-based models within PCAOB standards continue to be fit for purpose and flexible enough considering how technology is being used by the profession, issuers, brokers and dealers.

Pursue simplicity and consistency in auditor independence regulations

The requirement to maintain auditor independence is foundational to the performance of quality audits, and maintaining auditor independence is the shared responsibility of auditors, management and the audit committee. While SOX provides the PCAOB with the authority to establish independence standards,[3] the current regulatory structure is both inconsistent and duplicative.

The PCAOB maintains multiple independence rules that address the same activities as current SEC independence regulations (e.g., requirements related to unpaid fees[4]), resulting in unnecessary complexity and confusion. We believe the PCAOB should work with the SEC to eliminate overlapping regulations and consolidate a single set of independence regulations under one regulatory body.

Further, since the SEC has jurisdiction over all parties that share the responsibility for auditor independence (i.e., auditors, audit committees and management), we believe the SEC is the most appropriate regulatory body for promulgating and interpreting auditor independence standards.

The path forward for recent standard-setting projects

As the Board looks to set strategic priorities for 2026-2030, we believe it would be appropriate to consider aligning existing auditing standards with accounting standards where differences exist (e.g., going concern) and how (or whether) to proceed with recent standard-setting projects.[5]

Noncompliance with laws and regulations

We generally support the concept of modernizing the PCAOB's standards to clarify the responsibilities of auditors with respect to noncompliance with laws and regulations, including fraud, due to changes in the auditing environment since the PCAOB adopted the AICPA's standards in 2003. However, we believe the PCAOB's existing proposal would fundamentally alter the auditor's role.[6] Instead, we believe the PCAOB should consider more closely aligning auditor requirements related to noncompliance with laws and regulations with international frameworks.

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[3] Section 101(c)(2) of The Sarbanes-Oxley Act of 2002.

[4] PCAOB ET Section 191.52 stipulates that independence is considered to be impaired if any fees remain unpaid for any professional services provided more than one year prior to the date of the auditor's report. Conversely, SEC frequently asked question number 2 related to the general standard of independence (i.e., Rule 2-01(b) of Regulation S-X) states that there may be a question concerning the auditor's independence if fees are owed "for an extended period of time and become material in relation to the fee expected to be charged for a current audit."

[5] See 5 May 2026 PCAOB News Release, ***PCAOB Updates Standard-Setting, Rulemaking, and Research Projects As Strategic Planning Process Continues***.

[6] See our **comment letter dated 7 August 2023** related to PCAOB Release No. 2023-003, *Amendments to PCAOB Auditing Standards related to a Company's Noncompliance with Laws and Regulations And Other Related Amendments* (6 June 2023).

Substantive analytical procedures

As technology continues to influence auditing methods and the nature of audit evidence, it is crucial for the PCAOB to stay informed about emerging technologies. The PCAOB should encourage the adoption of new technologies, while providing observations and best practices for complying with the existing principles-based framework. If this project were to be included on the new standard-setting agenda, we encourage the Board to evaluate and participate in the work being performed by the IAASB as part of the *Audit Evidence and Risk Response – ISA 330, ISA 500, ISA 520* project.

As discussed in our response to question 5, we believe that the PCAOB should work closely with international standard setters to promote efficiency (e.g., avoiding duplicative research efforts) and more alignment between international and PCAOB standards.

Post-implementation reviews

The Board last published a completed post-implementation review (PIR) report in December 2018. While the Board has finished or planned an interim analysis for some completed standard-setting projects such as critical audit matters, auditing accounting estimates and the auditor's use of the work of specialists, we believe that completing timely and effective PIRs would allow the Board to both:

- Evaluate the consistency with which standards are interpreted and applied across the profession and in its own inspection program
- Assess whether standards are achieving the intended outcomes and whether the associated compliance costs are proportionate to the realized benefits

5. How can the PCAOB achieve greater alignment of its auditing standards with international auditing standards?

We believe that strengthening engagement with international standard setters will promote consistency in auditing standards and audit quality across the globe. Aligning standards is a continuous process that we believe would be best achieved through a prospective change in the PCAOB's approach to standard-setting projects that integrates engagement with international standard setters during the standard-setting process.

The PCAOB should stipulate that once an item is added to the standard-setting agenda, the Board should evaluate the relevant International Standards on Auditing (ISAs) and any relevant research or due diligence performed by the IAASB, AICPA or other standard setters. In conjunction with this approach, we recommend that the PCAOB consider increasing its deliberations and collaboration with international standard setters on research efforts.

Engaging with other standard setters should be a continuous and ongoing effort because the matters affecting financial reporting and audits are dynamic and evolving. We believe leveraging the knowledge from other standard setters would be an efficient approach to standard-setting and facilitate gradual, appropriate and sustainable alignment in international and US auditing and attestation standards. It would also facilitate the consideration of whether any differences are necessary due to the nature of the US capital markets and provide stakeholders with the PCAOB's basis for such differences.

6. In what ways should the PCAOB consider deploying technology, including AI, to help further its investor-protection mission?

The PCAOB has unique insights into how AI and other technology are being designed, implemented and governed by issuers and audit firms based on its oversight, inspection and standard-setting activities. This vantage point places the PCAOB in a strong position to help inform and promote best practices for the responsible use of AI in audits, including through non-authoritative guidance, observations from inspections and other educational materials.

By sharing common risk patterns, effective controls and examples observed across firms and engagements, the PCAOB could drive more consistent adoption of AI while avoiding the unintended consequences that may arise from fragmented or opaque practices. Thoughtful deployment of the PCAOB's own technology and analytics, paired with transparent communication to stakeholders, could further reinforce confidence that emerging technologies are being used in ways that enhance audit quality for investors.

7. How can the PCAOB enhance transparency with its stakeholders?

Communications on the state of audit quality

We believe the Board should continue to leverage its staff Spotlight publications or other communications (e.g., Board member or staff speeches) to share key observations on the broader state of audit quality. These communications could include any noted trends affecting audit quality that might currently be included at a firm level in Part I.B or Part I.C today. This would provide stakeholders with a better understanding of what the PCAOB is observing relative to audit quality beyond those inspection findings that represent a failure of a firm to support an audit opinion.

Standard-setting process

As noted in our response to question 4, we reaffirm our view that the PCAOB would benefit from a continuous and structured stakeholder consultation process to inform its standard-setting agenda that enhances transparency, aligns more closely with international standards where appropriate and simplifies complex regulations to bolster stakeholder confidence.

Inspections

As noted in our response to question 3, we believe that ongoing engagement with users of inspection information (including inspection reports) is essential for the Board to deliver decision-useful information to audit committees and other stakeholders. To that end, we support the formation of a task force focused on modernizing the inspections process and communication. As Chairman Logothetis noted in his remarks at the SEIAG meeting on 6 May 2026, such a task force should be composed of key stakeholders, including practitioners with strong inspections experience, knowledge of emerging technologies and expertise regarding QC 1000.[7]

* * * * *

[7] See ***Chairman Logothetis Delivers Remarks at Standards and Emerging Issues Advisory Group Meeting***, 6 May 2026.

We would be pleased to discuss our comments with the Board or its staff at your convenience.

Sincerely,

Ernst & Young LLP

Copy to:

SEC
Kurt Hohl, Chief Accountant
Michal Dusza, Deputy Chief Accountant
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May 15, 2026

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

Re: Request for Comment, PCAOB Strategic Priorities; PCAOB No. 2026-001

Dear Office of the Secretary:

Forvis Mazars, LLP ("Forvis Mazars" or "the Firm") appreciates the opportunity to respond to the PCAOB's Request for Public Comment, *PCAOB Strategic Priorities*. Forvis Mazars ranks among the **top 10** public accounting firms in the United States. Forvis Mazars, LLP, is also part of a two-member global network, Forvis Mazars Global Limited with Forvis Mazars Group SC as the other member. Forvis Mazars Group is an internationally integrated partnership established on June 1, 2024, operating in more than 100 countries and territories.

The Firm continues to be an active participant in profession-wide endeavors, including participation on various committees, boards, expert panels, task forces, and working groups of the Center for Audit Quality ("the CAQ") and the American Institute of Certified Public Accountants ("the AICPA"). We also worked with the CAQ on its response to the PCAOB's Request for Comment; our comments below are intended to supplement the views expressed in the CAQ's comment letter. We have focused our comments on selected questions where we believe our experience and perspective can provide the most meaningful input for the Board as it considers its strategic priorities.

General Comments

We would like to start by thanking the Board for its willingness to consider comments received to inform you about the development of its 2026 Plan and updates to planned focus areas for standard setting. Our position as a top 10 firm with just under 130 issuer clients allows us to provide unique perspectives in the areas of scalability and principles-based approaches to quality control ("QC") and inspections.

Specific Questions Posed in the Request for Public Comment

Question 1: What should the PCAOB focus on as its strategic priorities in registration, inspections, and enforcement over the next two to five years to further its statutory mission?

Preserving a pathway for middle market firms to compete in the issuer audit space is critical to maintaining audit quality and choice in the public company audit market. Achieving this objective will require inspection processes and reporting approaches that are scalable, risk-based, and aligned with firms' systems of quality control, particularly as the PCAOB transitions to a QC-

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focused inspection model under QC 1000. We would also appreciate the Board prioritizing timely, actionable feedback loops, which would include clearer remediation expectations and faster closeout of issues.

We provide further comments related to the PCAOB's inspection program and reporting in response to Questions 2 and 3 below.

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)?

We commend the Board for reimagining the inspection program, and we support shifting to a more QC-focused inspection model that is principles-based and appropriately scalable across firms of differing size and market risk. We also anticipate that a QC-focused inspection approach would result in a more targeted approach to the issuer engagements or areas inspected commensurate with assessed risk.

Firms have invested heavily in building and documenting their quality control systems to comply with existing standards, including doing their own risk assessments, establishing quality objectives, monitoring, and remediation. As a result, there is far more information available today than there was in the past to assist the PCAOB with understanding a firm's system of quality control. We believe the PCAOB should leverage this existing documentation as a starting point for its evaluation, rather than duplicating information requests or procedures. This understanding, coupled with engagement-level inspections, can then be used to tailor the nature and extent of any additional inspection procedures based on risk.

Further, the PCAOB's evaluation of a firm's system of quality control should center on whether it is suitably designed and operating in a manner that aligns with the specific firm's size, complexity, and risk profile.

We believe the Board should make engagement-level selection and scope more scalable and risk-based. Specifically, we encourage the PCAOB to:

- Develop and publish a framework for determining the number and nature of individual engagement selections, which is informed and scaled by the effectiveness of a firm's system of quality control as a component of overall assessed risk.

- Scale the number and type of individual engagement inspections (e.g., public company, employee benefit plan, broker-dealer attestation engagements, foreign private issuers, etc.) based on the number and types of PCAOB audit and attestation engagements performed by a firm.

- Ensure selected engagements are representative of the nature of the firm's overall issuer engagement population.

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- Consider firm culture and governance (including "tone at the top"), as well as historical performance over time, including whether past engagement-level findings have resulted in financial statement restatements and/or reissuance of audit opinions.

We recommend the PCAOB treat the initial implementation of a QC 1000 as a calibration and guidance period, using early inspection cycles to align expectations, terminology, and evidentiary thresholds. During this period, the Board should emphasize transparent, timely feedback—through published FAQs, illustrative examples, and standardized information requests—so firms can focus resources on maturing the design and operation of their systems of quality control rather than responding to evolving or inconsistent inspection expectations. A calibration approach would also allow the PCAOB to identify common implementation challenges, differentiate between early-stage process maturity issues and higher-risk quality failures, and refine its QC-focused inspection methodology in a way that supports audit quality while remaining scalable for mid-size firms.

Question 3: What inspection information would be most useful to stakeholders, and how could inspection reporting be enhanced under a quality control-focused inspection program?

We encourage the PCAOB to evaluate the usefulness of inspection reports by soliciting feedback from all types of stakeholders. We recognize that deficiencies categorized in Part 1.A of the inspection report may vary in nature and pervasiveness. We suggest developing and publishing criteria used for determination of Part I.A deficiencies to drive consistency and transparency in the PCAOB's judgment of what qualifies for this category. We also encourage the Board to enhance interpretability by either presenting Part 1.A deficiencies at a higher, more summarized level or retaining the specific descriptions but adding contextual information to help users better interpret results, considering the needs of different stakeholder groups.

In addition, we ask the Board to reconsider and evaluate the value of Part I.B and whether it should be retained. By their nature, these findings do not result in insufficiently supported opinions and are generally more compliance driven. Inclusion in the report may dilute attention from matters that are more useful indicators of audit quality in Part I.A. The PCAOB should consider whether users of the report obtain enough usefulness from disclosure of these types of findings when assessing the costs and benefits of including these in the report, and consider other avenues for communication of this information, for example, through profession-wide reporting.

Further, the PCAOB should consider removing firm-identified engagement deficiencies and criticisms of the firm's QC system from parts I.A, I.B, I.C and part II of the inspection report, for example, those identified through the firm's internal inspection process. When matters identified and addressed through a firm's internal inspection or QC processes are publicly reported alongside PCAOB-identified deficiencies, it can blur important distinctions between inspection findings and proactive quality management, reducing the decision-usefulness of inspection reports for stakeholders.

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We also ask the Board to revisit its approach to identifying and reporting Part II deficiencies considering the shift to a QC-focused inspection model. As inspections place greater emphasis on evaluating firms' systems of quality control, Part II should be more clearly focused on inspection-identified, systemic QC failures, rather than conclusions inferred from isolated engagement deficiencies, or matters appropriately surfaced through a firm's own monitoring and remediation processes.

We believe there should be greater focus in Part 1.C reporting on egregious violations that suggest broader failures in tone at the top, governance, firm culture, or objectivity, in contrast to less severe findings, such as firm-identified, isolated independence exceptions that are promptly remediated, evaluated with the audit committee, and did not impair objectivity.

The Board might also consider opportunities to report industry-level observations and trends related to firm quality control matters, leveraging its unique vantage point to share insights and best practices that could enhance audit quality across the profession.

Question 4: What standard-setting projects should the PCAOB pursue?

The PCAOB should consider all avenues, for example, issuing interpretive guidance, before determining if standard setting is necessary to address the root cause of issues identified. For mid-sized firms, implementation costs are not just financial—they divert finite technical, training, and engagement leadership resources away from execution and supervision. These opportunity costs should be explicitly considered in standard setting decisions.

Standard setting should be resilient in a fast-changing environment and solicit input from a variety of informed stakeholders, and the objective of and need for any standard-setting project must be clear and consider the costs and benefits of the potential change. The PCAOB should consider implementation cost data provided by audit firms, who are often best positioned to quantify costs based on prior experience with implementation efforts.

Emerging technologies and their impact on auditing is an area we think needs further attention. The focus should be on principles-based guidance such as how the use of AI should be addressed at various levels of the audit review process, given how quickly these technologies are developing and emerging. The PCAOB may consider establishing a clear process to consider and address emerging issues, for example, a mechanism similar to the FASB's Emerging Issues Task Force (EITF).

Question 5: How can the PCAOB achieve greater alignment of its auditing standards with international auditing standards?

We support the PCAOB using the ISAs and U.S. GAAS as baseline considerations in standard setting initiatives, and only adding additional requirements when warranted based on factors relevant to the US capital markets, for example:

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- When US capital market structure creates unique risks (e.g., SEC reporting environment)
- Integration with US-specific laws/requirements (e.g., SOX/ICFR)
- Where inspections have identified systemic U.S. deficiencies for which the root cause is best addressed through standard-setting, as opposed to issuing guidance or other potential actions
- Where investor expectations in the US demand more transparency or rigor
- Anticipated timing gaps or emerging risks that require immediate action

We encourage the PCAOB to engage closely with the IAASB and the AICPA related to the projects on their standard setting agendas, to provide input such that these serve as a workable baseline for any amendments to related PCAOB standards.

Specifically, as noted in our previous comment letters, we believe the Board should consider the adoption of ISQM 1 in place of QC 1000. Because the standard relates to the firm's system of quality management, and is not engagement-specific, we believe it is needlessly complex for firms that perform audits in accordance with standards set by the AICPA, IAASB, and PCAOB to have to follow three different sets of standards as it relates to quality management/control. Firms have already adopted specific responses to meet the unique risks they have identified related to the engagements they perform and the regulatory environments that they operate in. Quality management standards should be principles-based and avoid rigid required responses so that they are appropriately scalable to each firm's unique situation.

Question 7: How can the PCAOB enhance transparency with its stakeholders?

We believe that an increase in two-way communication with firms would be helpful to facilitate clear expectations and drive improvements in quality. This might include earlier topic signaling, clearer inspection expectations, and holding regular forums.

We also believe the Board should provide timelier updates on remediation status and enforcement-related trends so firms can prioritize investments and address emerging risks proactively.

For mid-size firms with more concentrated national-office and inspection resources, predictability in inspection topics, information requests, and timing is especially important to allow firms to plan staffing and quality investments without diverting resources from audit execution.

To promote consistent application of auditing standards and provide clearer expectations, the PCAOB should centralize standard setting and authoritative interpretive guidance within the Office of the Chief Auditor, which will help to prevent interpretations developed indirectly through the inspection process.

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We commend the Board for pursuing a standard setting agenda consultation to thoroughly consider stakeholder feedback about the top priorities and needs. To further enhance transparency in relation to standard-setting, the PCAOB may consider:

- Publishing clearer explanations of how agenda priorities are selected, including criteria (risk, prevalence, inspection/enforcement signals, stakeholder feedback, cost/benefit).
- Establishing clearer project plans and problem statements when setting the agenda, supported by research and outreach activities that are summarized and published.
- Holding open meetings to discuss alternatives in the public domain prior to requests for comment that are more decision-focused and less procedural.
- Exploring other avenues for stakeholder feedback including roundtable discussions and enhanced engagement with the PCAOB Standards and Emerging Issues Advisory Group (SEIAG) and the Investor Advisory Group (IAG).

We also support Board Member Laughton's suggestion at the May 6, 2026, SEIAG meeting to establish a task force of stakeholders to provide input on development of new or revised standards, which would serve as a mechanism to assess workability and practicality prior to the request for comment stage.

We also encourage the PCAOB to consider targeted engagement with international stakeholders, as appropriate, to inform consistent and scalable application of auditing standards. For example, implementation of QC 1000 is likely to have a disproportionate impact on foreign affiliated firms which have already adopted ISQM 1 in recent years and whose local regulators will be inspecting their arrangements. We encourage the PCAOB to consider whether its inspections of foreign affiliated firms could better leverage local inspections, focusing any additional procedures on PCAOB requirements that are in addition to any local standards.

- Providing more transparency into how comments and suggestions from various feedback channels were weighed, including what the PCAOB agreed with, what it did not, and why.
- Building in more visible post-implementation review plans (timing, data to be collected, what "success" looks like), with periodic status updates.
- Providing implementation guidance that more explicitly links standard text to inspection expectations.

In particular, as it relates to QC 1000, we encourage the Board to maintain predictability and consistency between the standard's intended design, as articulated by the Office of the Chief Auditor, and how inspections and enforcement evaluate firms' implementation. As the Board gains insights from inspections, it should provide additional implementation guidance to clarify expectations and promote a shared understanding of how the standard is intended to be applied in practice.

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In closing, we appreciate the Board's willingness to gather stakeholder feedback regarding their strategic priorities. We believe this is just the start of open dialogue with firms and the financial statement user community that we hope results in some positive changes for the profession.

We appreciate the opportunity to comment on the Proposal and are pleased to discuss any questions the Board and its Staff may have concerning our comments. If you have any questions related to this response and would like to discuss further, please email Angela Donnelly, Professional Standards Group Partner at Angela.Donnelly@us.forvismazars.com; or Will Neeriemer, Chief Quality Officer, at Will.Neeriemer@us.forvismazars.com.

Regards,

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May 15, 2026

Office of the Secretary
Public Company Accounting Oversight Board
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Via Email to comments@pcaobus.org

Re: PCAOB Release No. 2026-001, PCAOB Strategic Priorities

Dear Office of the Secretary:

Grant Thornton LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB's or Board's) Strategic Priorities. We commend the Board's intentional decision to solicit stakeholder input on its strategic direction and priorities prior to the plan's formal development. We respectfully submit our comments for the Board's consideration, including the accompanying Appendix to this letter that contains our responses to the questions posed in the release.

Sustainable standard setting and collaboration

We remain aligned with the Board's objective to focus on audit quality and investor protection, and we fully support the pursuit of moderate, sustainable standard setting that is responsive to stakeholder need. We continue to support the PCAOB's standard-setting due process that promotes transparency and incorporates broad stakeholder input. We recommend that the Board continue to provide adequate lead time between adoption and implementation to allow audit firms to apply the appropriate care and attention to their methodology, technology, and quality control updates.

We acknowledge that, due to the length of time that appropriate standard setting requires, there is a risk that the Board's regulatory priorities might shift over that time. In addition, the Board's original intent when adopting a new standard might not fully align with subsequent inspection perspectives. We encourage ongoing collaboration among the standard-setting, inspection, and enforcement divisions to drive consistent interpretation and application of standards, which is a cornerstone of audit quality. We are encouraged by the Board's commitment to consistency and stability regarding standard-setting and inspection activities to "help ensure that the interpretation of standards rests

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with the standard-setting functions – not with inspections or enforcement."[1] Similarly, we recommend certain process enhancements, described more fully in the Appendix to this letter, regarding the Board's coordination with international and other domestic standard-setters in order to drive audit quality and, to the extent practicable, global consistency.

Transparency

As part of the Board's desire for increased transparency, we encourage the Board to more broadly consider all stakeholders when executing its statutory mission of investor protection. We believe this intentional inclusion of a variety of stakeholder perspectives would meaningfully enhance confidence in audit quality and financial reporting. In particular, we recommend providing additional opportunities for practitioner dialogue at all stages of the process, from standards development through inspection and enforcement outcomes. We believe firms are uniquely positioned to provide informed, practical insights and feedback, which may enhance the operability of standards, minimize challenges in practice, and assist the Board in its mission of investor protection.

As described further in the Appendix to this letter, we also believe the Board could enhance clarity in inspections by (1) revising the framework presented in Part I.A of inspection reports, and (2) maximizing the incorporation of the inspection of firms' systems of quality control in the overall inspection process. This would encourage dialogue and provide further context and actionable information for all stakeholders who utilize the PCAOB's inspection reports.

Innovation

As audits continue to evolve in complexity and as emerging technologies become more prevalent, we believe the PCAOB plays a critical role in enabling responsible innovation that promotes audit quality and investor protection. As such, we recommend that the Board issue clear, comprehensive, principle-based guidance on the auditor's use of artificial intelligence (AI) and other emerging technologies to reduce uncertainty, promote consistency, and support thoughtful adoption by auditors. Additionally, we encourage the Board to consider ways to deploy new technologies and modernize its oversight approach, such as leveraging firms' systems of quality control, in order to make risk-based engagement selections for inspection, and to more efficiently analyze data in the comment letter process. We support the Board's forward-thinking strategic planning in this complex and emerging area, and, with the appropriate guardrails, we believe the PCAOB can encourage innovation and reduce uncertainty in the industry.

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We would be pleased to discuss our comments with you. If you have any questions, please contact Craig Woodfield, National Managing Partner of Assurance Quality and Risk, at 212-542-9735 or Craig.Woodfield@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP

[1] PCAOB Chairman Demetrios Logothetis's 2026 Statement on PCAOB Strategic Priorities.

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Appendix: Responses to questions within the Release

Question 1. What should the PCAOB focus on as its strategic priorities in registration, inspections, and enforcement over the next two to five years to further its statutory mission?

We continue to support the PCAOB's statutory mission to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports, and we encourage consistency in the rigor with which the Board executes its mission of investor protection. To further this mission, we believe the Board could prioritize consistent inspection and enforcement actions driven by sustainable standard setting, as well as implementing a formal mechanism for practitioner implementation-related dialogue.

The Board's inspection and enforcement functions play a critical role in driving audit quality and shaping firm behavior, and we believe the execution of those oversight activities is most effective when aligned with the Board's standard-setting division. We acknowledge the Board's interdepartmental collaboration efforts when a new standard is adopted, but we believe continuous coordination between inspectors and the Office of the Chief Auditor, beyond the initial implementation of a standard, would allow for greater synergy between standard-setting intent, inspection findings, and enforcement outcomes, promoting enhanced audit quality. We encourage consistent alignment between inspectors and standard setters to mitigate the risk and potential unintended consequences of a standard inappropriately evolving over time through inspection and enforcement actions. As such, we promote a sustainable approach that prioritizes consistency, closer collaboration, and heightened transparency between the Board's divisions on an ongoing basis.

In addition to enhanced and continuous coordination, we believe early and broad stakeholder engagement would promote durable standard setting and reduce variability in inspection outcomes. While we appreciate the current opportunities for firms to interact with the PCAOB's divisions, we encourage the Board to solicit feedback from practitioners earlier in the standard-setting process and further enhance the dialogue between the Board and audit firms to address practical application matters before they could result in findings in inspection reports.

We believe that the Board could further benefit from obtaining more granular and technical insights from practitioners before standards are drafted and proposed for public comment. Such insights could promote consistency and minimize inspection issues that may be caused by misinterpretation or misalignment. Further, from a standard-setting perspective, by encouraging productive, implementation-related interactions with the PCAOB staff earlier in the standard-setting life cycle, the Board would allow the profession to identify practical application questions or challenges before a standard is proposed. With this early collaboration, the PCAOB would be positioned to draft, inspect, and enforce sustainable, principle-based standards that will benefit audit quality and protect the public interest.

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Question 2. What changes should the PCAOB make to its inspections programs including but not limited to, changes in light of its new quality control standard (QC 1000)?

Risk-based engagement selection

We are supportive of the Board's desire for further enhancements to its inspection program in light of its new quality control standard (QC 1000). While we have expressed substantive concerns[2] regarding the scope and complexity of QC 1000, we believe that, with some refinements, the Board could leverage QC 1000 and optimize its inspection approach by using the effectiveness of a firm's system of quality control to make deliberate, risk-based engagement selections for inspection. We believe this targeted inspection strategy would assist the Board in making fewer, yet more meaningful, engagement selections based on the risk profile of the firm and, consequently, improve the efficacy of the Board's inspection process. This could also mitigate certain engagement partners or engagements being selected for inspection repeatedly within relatively short timeframes, particularly for non-Big Four firms. Reducing the quantity of inspected engagements could also allow the Board's inspectors to focus on other areas potentially impacting audit quality, such as performing analyses on emerging issues, which could inform future inspection focus areas or standard setting.

We have previously provided public feedback to the PCAOB and Securities and Exchange Commission on the ongoing QC 1000 implementation challenges. We commend the Board for deferring the effective date until the end of 2026; however, we remain concerned about the potential unintended consequences associated with certain requirements in QC 1000 that meaningfully deviate from International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*. For example, the inconsistency in terminology concerning monitoring and remediation, including defined terms such as Engagement Deficiency, QC Observation, QC Deficiency, and Major QC Deficiency, across the various standards poses significant operational and communication challenges. Without consistent definitions, quality control policies and procedures may become unclear and incongruous. The use of inconsistent terminology hinders accurate interpretation of results, challenges the identification of appropriate corrective actions, and impedes efficient and effective communication with stakeholders, including audit committees and regulators, thereby increasing compliance complexity and risk of noncompliance. While we acknowledge certain incremental differences are necessary due to basic jurisdictional nuances, we continue to encourage overall alignment of QC 1000 with ISQM 1 for global consistency. We look forward to providing further detail in our response to the Board's supplemental request to comment on certain provisions of QC 1000 when it is released.

[2] Grant Thornton LLP's March 16, 2020 comment letter to the PCAOB on Concept Release, *Potential Approach to Revisions to PCAOB Quality Control Standards*; February 1, 2023 comment letter to the PCAOB on Rulemaking Docket Matter No. 046; July 16, 2024 comment letter to the Securities and Exchange Commission on File No. PCAOB-2024-02; and September 24, 2025 comment letter to the Securities and Exchange Commission on File No. PCAOB-2025-01

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Protocol for evaluating firm methodology

We encourage the Board to consider establishing guidelines for evaluating firm methodology, particularly in light of QC 1000. We believe the Board could enhance inspection effectiveness by focusing evaluations of methodology on significant changes, such as the adoption of a new standard or rule, and testing the firm's system of quality control related to methodology change management. This would prioritize significant methodology changes and risk indicators, recognizing that repeated evaluation of unchanged methodology can divert attention from higher-risk areas. Such an approach could also reduce variability in methodology-related matters or findings across inspection periods by limiting challenges arising from differing inspector perspectives when no substantive changes in standards or methodology have occurred.

Increased collaboration among divisions

We believe continuous alignment between the inspection and standard-setting divisions would enhance audit quality by improving consistency and reducing regulatory volatility. We also believe the profession could benefit from enhanced transparency with regard to division coordination when it comes to inspection matters or findings. Effective communication among a firm, the Office of the Chief Auditor, and the inspections division could allow firms to engage in robust technical dialogue regarding audit approach and professional judgments. Such a process would provide firms with additional transparency and deeper insights into the auditing standards and related inspection observations, which would drive more meaningful improvements and, thus, enhance audit quality.

Severity ratings

As discussed further in Question 3 below, we recommend implementing a qualitative severity rating system to replace binary conclusions in inspection reports to provide clearer context regarding the nature, pervasiveness, and root causes of findings to stakeholders.

Question 3. What inspection information would be most useful to stakeholders, and how could inspection reporting be enhanced under a quality control-focused inspection program?

We are encouraged by the Board's desire to enhance inspection information to be more decision-useful for stakeholders. The current insights derived from inspections not only inform the Board of audit areas of focus that may benefit from additional guidance but also drive remediation efforts and improvements for practitioners. We believe the Board could benefit from broadening stakeholder engagement to provide more meaningful information within inspection reports to all stakeholders that contribute to investor protection. We are aligned with general Board sentiment that greater transparency and clarity is essential for investor protection, and we encourage the Board to champion continued, early stakeholder engagement and comprehensive feedback when shaping priorities, providing inspection information, and executing its statutory mission.

In order to enhance transparency for all stakeholders, we also recommend implementing a severity-based framework for inspection findings in PCAOB inspection reports. We continue to believe that findings reported in Part I.A are necessary for the Board to fulfill its regulatory oversight duties, provide feedback to firms for any necessary remediation, and drive improvement in audit quality. However, we are concerned that the use of

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engagement-level binary finding labels in Part I.A oversimplify or misconstrue inspection results. The current system may be perceived as lacking context and, thus, may not adequately convey the nature and scope of the finding, including relative severity, pervasiveness, or underlying root causes of identified issues. In practice, we have found that other stakeholders often request deeper insights regarding the impact and risk of the findings in Part I.A, such as when audit committees inquire as to which findings led to restatements of the financial statements. Audit firms could also benefit from enhanced inspection information given the increased prevalence of using other audit firms. It could assist lead auditors in sorting through inspection findings that indicate the need for increased consideration on a particular engagement versus findings that might not be as significant or relevant to the engagement. It could also inform planning decisions and the extent of the lead auditor's supervision and review of other auditors.

Additionally, these findings drive the published deficiency rates and are frequently interpreted externally as "failed audits," which we believe diminishes the transparency of the inspection reports and decision-usefulness of the information they contain. We agree with former Board Member Christina Ho's sentiment that quantitative failure rates, when presented without context, lose explanatory value and risk misleading users of financial reports.[3] As such, we believe that a severity grading for inspection findings would provide necessary context, enhance transparency and usefulness to all stakeholders, and improve investor confidence.

Question 4. What standard-setting projects should the PCAOB pursue?

We appreciate the opportunity to provide input on the PCAOB's standard-setting initiatives, and we encourage the Board to prioritize sustainable, principle-based standards that support the Board's mission of investor protection. As discussed above, appropriate standard setting requires comprehensive due process, which begins with the identification of the need for a new or revised standard. We encourage the Board to identify these public needs judiciously to ensure the benefit to the profession and to investors is commensurate with costs associated with standard setting and implementation, including academic and broader ecosystem costs.

Artificial intelligence

As technology use in the industry evolves for both practitioners and clients, we believe it is in the public interest to create thorough guidance related to AI. We believe the current lack of guidance from the Board and the existence of various differing nonauthoritative frameworks and other guidance could serve as a deterrent for innovation and may result in inconsistent use of AI tools, which could ultimately undermine audit quality. We believe it is important to consider this topic from two perspectives: (a) an issuer's use of technology and related considerations in an audit, and (b) an auditor's use of technology to perform the audit and obtain audit evidence (for example, generative AI or AI-enabled workflows). We urge the Board to develop targeted guidance, in lieu of standard setting, that specifically addresses the auditor's use of AI. We believe addressing both topics will greatly enhance auditors' understanding and use of technology while keeping them focused on audit quality and the objectives of an audit. As AI is a constantly evolving area of focus, the Board's guidance could lead to consistency and responsible adoption by

[3] Former Board Member Christina Ho's comments on Earmark podcast "Behind the Numbers: The Truth About PCAOB Deficiency Rates"

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auditors. We encourage the Board to collaborate, where appropriate, with the SEC as well as other standard setters to foster a globally consistent and pragmatic approach to the topic.

Short-term standard-setting projects

As discussed below in Question 5, we support the alignment of standard-setting timelines and topics addressed by domestic and international standard-setters. We believe it is in the public interest to coordinate efforts among the standard setters to revise or create standards with similar topics to allow for practitioners to provide comprehensive feedback and coordinate implementation timely. As such, we believe that the Board should prioritize the following projects to align with international and other domestic standards that have already been adopted or are in process:

- Going concern – Given the recent and ongoing developments by other standard setters, and the significant updates to the domestic financial reporting frameworks since the Board last substantively addressed this area, we believe the Board should elevate the going concern standard-setting project as a higher priority standard-setting project.
- Fraud – As fraud is a consistent risk area in audits, we believe a holistic modernization could reduce risk of misinterpretation and unnecessary complexity. Additionally, prioritizing a project on fraud would align more appropriately with the timing of international and other domestic standard setters, as well as provide a foundational standard that could then inform changes, if any, to the standard on noncompliance with laws and regulations (NOCLAR).
- NOCLAR – We believe that enhancements to NOCLAR requirements could be influenced by the modernization of the fraud standard, as discussed above. We continue to have significant concerns regarding the Board's proposed Rulemaking Docket Matter No. 051, *Amendments to PCAOB Auditing Standards related to a Company's Noncompliance with Laws and Regulations and Other Related Amendments*[4], and we believe it is essential for the Board to consider stakeholder feedback and potential additional outreach before moving forward.

Attestation standards update

We are aligned with the Board's general sentiment that standard setting should remain practical and measured, emphasizing meaningful and sustainable enhancements over volume of projects. As such, we recommend deprioritizing the attestation standards update given the other projects and topics that would be of greater benefit to the profession than updating a set of standards that are rarely used. In fact, we encourage the Board to work with other regulators and urge them not to require the standards of the PCAOB for certain engagements, for example, for Securities Investor Protection Corporation (SIPC) Agreed-Upon Procedures engagements. These actions would significantly curtail confusion within the profession and among stakeholders with regard to whether such engagements fall within the jurisdiction of the PCAOB. If the regulators

[4] Grant Thornton LLP's August 7, 2023 comment letter to the PCAOB on Rulemaking Docket Matter No. 051, *Amendments to PCAOB Auditing Standards related to a Company's Noncompliance with Laws and Regulations and Other Related Amendments*

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change their requirements, the use of the standards of the PCAOB would align more closely with the PCAOB's jurisdictional oversight responsibilities, and it could limit the standards the PCAOB would have to maintain. It is possible that the PCAOB could eliminate the legacy attestation standards (that is, those other than AT 1 and AT 2) from its suite of standards.

Question 5. How can the PCAOB achieve greater alignment of its auditing standards with international auditing standards?

We commend the Board for considering whether and how it can achieve greater alignment with other auditing standards. We believe the profession could benefit from more consistency among PCAOB standards, auditing standards generally accepted in the United States (US GAAS), and International Standards on Auditing (ISAs).

We believe the most immediate action the Board could take is to continue to engage (and enhance collaboration) with international and other domestic standard setters. We believe that the Board's early input into international projects could enable easier adaptation or adoption by the PCAOB. We also believe the Board could benefit from the work undertaken by the AICPA Auditing Standards Board, which evaluates the ISAs and identifies necessary jurisdictional differences as part of its convergence projects (such differences are summarized in Appendix B of US GAAS, *Substantive Differences Between the ISAs and US GAAS*).

Although, we recognize that divergence is appropriate in certain circumstances due to jurisdictional differences and the PCAOB's statutory authority, we support convergence of overarching audit principles in order to promote global consistency, enhance audit quality, and create operational efficiencies. We note that the standards of the PCAOB are fundamentally designed differently than the ISAs or US GAAS, and we do not believe it would be beneficial for the PCAOB to revert or redo its established standards (for example, risk assessment). Nevertheless, on a go-forward basis, we encourage the Board to engage frequently with international and other domestic standard setters to:

- minimize wording differences, to the extent practicable,
- more clearly indicate any incremental or differing requirements, and
- ensure that alignment in principle is achieved and maintained.

We believe the Board could potentially benefit from enhancing its processes to align more closely with certain processes utilized by the International Auditing and Assurance Standards Board (IAASB), such as more transparent deliberations on major issues and obtaining more practitioner and other stakeholder perspectives during the standards development process. As discussed in Question 1 above, we encourage the Board to consider including a process for public deliberation prior to a proposal being issued for public comment. With this process improvement, the Board could be better positioned to address feedback or common themes within the release text of an exposure draft.

Additionally, we encourage the Board to consider coordinating the timing of its standard-setting projects with those of the international and other domestic standard setters. While there may be instances where it is best for the PCAOB to take its own path on standard setting, we believe converging timelines with other standard setters would be beneficial, particularly to the profession, as it would allow stakeholders to gain a comprehensive

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perspective of new or revised standards, compare the standards more efficiently, and provide feedback to all standard setters within the same time period. We believe such an approach could also improve the efficiency of implementation efforts once standards are finalized.

Question 6. In what ways should the PCAOB consider deploying technology, including AI, to help further its investor-protection mission?

We appreciate the opportunity to provide the Board with recommendations on how best to utilize technology to further its mission of investor protection. We agree with Chair Logothetis when he stated, "Technology is reshaping the audit profession, and it must reshape audit oversight as well." [5] The use of technology, particularly AI, is constantly evolving within the industry, and we support the Board's objectives to adapt concurrently to address this complex topic. As discussed in our response to Question 4 above, we believe the Board has an opportunity to further promote innovation in the industry by providing principle-based guidance (or potentially standards) regarding the use of AI.

Additionally, we encourage the Board to explore ways to deploy AI to enhance operations and create efficiencies in its processes. One area we have identified that may benefit from the introduction of AI is the comment letter process. We recommend that the Board consider implementing a standardized response template for exposure drafts, similar to the current IAASB process. Such a template could enable AI to more efficiently collate responses, generate common themes, and analyze stakeholder input in order for the Board to appropriately evaluate the feedback and respond. Nevertheless, we emphasize the importance of maintaining the human element with the deployment of any AI-enabled process or other emerging technologies, particularly in this area, so commenter feedback is not misplaced or misinterpreted.

Further, we recommend the Board consider utilizing AI or other technology to assist with risk-based engagement inspection selections, as discussed in Question 2. Such use could potentially allow the Board to more effectively and efficiently analyze firms' risk profiles in light of QC 1000, leading to more intentional engagement selections for inspection.

Question 7. How can the PCAOB enhance transparency with its stakeholders?

Overall, the Board's transparency involves clarity, consistency, and usability, and is driven by balancing the needs of all stakeholder groups in the financial reporting ecosystem. We provide recommendations that could enhance transparency in our responses to other questions above.

[5] Chairman Logothetis's Statement on PCAOB Strategic Priorities

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From: Gabriel Hasson <Gabriel.Hasson@icrinc.com>
Sent: Tuesday, April 21, 2026 9:17 AM
To: Comments <comments@pcaobus.org>
Subject: [EXT]: Response to PCAOB Request for Public Comment on Strategic Priorities (PCAOB Release No. 2026-001)

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

Re: PCAOB Release No. 2026-001 – Request for Public Comment on Strategic Priorities

Dear Members of the Board,

The PCAOB's decision to seek early stakeholder input on its 2026–2030 strategic plan is a constructive step that builds on a number of important shifts already underway. The Board has clearly advanced its focus on audit quality through enhanced inspections, increased enforcement activity, and the introduction of QC 1000. The opportunity at this stage is less about redefining priorities and more about accelerating and deepening these efforts so that they translate more clearly into investor-relevant outcomes.

On strategic priorities, the PCAOB should continue evolving its risk-based approach across registration, inspections, and enforcement, with greater emphasis on articulating how its activities address areas of highest audit failure risk. While this orientation is already embedded in the program, there is an opportunity to make the connection between identified deficiencies and investor impact more explicit and more consistently communicated.

With respect to inspections, QC 1000 provides a strong foundation to further shift toward a more forward-looking evaluation of firm-level quality control systems. The PCAOB has already begun incorporating these elements, but a more systematic focus on governance, incentives, resource allocation, and audit firm culture would better align inspections with how audit quality is assessed by investors and audit committees in practice.

Inspection reporting has improved over time, yet its usefulness to stakeholders remains uneven. The existing disclosures are technically robust, but there is room to enhance accessibility and comparability. More structured trend analysis, clearer benchmarking across firms, and a more direct linkage between findings and potential investor implications would make the reports more decision-useful without reducing their rigor.

On standard setting, the PCAOB has been active, but continued attention is warranted in areas where market practices are evolving rapidly. This includes the audit of complex estimates, the use of specialists, and the integration of data analytics and automated

tools. These are not new topics, but they are becoming more central to audit execution and therefore to audit risk.

Alignment with international auditing standards should continue to be pursued pragmatically. The PCAOB has made progress in this area, and the priority going forward should be ensuring that any differences are clearly understood and do not reduce comparability for global investors. Greater transparency around the rationale for divergence would be helpful in this respect.

The role of technology, including AI, is an area where the PCAOB has appropriately signaled focus. The next phase is likely to require more *structured oversight of how firms govern and deploy these tools, alongside consideration of how the PCAOB itself can leverage data and analytics to enhance inspections and risk identification*. Adoption across firms appears uneven, suggesting that a principles-based approach remains appropriate in the near term.

Finally, the PCAOB has taken meaningful steps to enhance transparency, including increased public reporting and stakeholder engagement. There is an opportunity to build on this by moving toward more continuous and thematic communication, which would help stakeholders better understand emerging risks, inspection priorities, and areas of focus in closer to real time.

Overall, the direction reflected in the request is sound. The central challenge for the next phase is ensuring that existing initiatives are implemented in a way that is more consistent, more forward-looking, and more clearly connected to investor outcomes.

Thank you for the opportunity to provide input on this important initiative.

Respectfully submitted,

Gabriel Hasson
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The Honourable James Logothetis, Chairman
PCAOB Board Members
Phoebe Brown, Office of the Secretary
PCAOB
1666 K Street, NW
Suite 300
Washington, DC 20006-2803

13 May 2026

Dear Chairman Logothetis, Members of the Public Company Accounting Oversight Board, and Secretary Brown,

Subject: Request for Public Comment, PCAOB Strategic Priorities, PCAOB No. 2026-001

The International Corporate Governance Network (ICGN) appreciates the opportunity to respond to your request for public comments on the PCAOB Strategic Priorities for years 2026-2030 ("2026 Plan").

Led by investors responsible for assets under management of >US$100 trillion, ICGN is an authority on global standards of corporate governance and investor stewardship. Headquartered in London, our membership is based in more than 40 countries. ICGN's *Global Governance Principles* and *Global Stewardship Principles*, written from an investor perspective, are widely used by our members in their company assessments and voting decisions, and by regulators when developing corporate governance rules.

As a newly appointed member of the PCAOB's Investor Advisory Group (MIAG), I am pleased that public comments and perspectives of the MIAG are being solicited before the Board makes its decision on the Strategic Priorities for the next five years. Whilst I was not a member of the MIAG in 2022, I am familiar with the PCAOB's previous Strategic Priorities and the recommendations from investors. I appreciated hearing your commitment during the recent MIAG meeting to advance the mission of the PCAOB by strengthening the integrity of our capital markets and protecting investors.[1]

General comments

- As a global investor-led organisation representing long-term institutional investors, we strongly support the PCAOB's continued focus on investor protection, audit quality, and independent oversight.
- Investors place significant value on the PCAOB's role in helping to underpin confidence in US capital markets. There is a direct connection between high quality audits, reliable reporting, market confidence, and the efficient allocation of long-term capital.
- The strong and consistent investor support expressed throughout 2025 in relation to the importance of maintaining an independent audit regulator clearly demonstrates the value that market participants place on the PCAOB's work and mandate.

[1] Remarks by Chairman Demetrios Logothetis, 29 April 2026, Chairman Logothetis Delivers Remarks at Investor Advisory Group Meeting | PCAOB.

- In this context, we encourage the PCAOB to continue ensuring that investors remain at the centre of its work, communications, and engagement activities. While audit committees clearly play a critical role within the corporate governance ecosystem, investors remain the ultimate beneficiaries of high-quality independent audit oversight and should continue to be regarded as the PCAOB's primary audience and key stakeholder.
- Investors would benefit from clarity on how PCAOB governance practices reinforce independence from political, commercial, or industry pressures.
- There is clear opportunity for the PCAOB to do more investor outreach and education on critical audit related issues and investors would like more opportunities to contribute their opinions, provide feedback, and advocate on the outcomes and impacts of PCAOB findings, enforcement actions, and discuss any international implications. We believe a dedicated investor advisory group should continue to be a cornerstone of this outreach, but not the only element.
- Given the systemic importance of its work, investors need clearer insight into the practical outcomes and implications of inspections, enforcement activity, standard setting, and emerging audit risks in order to engage with investee companies and their audit committees more effectively.
- Investors would like clearer signals in inspection reporting that help investors differentiate between isolated audit deficiencies and systemic firm-level weaknesses.
- Investors are seeking timely disclosure that aligns with proxy voting and engagement cycles, especially for audit committee elections and auditor ratification.
- We encourage the PCAOB to continue maintaining a strong and uncompromising focus on audit quality, including progressing the quality management standard as a priority and ensuring that it remains a robust and independent regulator equipped to respond to a rapidly evolving audit environment, including the increasing use of AI-enabled tools and technologies.
- A well-resourced PCAOB should include the necessary staffing budget and financial capacity to implement the 2026 Plan and operate effectively on a sustained basis, with full support from the Securities and Exchange Commission (SEC). This should include hiring and retaining senior, experienced technical experts who are able to effectively hold those they inspect to account, while also building new forms of expertise relevant to emerging risks and technologies, including the growing impact of Artificial Intelligence on the audit profession. Adequate and stable funding will be critical to ensuring that the PCAOB can maintain its effectiveness, independence, technical credibility, and strong focus on audit quality into the future.
- Investors value the systemic role of the PCAOB in preserving audit quality and market confidence. While the PCAOB's current remit is focused on public company oversight, the continued growth and increasing interconnectedness of private and public markets raises important longer-term questions around audit oversight and investor protection. As the SEC considers the evolving regulatory landscape for private markets, including through its recent Private Markets Roundtable, we encourage the PCAOB to consider how these market developments may impact investors and whether there may be an appropriate future role for the PCAOB as part of its longer-term strategic thinking.
- We support the recommendations previously made by the MIAG in 2022 regarding greater transparency of PCAOB activities and believe these remain highly relevant to the 2026 Plan. In particular, we agree that the PCAOB should include a clearer objective focused on improving transparency around its activities, decision-making,

priorities, and resource allocation, which would help investors better understand and engage with the Board's important work and oversight role.

- We also strongly support continued international cooperation on standards and regulatory practices, recognising that capital markets are global and that consistency and coordination can reduce unnecessary fragmentation and complexity, while preserving the ability to adapt standards appropriately to meet US market needs.

Response to Questions 1-7

1. What should the PCAOB focus on as its strategic priorities in registration, inspections, and enforcement over the next two to five years to further its statutory mission?

We believe that the PCAOB should consider its investor protection remit at the core of everything that it does. As Board Member George Botic remarked during the 29 April 2026 meeting of the MIAG,

> [T]he PCAOB's mission is "to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports," which reflects a powerful truth: investor confidence is the engine of our capital markets. When investors can trust financial statement audits, capital flows more efficiently. When that trust diminishes or erodes, markets become more costly and volatile. Audit quality matters because it promotes that trust. And in the wake of a string of failures that revealed investors to be at greater risk from a self-regulated accounting profession than many people realized, Congress created the PCAOB to address that problem and help restore the necessary trust."[2]

The role of investors as end users of the audited financial statements should be considered at the forefront of any changes. Auditors have a contractual relationship with company management, but investors are the primary end users of audited financial statements and rely on them as key inputs for investment decisions. Confidentiality constraints typically prevent direct investor-auditor communication, which makes the quality and informativeness of the audit report itself a primary channel through which audit quality is conveyed to investors. This structural characteristic should be a reference point for the PCAOB as they deliberate on their next strategy phase.

One important focus would be to continue to construct and expand an investor-based communication and engagement strategy to increase transparency and foster ongoing dialogue with investors who are some of the most active participants in the audit ecosystem.

In the MIAG letter, written in response to the draft of the Board's 2022-2026 strategic plan, the MIAG recommended adding a goal entitled, "Increase Total Transparency of the PCAOB's Activities." Plan 2026 mentions transparency in connection to the reporting of inspection results and enforcement actions, but not with respect to registrations. Investors would benefit from greater transparency in all of the PCAOB's operations.

We recognise that the Board must be mindful to utilise its funding judiciously, especially given the budget cuts earlier this year by the SEC. We hope that the 2026 Plan will provide the SEC with assurance that the strategic priorities of the PCAOB have been vetted

[2] Remarks by PCAOB Board Member George Botic, 29 April 2026. The Importance of the Investor Advisory Group's Input as the PCAOB Charts Its Course | PCAOB.

accordingly and are supported by investors, thereby ensuring that the requisite funding for the PCAOB will be in place to carry out its mission and goals in the next five years.

Separate evaluations of the registration, inspection and enforcement activities could help the PCAOB determine whether these activities are in positive alignment or causing an unintended imbalance in staffing resources. We would recommend that the results of the evaluations be made public. Investors would welcome the opportunity to provide feedback on metrics and evaluation criteria to the PCAOB.

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)?

We understand that the PCAOB may wish to consider some narrow revisions or amendments to the provisions in QC 1000, as Chairman Logothetis mentioned, before its implementation date of 15 December 2026. Our investor members appreciate the standard's approach to a firm's Quality Control system because the firm is responsible for managing the quality of the engagements it performs and complying with all of the professional and legal requirements. Whilst some firms may desire less requirements, investors believe that quality controls are important and help support the PCAOB's engagement-level inspection and reporting responsibilities.

If this is the path forward, then ICGN recommends that the PCAOB issue any proposed amendments to the quality control standard as soon as possible for investor feedback. As the Board considers potential amendments, investors would like the PCAOB to consider the following:

- Require that the information about the quality of audits and auditors be publicly available for investors and interested parties;
- Expand on the requirement to furnish audit committees with more than just the firm-wide evaluation of the quality control system; and
- Continue to require the establishment of quality objectives, identifying and assessing quality risks, designing, and implementing quality responses to address the quality risks, and monitoring of the firm's QC system.

These steps would demonstrate that the PCAOB takes audit quality seriously as a strong and independent regulator. We believe that the PCAOB could use the opportunity of the quality control standard to expand its work and focus on a combination of firmwide inspections and file reviews – not to do one at the expense of the other.

3. What inspection information would be most useful to stakeholders, and how could inspection reporting be enhanced under a quality control-focused inspection program?

Investors are keen to receive inspection information as it can help to inform their own engagement efforts. Investors should have access to information that demonstrates how seriously (or not) auditors view the PCAOB's findings, and whether they are taking any action to remedy the inspection results. Time is of the essence as investors are timebound by the deadlines for any upcoming annual meeting in which the proxy ballot will include voting for the chairman and board members who are up for re-election on the Audit Committee, the ratification of the auditor, executive compensation which is tied to financial disclosures, and the approval of the financial statements.

Regardless of how the PCAOB sets up the inspection program, these disclosures should occur well before the next audit is completed.

4. What standard-setting projects should the PCAOB pursue?

Investors are hopeful that the Board will focus on standard-setting projects that enhance investor protections which could have significant impacts on audit quality. We believe that greater audit quality in the main helps drive better inspection results and could ultimately lead to fewer enforcement actions.

We support the projects as mentioned in the MIAG letter and also offer the following:

- Critical Audit Matters (CAMs)

Investors would like to see proposed amendments and/or staff guidance issued which would improve the decision-usefulness of the disclosure of critical audit matters (CAMs). CAMs should include what the auditors found in their review that are considered as critical.

The MIAG, in its December 2025 report, found that CAMs rarely state what auditors actually found, the topics are too routine, and the average number of CAMs reported has been decreasing over the years. With respect to the language and intent of AS 3101, and recent academic research as noted in the MIAG letter, we believe that auditors should consider increasing the number of CAMs in their reports. This information provides investors with insights that are not readily available in any other filings. There appears to be a persistence of boilerplate or routine CAMs, and investors wish to emphasize the importance of auditors disclosing what they found, not just what they assessed.

In a similar way, the Financial Reporting Council (FRC) has been engaging with investors to consider key audit matters (KAMs). The MIAG pointed to the UK KAMs as a model, noting they more consistently include auditor conclusions and cover non-routine topics. In our January letter to the FRC, ICGN said,

> [R]equiring key observations for KAMs where possible and discussion of significant quantitative aspects of accounting practices (for example, where estimates sit within a reasonable range) we expect that audit reports will provide richer insight into areas of significant judgment and help investors understand where the auditor's dialogue with the audit committee has been most robust. This should help users understand where the most significant judgements are and how the auditor believes that management's judgements compare to other plausible points in the range.[3]

- Audit quality metrics

Investors would appreciate the PCAOB considering how to define audit quality, create appropriate and outcome-focused audit quality metrics to make them decision useful for investors. This effort would have long term benefits for investors, such as:

  - It would provide information for investors to use effectively as they engage with companies on audit issues and the commitment to audit resources.
  - It could provide information to inform an investor's voting decisions for the members of the Audit Committee, the ratification of the auditor, and executive compensation tied to financial KPIs, among other proxy ballot issues.
  - It would provide information for investors to conduct a deeper risk analysis, especially if there are audit quality concerns.
  - It could impact valuations in a positive way by providing more information on the front end of these determinations.

[3] ICGN letter to the FRC, 14 January 2026, 2. ICGN Response to FRC on Enhancing Auditor's Reports Consultation.pdf

5. How can the PCAOB achieve greater alignment of its auditing standards with international auditing standards?

We generally support international approaches to standard setting. Capital is global and today's marketplace has no boundaries. Investors value consistency among standards because they are invested in many markets. This is helpful because fragmentation adds additional costs and creates more complexity. However, there is no one size fits all approach. We believe that any alignment should be considered in a way that:

a. Supports the ongoing development and strengthening of the international system – working in partnership with others. ICGN is currently working with IFEA and the PIOB to contribute to their discussions on how to simplify and strengthen the governance of that system;

b. Allows for a strong local endorsement process, to ensure standards are adapted and enhanced as needed to suit US specific needs; and

c. Seeks opportunities not just for internationalising standards, but also regulatory practices – continuing their critical role working with other regulators via forums like IFIAR, in which the PCAOB have been a key contributor, as well as bilaterally on key issues as appropriate.

Where applicable, investors would like to see the PCAOB continue to work towards consistency with IAASB standards and international best practice would support comparability for global investors, while recognising that US-specific requirements should be preserved where warranted.

6. In what ways should the PCAOB consider deploying technology, including AI, to help further its investor-protection mission?

Investors would like to see the PCAOB invest in technology by upskilling, hiring, and training staff to respond to the rapidly changing AI-enabled audit landscape. We cannot overemphasise that the PCAOB must create and grow their own expertise in this area. The PCAOB should not need to rely on the expertise of the firms it oversees, given the threat it would pose to regulatory independence and conflicts of interest, both perceived and real.

Investors believe that the PCAOB should address expectations around auditors' use of AI enabled tools – and encourage transparency from auditors on efforts taken to ensure data integrity and minimize risk of bias in audit findings.

Investors would support a call for additional budget resource to ensure that investors are protected.

7. How can the PCAOB enhance transparency with its stakeholders?

Investors are already advocates for a strong and well-funded PCAOB. We note that "transparency" is both an internal and external exercise, one that will require the PCAOB to look inward for Board practices and outward to investors and stakeholders in the pursuit of greater transparency. The end goal would be to share relevant information publicly. To do so would create a greater environment of mutual trust and support for challenges the PCAOB may face, including opposition to the 2026 Plan, its authority, and budget.

The Chairman and board are charged with setting the tone of the organisation. An excellent start for any board is to evaluate its own effectiveness to fulfil its mission to "protect the interests of investors and further the public interest in the preparation of informative,

accurate, and independent audit reports."[4] In a similar way, the ICGN Global Governance Principle 1 sets out the roles and responsibilities for boards with specific guidance to engage with investors and stakeholders.[5]

We believe that finding new and enhanced opportunities for investor engagement with the PCAOB will be critical and we stand ready to assist. Bi-lateral meetings between the board members and investors,[6] as ICGN was privileged to attend in March, help instil an atmosphere of trust and respect for different views. Viewing the PCAOB's work by considering the investor's lens would enhance engagement and dialogue. In general, open-door policies help foster communication avenues before issues escalate or rules are promulgated, thereby increasing transparency and improved operations.

I look forward to continuing this valuable dialogue with the Board and my colleagues on the MIAG as the PCAOB moves forward on its strategic priorities. If you would like to follow up on our comments, please contact me at your convenience, or Carol Nolan Drake, Senior Advisor- Americas, at carol.nolandrake@icgn.org.

Yours faithfully,

Jen Sisson

Chief Executive Officer, ICGN

[4] 15 U.S.C. § 7211(a) (emphasis added).
[5] ICGN Global Governance Principles, Principle 1 Board role and responsibilities. ICGN Global Governance Principles 2021.pdf
[6] Mindful of open meeting requirements and without a quorum of board members present.

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May 14, 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. 2026-001, Request for Public Comment: PCAOB Strategic Priorities

Dear Office of the Secretary:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's Release No. 2026-001 Request for Public Comment: PCAOB Strategic Priorities. We support the Board's mission to protect investors and enhance audit quality, and we are pleased to offer our perspectives on the PCAOB's strategic priorities for 2026 and beyond.

We commend the Board for its increased transparency in proactively seeking public input at an early stage of developing the plan, prior to the drafting of specific proposals. We value the opportunity to engage through this open dialogue and appreciate the Board's efforts to solicit perspectives from a broad range of stakeholders, including investors, audit committees, preparers, audit firms, and others. Early engagement of this nature supports a well-informed and balanced consideration of perspectives and reinforces confidence in the Board's standard-setting and oversight activities.

As the PCAOB moves through its third decade of oversight, we believe this is an opportune moment for thoughtful reflection on the effectiveness of the PCAOB's programs and how they can continue to evolve in response to experience, changing risk profiles of market participants, and technology-related developments in the audit profession. This strategic planning exercise comes at a particularly important time, given the forthcoming implementation of the Board's new quality control standard and the significant transformation underway across the financial reporting ecosystem, driven in large part by advances in technology.

Our responses address each of the questions posed in the invitation to comment and reflect our experience with the PCAOB's activities across inspections, standard-setting, enforcement, and international engagement.

In that context, we would like to highlight themes that we believe are especially relevant as the Board looks ahead. First, inspections remain central to the PCAOB's investor protection mission and have been a primary mechanism through which audit quality is assessed, monitored, and improved. Drawing on more than 20 years of inspection experience, we believe there is an opportunity to further enhance the effectiveness of the program by reassessing how inspection activities and reporting are aligned with risk, particularly considering the evolution of firms' quality control systems under QC 1000 and other quality

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control standards. This moment presents an opportunity to consider how inspections can be appropriately scaled based on firm level risk and the design and operating effectiveness of those systems, while continuing to use engagement level procedures in a targeted and informative way. We also believe it is timely to consider whether elements of inspection reporting could be refined to improve the usefulness, clarity and consistency for users and to better support the program's objectives.

Second, high quality auditing standards remain foundational to high quality audits, particularly as audits are performed in an increasingly complex, global, and technology enabled environment. We encourage the Board to prioritize coordination and alignment with domestic and international standard-setters to promote consistency, reduce unnecessary complexity, and support efficient and effective global audits. At the same time, the pervasive use of technology by companies and technology-enabled capabilities of auditors, including data analytics and artificial intelligence, underscores the importance of standards that remain relevant, adaptable, and capable of supporting innovation in audit execution. Auditing standards should provide sufficient clarity to support consistent application with an understanding of the Board's expectations, while allowing firms the flexibility to evolve audit execution responsibly as technology continues to advance. Striking the right balance between standard-setting and application guidance will be important to achieving these objectives.

The Appendix to this letter provides our detailed responses to the Board's specific questions and expands on these and other topics in greater depth. We offer these perspectives in the spirit of constructive engagement and with the shared goal of supporting the PCAOB's continued effectiveness as an oversight body in a dynamic and evolving environment.

We recognize that the Board has indicated that it has directed staff to develop a supplemental request for comment to seek public input on certain provisions of QC 1000 for the Board's consideration. Because certain topics of this letter also relate to quality control, we address them here given their close connection to the matters under consideration and to provide cohesive and timely input to inform the Board's deliberations.

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

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Steven D. Laughton, Board Member
Mark A. Calabria, Board Member

U.S. Securities and Exchange Commission (SEC)
Paul S. Atkins, Chairman
Hester M. Peirce, Commissioner
Mark T. Uyeda, Commissioner
Kurt Hohl, Chief Accountant
Michal Dusza, Deputy Chief Accountant

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Appendix

Question 1. What should the PCAOB focus on as its strategic priorities in registration, inspections, and enforcement over the next two to five years to further its statutory mission?

We recommend updates to the registration, inspections, and enforcement programs.

Registration and other firm reporting

We recommend targeted enhancements that would (1) reduce unnecessary complexity in registration and reporting and (2) enhance the rigor of the PCAOB registration process.

- We encourage the PCAOB to streamline and harmonize registration and disclosure forms to reduce unnecessary administrative complexity and address current inconsistencies, such as differing reporting periods across required forms. We also believe there would be value in the Board conducting broad stakeholder outreach to understand what information in these forms is most relevant and how it is being used in decision-making. In addition, we recommend the PCAOB undertake an internal assessment of how gathered information is used within the organization, and whether all currently required information is necessary to advance the objectives of the Board. Based on that feedback and assessment, the Board could consider targeted refinements to the forms and information requirements to improve consistency, clarity, and usefulness while preserving appropriate transparency.

- We additionally recommend the Board consider enhancing the rigor of the registration process and the review and acceptance of registration forms. For instance, the Board may consider refining the criteria used to determine whether to approve an application under PCAOB Rule 2106(a), such as criteria for determining when an application is inconsistent with the Board's responsibilities to protect investors. These criteria may be especially relevant when firms do not indicate that they intend to audit issuers or brokers and dealers or play a substantial role in such engagements. PCAOB registration should carry substantive weight and signal a firm's readiness and commitment to perform work subject to PCAOB oversight. Registration may be currently viewed as a low-barrier designation and used as a marketing credential separated from active participation in PCAOB regulated engagements.

There are existing rules and laws – such as Rule 206(4)-2 of the Investment Advisers Act of 1940 (known as "the custody rule") and the Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act) – that require certain work to be performed by a PCAOB registered firm, even when such work may not subject to PCAOB oversight, which indicates a broad market and regulatory expectation that PCAOB registration carries significance. Enhanced rigor to the process would improve the credibility of PCAOB registration as a marker of public trust and quality rather than firm branding.

Inspections

The PCAOB's inspections program is central to fulfilling the PCAOB's statutory mission to protect investors and enhance audit quality. We offer several suggestions for the Board's consideration to update the program, including moving the program toward a more risk-based, control-focused inspection model.

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We have included more detail on this topic in our response to Question 2. Separately, we have also included recommendations for enhancements to inspection reports in our response to Question 3.

We recommend the PCAOB consider enhancing its inspection protocols to include a structured mechanism for consultation when questions arise regarding the interpretation or application of auditing, accounting, or independence requirements. We believe this would be most effective if the framework were designed to route questions based on the subject matter. For example, auditing questions may be well suited for consultation with the PCAOB's Office of the Chief Auditor (OCA). Questions involving interpretation of accounting standards and independence rules may warrant input from the inspected firm's national office resources and, in certain circumstances, the SEC's Office of the Chief Accountant. A structured approach of this nature could promote more consistent interpretations and reduce variability across inspection teams and firms.

We also support the continued refinement and finalization of the SEC-registered brokers and dealers (broker-dealer) interim inspections program. We believe broker-dealer inspections should be more clearly differentiated from issuer inspections based on risk, particularly for exempt and non-clearing broker-dealers with limited customer protection exposure. We further support continued efforts to reduce unnecessary duplication with the Financial Industry Regulatory Authority (FINRA) and SEC oversight. Applying such refinements and finalizing the interim program will help establish clearer market expectations regarding the scope, objectives, and investor relevance of broker-dealer inspection activities. We look forward to participating in the due process related to the Board's efforts to finalize the broker-dealer inspection program.

Enforcement

A fair, transparent, and predictable enforcement program is central to the PCAOB's statutory mission to protect investors and to promote confidence in the audit profession. An enforcement framework that operates with procedural clarity and consistency supports remediation, provides appropriate deterrence, reinforces audit quality, and helps prevent investor harm. Accordingly, reforms that would enhance transparency, fundamental fairness, and predictability in the PCAOB's enforcement processes would be consistent with the Board's investor protection mandate and its broader oversight objectives.

We recommend the Board develop and publish a comprehensive enforcement manual, analogous to the SEC's Division of Enforcement Manual. The SEC's recently updated manual provides guidance on investigative procedures, the Wells process, cooperation credit, and referrals, underscoring the Commission's ongoing commitment to fairness, transparency, and efficiency in furtherance of investor protection. A comparable PCAOB enforcement manual would provide registered firms and associated persons with greater clarity regarding the investigative process, charging standards, and the factors the Division of Enforcement and Investigations (DEI) considers in determining whether – and against which parties – to recommend disciplinary proceedings. Greater transparency in these areas would enhance confidence in the enforcement program and promote more consistent, principled outcomes aligned with investor protection and audit quality.

As part of the enforcement manual, we encourage the Board to formalize a Wells-type charging process and to articulate a sanctions framework or guidelines. A structured and consistent approach to communicating proposed charges and providing respondents with an opportunity to present their

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perspectives would support more informed charging decisions and enhance procedural consistency. Historically, the DEI's charging process has varied considerably as has the ability to interact with DEI leadership during the process. Greater consistency in these practices would reinforce confidence that enforcement outcomes are well reasoned, proportionate, and aligned with the Board's mission.

To further enhance transparency and consistency, we also recommend the PCAOB publish detailed enforcement sanctions guidelines as part of the enforcement manual. A PCAOB-specific sanctions framework that:

- addresses categories of violations,
- distinguishes among negligent, reckless, and intentional conduct, and
- specifies relevant aggravating and mitigating considerations

would enhance predictability and support proportional enforcement outcomes. Other regulators have developed similar guidelines to promote consistency, fairness, and transparency in disciplinary proceedings,[1] while reinforcing remedial enforcement approaches intended to improve compliance and audit quality.

We also recommend the sanctions framework include formal guidelines affording meaningful credit to firms that self-report potential violations, cooperate with investigations, and undertake timely and effective remediation similar to approaches used by the Department of Justice (DOJ).[2] Expanding the PCAOB's 2013 Policy Statement Regarding Credit for Extraordinary Cooperation in Connection with Board Investigations and clearly defining the benefits associated with self-policing, cooperation and remediation – including the presumptive issuance of closing letters in appropriate cases – would provide clarity to the profession and promote greater uniformity in the policy's application. Incentivizing early identification and correction of issues supports remediation, mitigates potential investor harm, and strengthens audit quality outcomes.

We also recommend the Board adopt a formal policy prohibiting simultaneous inspection and DEI investigation of the same audit engagement. The inspections program is designed primarily to identify deficiencies and promote remediation on a forward looking basis, while enforcement is intended to address violations through disciplinary action where warranted. When both processes examine the same engagement concurrently, these objectives may become conflated, potentially discouraging open and constructive engagement during inspections and undermining the remediation process. We recommend a clear separation, by either allowing an engagement deficiency to be fully resolved through the inspection process, including any remediation period, before becoming the subject of a DEI investigation, or by pausing the inspection if DEI becomes involved prior to the completion of a specific audit inspection. We encourage the Board to return to this prior practice.

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[1] For example, FINRA's National Adjudicatory Council developed sanctions guidelines that establish recommended sanction ranges for particular categories of violations while identifying aggravating and mitigating factors.

[2] The DOJ released its first-ever Department-wide Corporate Enforcement and Voluntary Self-Disclosure Policy on March 10, 2026, establishing a uniform framework for all corporate criminal matters.[6] Under this policy, companies that voluntarily self-disclose, fully cooperate, and timely remediate will presumptively receive a declination of prosecution absent aggravating circumstances. Even where a declination is not warranted, the framework provides graduated benefits, including reduced penalties of up to 75 percent and the absence of an independent compliance monitor for "near miss" cases.

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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)?

We support the PCAOB's continued efforts to modernize its inspections program and believe that adopting a risk-based inspection model anchored in an evaluation of a firm's system of quality control (SoQC), particularly considering QC 1000, represents an important and necessary evolution of the Board's oversight activities.

Applying a risk-based inspection approach

We believe the inspections program should begin with a holistic, risk-based assessment of the firm to directly determine the nature (e.g. industry of issuer, market trends, etc.) and number of individual engagement inspections. We suggest that the PCAOB's inspections design be grounded in an understanding of:

- the design and operating effectiveness of the firm's SoQC; and
- the firm's engagement portfolio composition (e.g. public company, employee benefit plan, broker-dealer attestation engagements, etc.), including the nature, size, and complexity of the firm's issuer audit portfolio.

We recommend the PCAOB perform a preliminary assessment of the effectiveness of the firm's SoQC, primarily considering the understanding of the design and results of the PCAOB's and the firm's prior year SoQC evaluations. This assessment should further incorporate any additional information available after the firm's evaluation, including remedial actions taken by the firm and other changes in design since the prior year evaluations. The results of this preliminary assessment would serve as the primary input into the PCAOB's initial inspection risk assessment. Such initial assessment would be confirmed through subsequent current year evaluation of the effectiveness of the firm's SoQC. In instances where a firm's SoQC is designed and operating effectively, the PCAOB could appropriately scale the nature and number of individual engagement inspections. Conversely, where deficiencies or elevated risks are identified at the firm level, inspection procedures should be appropriately modified and focused in those areas where deficiencies or elevated risks are identified.

We support the continued need for inspections of individual engagements and believe their role could be enhanced if the PCAOB developed and published a transparent framework for determining the nature and number of individual engagement selections based on the assessed risk associated with the firm, its SoQC, and its issuer portfolio. We believe this framework should encompass information derived from firms' own firm- and engagement-level monitoring activities, including the identification of engagement-level deficiencies, as well as information related to restatements and reissued audit opinions. Such a framework would promote increased consistency and stability in selection of engagements for inspection across firms and across inspection years which elevates the comparability of inspection reports.

Further aligning engagement selection with the firm's engagement portfolio composition and applying a risk-based inspection framework could enhance inspection relevance and support the PCAOB's ability to scale its inspection activities by concentrating resources on engagements and firm-level considerations

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that present the greatest risk. This approach is consistent with a risk-based philosophy and the objectives of Section 104 of the Sarbanes-Oxley Act (SOX), as it focuses inspection resources on areas posing the greatest risk to audit quality while avoiding unnecessary or duplicative procedures at firms with demonstrably effective quality control systems. Under this model, individual engagement inspections could serve two complementary purposes: (1) addressing residual engagement level risk after consideration of the firm's SoQC; and (2) providing information that helps confirm or potentially reassess the PCAOB's preliminary assessment of the effectiveness of the firm's SoQC through a dynamic feedback loop.

Finally, the UK Financial Reporting Council (the FRC) has recently issued a policy statement outlining how it intends to evaluate its supervisory model.[3] We encourage the Board to consider this policy statement as a useful reference as the PCAOB considers changes to its inspection program, which could also promote greater alignment with international audit regulation (conceptually aligned with the Board's Question 5).

Flexibility in firms' engagement monitoring activities under QC 1000

Relatedly, we note that certain prescriptive post-issuance engagement monitoring requirements within QC 1000 limit firms' ability to implement internal inspections programs that are fully risk-based and scalable and diminish firms' ability to direct their resources towards potentially more effective methods of engagement monitoring.

We believe firms that have robust SoQC and employ more extensive and inclusive monitoring procedures should be able to place emphasis on other components and other methods of monitoring and, when such controls are effective, scale the number, nature, and extent of their post-issuance monitoring activities appropriately. For example, we believe the Board should reevaluate the requirement to inspect at least one completed PCAOB engagement[4] for each engagement partner (as both terms are defined in QC 1000) within a specified period because this requirement establishes a baseline level of inspection activity irrespective of engagement-level risk or the effectiveness of other quality control activities within a firm's SoQC. Further, this current focus on post-issuance inspections of PCAOB engagements creates challenges for smaller, particularly non U.S., audit firms where PCAOB engagements represent a relatively small portion of the overall audit portfolio and related SoQC, causing those same engagements or partners to be subject to inspections repeatedly.

Consistent with the principles discussed above, we believe both the PCAOB's inspections program and QC 1000 should provide greater flexibility to consider the full range of effective QC controls when determining the nature and extent of inspection and monitoring activities, and we recommend the PCAOB consider these interactions when evaluating potential refinements to QC 1000.

[3] FRC introduces evolved approach to audit supervision

[4] QC 1000 defines "engagement" as: "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)." Such engagements are referred to as "PCAOB engagements" in this letter.

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Transparency under an SoQC-focused inspections program

As the Board considers a transition toward a more quality control-focused inspection program, we believe it is important to thoughtfully balance the Board's important transparency objectives with the statutory confidentiality requirements under SOX related to inspection findings concerning firms' systems of quality control. While firm-specific quality control findings are subject to confidentiality protections, there may be opportunities to enhance stakeholder transparency without compromising those protections. One potential approach would be for the PCAOB to publish periodic, aggregated reporting that summarizes inspection observations related to audit firm quality control systems in a manner that is anonymized and not attributable to any individual firm. This would be analogous to the Board's annual reports issued for the interim broker-dealer inspection program. Such reporting could provide stakeholders with meaningful insight into common themes, emerging risks, and areas of focus across the profession, while preserving the confidentiality protections contemplated by SOX. In our view, this type of aggregated and anonymized reporting could support the Board's transparency objectives, inform stakeholders' understanding of audit quality risks, and complement a quality control–focused inspection framework.

Question 3. What inspection information would be most useful to stakeholders, and how could inspection reporting be enhanced under a quality control-focused inspection program?

We commend the Board for the improved timeliness and increased metrics and data analytics included in recent inspection reports.

To provide more useful information to stakeholders, we believe inspection reporting could be enhanced to better align with a quality control-focused inspections program by (1) defining and articulating the intended users of the reports and their needs, (2) updating the format and content of the reports to be more relevant to those users, (3) optimizing the timing of inspection reports to allow prompt action, and (4) establishing a mechanism that can evolve to meet the changing needs of users and regulatory objectives. We expand on each of the four topics with additional feedback and detail below.

Intended users and their needs

The PCAOB should identify who the reports are designed to inform and tie that articulation to the statutory objective of SOX Section 104(a) to "assess the degree of compliance of each registered public accounting firm." For example, investors and analysts may use inspection reporting as one input to assess overall audit quality and detection risk when deciding how much reliance to place on an auditor's opinion or when voting on auditor ratification. Audit committees, who appoint auditors, and management may use the reports primarily to prompt targeted questions to their auditor about relevant public deficiencies and remediation of such deficiencies. However, we understand that audit committees place greater reliance on direct, timely dialogue with the auditor. Audit firms also may use other firms' reports for benchmarking and quality management. The PCAOB would benefit from structured outreach to obtain input from a variety of investors, including institutional and retail, audit committees and other users of inspection reports to confirm primary use cases, identify gaps in understanding, and determine what level of detail and context different user groups need from public reporting.

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Inspection reporting

We recommend targeted changes to PCAOB inspection reporting to improve clarity, comparability, and transparency across all parts of the reporting.

Part I

Part I.A

Part I.A of PCAOB inspection reports currently includes deficiencies identified through the inspection of individual audit engagements where the PCAOB has determined that the firm did not obtain sufficient appropriate audit evidence to support its audit opinion. These findings are publicly reported and are often viewed by stakeholders as among the most significant outcomes of the inspection process. However, Part I.A deficiencies are currently presented without clear differentiation to severity relative to those in other firms' reports or reports from prior years. Once a matter is classified as a Part I.A deficiency, it is reported in the same manner regardless of its nature, scope, or potential impact on audit quality. As a result, users may have difficulty distinguishing between relatively more or less meaningful matters. For example, a finding related to the failure to test a single data element included in a report may be presented in the same way as a finding in which no audit procedures were performed over an entire significant account. Absent additional context or differentiation, users may reasonably interpret such findings as comparable, despite their differing implications.

Neither the PCAOB's auditing standards nor its rules articulate how determinations about what constitutes a Part I.A finding are to be made. Determining whether a deficiency rises to the level of a Part I.A finding necessarily involves significant professional judgment. However, additional transparency about how the Board evaluates inspection findings to determine what constitutes a Part I.A deficiency would help intended users better understand inspection reports and promote more consistent judgments among the different inspection teams over time.

Taken together, the lack of severity differentiation and the absence of a transparent framework may limit the usefulness of Part I.A reporting for stakeholders. Given the importance of these findings, it may be helpful for the Board to consider, through stakeholder engagement, what additional information or context would best support users' understanding. This could include consideration of severity indicators, clearer articulation of evaluative criteria, or other contextual information that would help users more clearly interpret the nature and/or significance of reported deficiencies.

"Compound" findings

The inspection report format should avoid "compound" findings, where downstream effects of a deficiency are reported as separate deficiencies. In some cases, deficiencies identified during the inspection of an individual audit engagement arise solely from an earlier, upstream issue in the audit, creating a carry-through effect. When such related issues are reported as multiple Part I.A findings, or the same deficiency also reflected as a Part I.B finding, the resulting presentation can be misleading.

For example, an engagement team may fail to identify a control deficiency and, as a result, design substantive procedures based on an unsupported level of control reliance, leading to an insufficient

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sample size. In these circumstances, reporting separate findings for the control deficiency and the related substantive procedures may inappropriately suggest that the issues are distinct and incremental, when in fact they stem from the same underlying matter.

Part I.B

The PCAOB should assess whether Part I.B findings – which indicate the firm had sufficient evidence to support its opinion – are meaningful from the perspective of users of the inspection reports and consider communicating them only to the firm. Even though the conclusion is that the audit opinion was supported, publicly communicating such other areas of non-compliance is confusing and places undue attention on matters that had no impact on the reliability of the audit report. However, continuing to communicate such matters to the firm provides additional decision-useful information in the firm's SoQC evaluation and enables the firm to identify opportunities for continuous improvement.

Part II

We recommend the Board consider whether conclusions on the effectiveness of a firm's SoQC should be informed by the PCAOB's procedures performed over, and the direct evidence obtained with respect to, that system. This assessment also would inform whether any matters should be included in Part II of the firm's inspection report. Determining which matters to include in Part II primarily based on inferences of matters identified at the individual engagement level in Part I, without sufficiently robust analysis and direct evidence about the respective aspects of the SoQC, could disproportionally influence Part II conclusions about a firm's quality control system. This concern may be particularly pronounced for smaller non-U.S. audit firms with a limited sample of inspected engagements. For example, while several deficiencies may initially appear to indicate a certain pattern, more robust analysis may demonstrate that the deficiencies are driven by distinct underlying causes. Accordingly, we believe deeper analysis would support more appropriate conclusions as to whether a quality control criticism is warranted and would facilitate more targeted remediation and monitoring, resulting in a fairer presentation of potential defects in a firm's SoQC and better serving the public interest.

We further recommend that the Board increase transparency around the framework used to evaluate whether "substantial progress" has been achieved and how remediation determinations are made. Greater clarity regarding the timing of decisions – especially where reports remain open for extended periods – and how incremental progress that meaningfully narrows the scope of a comment or deficiency is considered over time would promote consistency, predictability, and fair treatment across firms.

Finally, we recommend the PCAOB adopt a policy of timely issuing inspection comment forms for all matters that are to be included in Part II of a firm's inspection report. We believe earlier communication of potential Part II matters is critical to enabling firms to appropriately evaluate those matters and to thoughtfully assess whether and how engagement level findings relate to a firm's system of quality control. This practice would also give firms the opportunity to formally respond in the same manner as they do for Part I matters, which would enhance the transparency and consistency of the PCAOB's process, conclusions and reporting. Without such timely visibility, firms may first become aware of a potential quality control criticism only upon receipt of a draft report, which may not provide an opportunity to respond and may limit their ability to appropriately evaluate the impact on their SoQC. Particularly in a

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QC 1000 environment, earlier and more transparent communication would better support informed dialogue, more effective remediation, and more timely enhancements to audit quality.

Matters Already Detected by Firms

Consideration of whether to include report elements in inspection reports should be guided by whether they help users evaluate an auditor's "degree of compliance" with PCAOB standards. We suggest the Board exclude matters already detected by firms. These include issues identified through a firm's own SoQC, such as its internal inspections program, which are currently included in Part I.A and/or Part I.B; firm-identified independence exceptions currently included in Part I.C; and quality control criticisms included in Part II. Retaining such items in inspection reports may not appropriately reflect the extent to which firms have implemented systems and processes that are operating as intended. Additionally, such items do not appear to constitute a "finding of the Board" as contemplated by SOX Section 104(g).

Timeliness of reporting

We encourage the Board to continue to improve the timing of inspection report issuance. As the length of time between inspection fieldwork and report publication increases, the relevance and decision usefulness of those reports to investors, audit committees, and other stakeholders diminishes. Timelier issuance would enhance the reports' ability to inform current oversight, remediation efforts, audit quality improvements, and improve comparability across firms at a point in time. One potential optimization is establishing specific, consistent release targets within a short period after the end of inspection fieldwork. Audit firms would benefit from receiving this information earlier, particularly to support their evaluation of QC 1000 and to facilitate earlier identification of responsive actions that ultimately contribute to audit quality. Additionally, a differentiated release schedule by firm size/nature would help manage operational constraints while improving comparability among similar firms.

We also recommend the PCAOB leverage relevant insights gained from its inspections program to continue to timely publish best practices and insights related to emerging risks and recurring issues. These insights benefit all stakeholders and can be used by firms to proactively improve systems of quality control and audit execution.

Evolving needs

Because inspections report users' expectations may change with developments in financial reporting, capital markets, and regulatory priorities, stakeholder engagement on the inspections process should occur on a regular basis rather than episodically. Accordingly, we recommend the PCAOB establish an ongoing feedback loop that combines periodic surveys, discussions with standing advisory groups, and targeted post-issuance reporting feedback sessions to enable inspection reports to have continued relevance in periods of changing user needs. In addition, we encourage the Board to consider the opportunity to foster more positive and balanced dialogue around inspection results by appropriately recognizing improvements in audit quality reflected in inspection outcomes. Acknowledging year over year progress where warranted could help strengthen stakeholder confidence in the reliability of financial reporting and contribute to sustained recognition of and trust in the audit profession. This approach could also support broader perceptions of the profession, including among students and early career professionals as they consider entering the field. Such communication could be incorporated into

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inspection reporting and serve as a point of discussion in the PCAOB's ongoing engagement with audit committee chairs as part of its standard inspection-related outreach.

Question 4. What standard-setting projects should the PCAOB pursue?

High-quality auditing standards are the foundation of high-quality audits. As business models, systems, and data sources continue to evolve, auditing standards must keep pace to remain relevant, scalable, and capable of supporting high-quality audits. Therefore, we recommend the PCAOB's standard-setting agenda prioritize projects that respond to technological advancements and emerging risks, and that drive international alignment.

We understand that the PCAOB intends to use stakeholder input received in response to this request for comment to refresh its standard-setting plan and to solicit public comment through a formal agenda consultation.[5] We appreciate the opportunity to participate in that process and look forward to providing more detailed feedback at that time. In the interim, we offer the strategic observations below that we believe would be helpful as the PCAOB develops the agenda consultation and would be pleased to share additional perspectives on standard-setting priorities and sequencing.

Technology

Given the pervasive role technology plays across business processes, its influence necessarily extends to the development and application of several auditing standards.

We support the Board's continued research on the use of technology, especially artificial intelligence (AI) across financial reporting, internal controls, and auditing, and we encourage close coordination with the SEC and other domestic and international standard-setters. Given the rapid pace of change and the broad range of technology affecting the financial reporting ecosystem, a research-focused approach provides an important foundation for monitoring developments, identifying emerging risks and opportunities, and determining where additional clarity may be needed over time. Maintaining technology as a research project, with a current focus on AI, allows the Board to address these issues holistically and to adapt its response as practices and technologies continue to evolve. We believe the Board's ongoing research should focus on:

- identifying areas where standard-setting or guidance is most needed across financial reporting, internal controls, and auditing;
- establishing task forces or working groups on specific topics impacted by AI (for example, IT general controls, information produced by the entity, process-level controls, and service organizations); and
- assessing when interpretive guidance, rather than standard-setting, is the most appropriate response, particularly in areas characterized by rapid technological change.

[5] Chairman Logothetis Statement on PCAOB Strategic Priorities

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Artificial intelligence. As part of this broader research effort, we believe the Board should carefully consider the implications of management's use of AI in financial reporting and ICFR, including how AI-enabled processes interact with existing control frameworks. It should also consider AI-related control objectives within service auditors' reports on controls placed in operation at a service organization. We encourage the PCAOB to proactively collaborate with the SEC, COSO, other regulatory bodies, and other stakeholders to ensure clarity is provided about expectations of management when entities use AI in their ICFR. The lack of a generally accepted framework against which auditors can evaluate an entity's compliance may lead to inconsistent approaches over time. Alignment on expectations would promote consistency, support effective implementation by preparers, and provide clearer direction to auditors when planning and performing audits involving AI-enabled processes.

With respect to the auditor's use of AI, we recommend the Board consider the FRC's recently issued guidance as a useful reference point. Principles-based guidance of this nature can help articulate expectations for auditor use of AI while allowing audit methodologies and practices to continue to evolve alongside technological advancements. We also recommend the Board contemplate the International Auditing and Assurance Standards Board's (IAASB) Technology Position,[6] including the IAASB's Technology Position Statement,[7] which sets out future standard-setting principles and focus areas concerning technology. Refer to our response to Question 5 for considerations around alignment with international standard-setters.

Clear, principles-based guidance and alignment across auditing standards, including audit evidence standards, are critical to enabling firms to deploy AI in a disciplined and responsible manner that supports audit objectives, encourages innovation, and evolves alongside advancements in technology.

Data-driven substantive analytical procedures (SAPs). We suggest the Board re-propose amendments to modernize the standard governing SAPs. The updated standard should be more principles-based and more clearly support the use of technology-based tools and techniques, including advanced data analytics.

Digital assets. We encourage the Board to undertake a standard-setting project addressing the rapidly evolving digital asset landscape. While standard-setting may ultimately be appropriate, the rapid expansion of blockchain technology and its use cases underscores the importance of timely interpretive guidance in the interim to promote consistent application of existing standards as practices continue to evolve. For example, this could include providing clarity about the Board's expectations when evaluating the reliability of evidence obtained from a blockchain.

Inventory. We propose initiating standard-setting to address the use of technology by both companies and auditors in obtaining audit evidence for inventory.

Other standard-setting areas

In setting its agenda, we encourage the Board to also consider the following standard setting areas.

[6] Technology Position | IAASB

[7] IAASB-Technology-Position-Statement-Actions.pdf

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- **Service organizations.** We believe updating AS 2601 related to reliance on a service auditor's examination of a service organization's internal control is becoming increasingly important as companies' service providers play a more integral role in internal control over financial reporting.

- **Audit committee communications.** We suggest continued collaboration with, and broader outreach to, audit committee members to gather perspectives on what information they find most useful. With this information, we suggest the PCAOB undertake improvements to AS 1301, including incorporating PCAOB Rule 3526 and consolidating communication requirements within the auditing standards. This approach could improve clarity and enhance efficiency.

- **Form AP.** We appreciate the Board's objective of enhancing transparency for investors through Form AP and recognize the value of providing consistent information regarding engagement partners and other accounting firms participating in the audit. We believe the Board should conduct a post-implementation review to identify areas where there may be unnecessary complexity for which the cost of compliance appears to outweigh the incremental benefits to investors.

- **Ethics and independence.** We believe the American Institute of Certified Public Accountants (AICPA) standards related to ethics and independence adopted by the PCAOB on an interim basis in 2003 (the interim independence standards) have not kept pace with subsequent updates by the SEC and AICPA. We suggest the Board repeal interim independence standards that are redundant and misaligned with modernized SEC/AICPA frameworks to reduce unnecessary compliance burdens.

- **Going concern, fraud, and illegal acts.** We believe certain existing standards, including those addressing going concern and fraud, would benefit from revision and modernization to reflect changes in business models, financial reporting complexity, and stakeholder expectations, and to reinforce professional skepticism.

- **"Substantial role" definition.** We encourage the PCAOB to revisit the definition of "play a substantial role" from PCAOB Rule 1001(p)(ii). While we recognize the importance of the PCAOB's oversight of foreign public accounting firms that play a substantial role in U.S. issuer audits, the current two-pronged quantitative test is becoming increasingly difficult to apply to evolving audit delivery models and as a result may not consistently achieve the rule's intended objectives.

Question 5. How can the PCAOB achieve greater alignment of its auditing standards with international auditing standards?

We believe greater alignment between the PCAOB and other standard-setters in the U.S. and around the world is critical for the efficiency of global capital markets. We do not believe full convergence is a fully achievable goal given differences in jurisdictional requirements. For example, the internal control requirements for issuers under SOX Section 404 are unique to the U.S. and have resulted in a more robust internal control audit standard (PCAOB AS 2201). This standard, as well as other foundational PCAOB standards, have been through rigorous U.S. stakeholder due process and are foundational to audits as they are currently performed.

If full global convergence is the ultimate goal, we believe a careful evaluation of differences to the International Standards on Auditing (ISAs) would be critical. However, jurisdictional differences in the

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ISAs adopted by each country inherently limit the ability for full global convergence. Where convergence is not possible, collaboration should be the goal. We believe there is substantial benefit that may be achieved by increasing early and continuous collaboration with the other auditing standard-setters, namely IAASB and the AICPA Auditing Standards Board (ASB), to leverage knowledge and resources and avoid duplicative efforts. While differences in auditing standards across jurisdictions or audit contexts may be appropriate, the most significant implementation challenges arise when standards lack overall comparability. When requirements are substantively similar but framed differently, it can create uncertainty as to whether audit work performed under one standard can be leveraged to satisfy another. Greater clarity regarding which requirements are incremental and where differences exist would significantly enhance usability and reduce unnecessary complexity.

We encourage the Board to establish a clear and transparent framework, consistent with approaches used in many other international jurisdictions, for analyzing and incorporating standards issued by the IAASB. For existing standards, this framework would appropriately begin with consideration of the U.S. auditing standards issued by the ASB, which are closely aligned with the IAASB's International Standards on Auditing and reflect an evaluation of those standards through a U.S. legal, regulatory, and practice lens. Leveraging this existing body of work would enable the Board to identify, in a targeted and efficient manner, any incremental requirements necessary to address the specific public interest considerations associated with audits of U.S. public companies. As part of this evaluation, we believe it is important for the Board to consider the governance, oversight, and funding structure of the IAASB, including developments arising from the Monitoring Group's recommendations.[8]

Looking forward, the Board could apply a similar analytical approach to future IAASB standards, assessing differences necessary for audits of U.S. public entities. These differences would be clearly identified, explained, exposed for public comment, and reflected in the adopted standards. Further, each adopted standard should include an explicit roadmap describing how the PCAOB standards align with, and differ from, the corresponding IAASB standards. This evaluation should be performed in coordination with the ASB, to promote alignment between U.S. public and private company auditing standards, where appropriate, and to clearly identify and provide reasoning for incremental requirements between the two.

Additionally, we encourage the Board to consider more proactive and structured engagement with the IAASB. For example, such engagement could include the PCAOB forming joint working groups with the IAASB focused on specific topics during the project proposal stage at both Boards or joint post-implementation reviews. We also suggest that the Board consider how best to leverage its participation in the International Forum of Independent Audit Regulators to coordinate global efforts and promote consistent regulatory approaches and perspectives across jurisdictions.

We believe promoting alignment across both U.S. and international auditing standards, as well as between U.S. public and private company auditing standards, would significantly reduce unnecessary costs and operational complexity. Additionally, promoting alignment and providing explicit roadmaps to allow firms to identify and navigate differences between auditing standards across jurisdictions are critical as firms deploy technology, including AI, on a global scale. Such alignment is also particularly important for global audits of multinational issuers and for U.S. companies transitioning from private company audits

[8] *Strengthening the International Audit and Ethics Standard-Setting System (July 2020)* and *Monitoring Group Reports on Progress to Implement Recommendations to Strengthen the International Audit, Assurance, Ethics, and Independence Standard-Setting System (July 2023).*

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to public company audits and in general would support efficiency in the audit process while fostering capital formation.

The Board's experience in developing QC 1000 provides a helpful, real-world illustration of both the benefits of this approach and areas where it could be further strengthened. We recognize that the Board used ISQM 1 as a starting point in developing QC 1000, demonstrating that international standards can serve as a meaningful baseline for U.S. requirements. At the same time, several changes made between ISQM 1 and QC 1000, particularly where similar concepts are expressed using different language or structure, make it challenging in practice to compare the two standards and to clearly identify which requirements are distinct or incremental for PCAOB registered firms. More explicitly articulating, justifying, and exposing for comment those incremental differences between a PCAOB standard and the relevant ISA would enhance transparency and usability, and would better enable firms to design and operate a single system of quality control that incorporates incremental requirements for PCAOB engagements. QC 1000 illustrates the need for this approach, and future standard-setting efforts could further enhance their effectiveness by more clearly delineating alignment with, and departures from, the underlying international standards.

Further, we highlighted areas of recently issued international standards where we believe alignment would be especially relevant, including going concern and fraud, as part of our response to Question 4.

Question 6. In what ways should the PCAOB consider deploying technology, including AI, to help further its investor-protection mission?

Enhanced use of technology

We encourage the Board to consider continued investment in modern, scalable technology platforms that are compatible with those used by audit firms and other financial regulators. As audits increasingly rely on digital tools, data analytics, and emerging technologies, we believe the PCAOB's oversight effectiveness, whether through standard-setting, inspections, guidance, or other activities, is enhanced by access to current technology that is compatible with digital tools commonly used in audit practice.

Technology in inspection activities

We believe the PCAOB can further its investor-protection mission by deploying technology, including AI, across its inspection activities in a manner that enhances inspection effectiveness including consistency, transparency, and operational efficiency. The thoughtful use of technology has the potential to improve the PCAOB's resource allocation while reducing certain administrative burdens on registered firms.

We believe the PCAOB could leverage technology in the following ways.

- **Improving data collection:** We suggest the Board consider leveraging technology to enhance the collection, standardization, and analysis of data collected and used by the PCAOB when selecting engagements for inspection. The information requests under the current inspection program require substantial resources by registered firms to complete. Recognizing that the benefits of the use of technology in this context may not yet be fully known, one potential application is supporting targeted

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and refined information requests that are more closely aligned to specific inspection objectives.

- **Analyzing inspection data:** AI may also serve as a tool to support the PCAOB's analysis of inspection data across a variety of factors by highlighting patterns or outliers, thereby reinforcing inspection consistency and objectivity while continuing to rely on professional judgment.

- **Synthesizing inspection results:** AI-enabled analytics may help the PCAOB synthesize inspection results across engagements and firms to identify emerging risks and recurring issues in a manner that provides more timely and actionable insights for investors, audit committees, and audit firms.

- **Improving inspection efficiency:** AI may also offer opportunities to improve inspection efficiency by assisting inspectors in navigating large volumes of audit documentation and identifying relevant information more quickly. When used as decision-support tools such technologies can enhance inspector effectiveness in support of the PCAOB's investor-protection mission.

Question 7. How can the PCAOB enhance transparency with its stakeholders?

We believe transparency is foundational to the PCAOB's effectiveness and credibility with its stakeholders, including investors, audit committees, issuers, audit firms, and other participants of the capital markets. We support the PCAOB's continued focus on transparency and offer the following recommendations to further enhance the clarity, consistency, and usefulness of PCAOB communications and engagement.

Consultation process

We support the PCAOB's announced audit consultation process and believe its effectiveness will depend on clear structure and a well-defined process for engagement with OCA. We believe this process should mirror that which the SEC's Office of the Chief Accountant uses for accounting consultations, with standardized formats for submission and an "object" or "no objection" conclusion issued upon completion. For example, this process may be especially beneficial to audit quality when firms are evaluating the application of auditing standards to new uses of technology. Proactive engagement will provide firms with increased confidence in their development and deployment of such technologies.

Transparency would be further enhanced when the PCAOB's OCA identifies consultation themes or frequently occurring questions through the timely publication of interpretive guidance, such as in a frequently asked questions format or Staff Audit Practice Alerts, and the broad dissemination of anonymized summaries of consultation outcomes to promote consistent understanding of the PCAOB's views.

Transparency in the standard-setting process

Transparency is a critical component of effective and credible standard-setting, and we view this process to develop a new strategic plan as a valuable opportunity for the Board to consider its standard-setting process more holistically. Accordingly, we provide several focused recommendations for the Board's consideration.

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- We recommend the PCAOB consider enhancing the structure of its standard-setting materials to more clearly distinguish between the basis for conclusions, responses to stakeholder feedback, and application oriented guidance. While current materials provide valuable insight, these elements are often comingled, making it more difficult for practitioners to identify and consistently apply relevant interpretive considerations. A more structured approach that clearly separates these components would improve usability for practitioners, support the development of audit methodologies aligned with Board interpretations, and promote more consistent application of the standards. Similar approaches adopted by other standard-setters have enhanced the understandability of their standards while preserving a principles based framework.

- We encourage the Board to increase the interactivity of its meetings to include discussion or debate. Other standard-setters, including the Financial Accounting Standards Board, the IAASB and the ASB, have demonstrated that open deliberations, where staff recommendations are actively discussed and challenged, lead to a more informed constituency and more effective standards. Greater openness, combined with enhanced external engagement, should improve both the quality and credibility of PCAOB standards. In addition, increased visibility into the Board's deliberations would assist other standard-setters and audit firms in understanding both the substance of PCAOB decisions and the considerations underlying them, thereby creating opportunity for greater alignment across auditing standards.

- We strongly support Board Member Laughton's proposal[9] to convene standard-specific task forces with broad constituent representation to actively discuss standard-setting projects prior to a proposal being issued. We further recommend such task forces engage with constituents throughout a project's life cycle – from proposal, to finalization, and during post-adoption. Timely follow-on guidance addressing recurring application questions would further promote consistent implementation outcomes.

- We further encourage the Board to supplement new standards with formalized processes to address implementation questions that arise following adoption and to publish related implementation guidance, as appropriate. Establishing a structured mechanism to identify, assess, and respond to recurring or significant application questions would promote more consistent interpretation and application of new standards.

Enhanced stakeholder dialogue

We believe enhanced stakeholder engagement is also critical to strengthening the PCAOB's transparency and credibility with its stakeholders, and we offer the following ways the Board could further promote two-way dialogue and deeper collaboration.

- We recommend the meetings of the Board's advisory groups emphasize active, two-way dialogue rather than one-way communication.

[9] PCAOB Standards and Emerging Issues Advisory Group Meeting | PCAOB

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- We suggest establishing a standing emerging technology task force, with participation from audit firms, issuers, audit committees, investors, academics and technology experts, as appropriate.

- Finally, we suggest the creation of an audit committee advisory group to provide a dedicated forum for engagement with audit committees and to focus on information relevant to audit committees.

Audit Practitioner Fellowship Program

We commend the Board for launching the Audit Practitioner Fellowship Program. By bringing experienced auditors with recent, in-the-field experience into the PCAOB, the program will represent a practical and effective mechanism for enhancing transparency and providing insights into emerging issues. As this program matures, the PCAOB should consider expanding the program to other divisions and offices, such as the Division of Registration and Inspections.

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May 15, 2026

Ms. Phoebe W. Brown
Secretary
Public Company Accounting Oversight Board
1666 L Street NW
Washington, D.C. 20006-2803

Re: PCAOB No. 2026-001 – Request for Public Comment on PCAOB Strategic Priorities

Dear Ms. Brown:

I am pleased to have the opportunity to offer my thoughts on the PCAOB's request for public comment on the PCAOB's strategic priorities that was issued by the Board on March 31. I am an independent security analyst who covers equity and fixed income securities. Although I am not a CPA and have no formal training in audit practices and procedures, I have followed accounting and financial reporting issues, including auditing, for many years, and have provided input and feedback occasionally on various proposals by standard setters, including the FASB, PCAOB and SEC, through my own personal efforts and my participation on investor-oriented committees and task forces.

A summary of my recommendations is as follows:

1. The Board should seek to improve the effectiveness of its inspections and their utility to stakeholders, especially investors. Some auditors and audit firms believe that the high rates of inspection deficiencies are technicalities, related in many cases to the tedious aspects of audits that do not have a major impact on audit quality. This view is supported by the low correlation rates of inspection deficiencies to restatements. To address this complaint and enhance the usefulness of inspection reports for stakeholders, the PCAOB should explore the feasibility of adopting some type of grading or rating system on its inspections to reflect and communicate the severity of deficiencies.

2. The PCAOB should ideally require or at least encourage audit committees to ask (or auditors to disclose): (1) whether their (client's) audit was the subject of a PCAOB inspection and (2) whether the PCAOB's inspection found any deficiencies in the audit. Audit committees should then consider whether these audit inspection deficiencies should be disclosed in the proxy statement to aid shareholders in their auditor ratification decisions.

3. Although I am not fully up to speed on all of the rulemaking issues facing the PCAOB, I believe that the Board should set a high bar for undertaking new major standard setting projects and instead focus on the completion of pending rule-making efforts and implementation of recently adopted standards, such as QC1000. At last check, smaller audit firms faced considerable challenges in implementing QC1000 because of their limited resources. Consequently, the Board should devote its time and effort to making

sure that the adoption of QC1000 is successful, which may require making targeted changes to some of its provisions. When the Board is confident in the success of QC1000 implementation, it could then consider integrating some or all of the eight components of the QC system into its inspections regime (without in any way deemphasizing the importance of its individual audit inspection program). With many issuers, auditors and investors stretched thin in an increasingly challenging operating environment, the Board should avoid placing any new burdens on its stakeholders unless it is confident that the benefits of new or modifications to existing standards clearly exceed the costs.

4. That said, I believe that the PCAOB should begin a research project working with auditors and other stakeholders to develop a mutually agreeable set of firm and engagement metrics. This could conceivably become a standard setting project over time. Although the Board's firm and engagement metrics proposal was opposed by most audit firms and ultimately withdrawn, several of the audit firms that had objected to the PCAOB's proposal indicated a desire to work with the Board to develop a set of appropriate metrics over time. Most Global Network Firms publish their own metrics in their annual audit quality reports, which are still a work in progress. If the Board can obtain a consensus on the most appropriate and cost effective metrics to standardize, stakeholders, including investors, would gain some new tools to evaluate trends in audit firm practices that can be consequential to audit quality.

5. Finally, if it has not already done so, the PCAOB should create a task force to monitor the AI implementation efforts of registered firms with the goal of making recommendations to the Board about whether and how the PCAOB should regulate the development of AI tools in auditing. This appears to be the "Wild West" days of AI implementation in auditing. While AI holds the promise of improving the efficiency and completeness of issuer audits, it can also be trained to hide or overlook problem audit areas. If the PCAOB is going to allow audit firms to increase the portions of audits that are "managed" by AI, it should be confident in the quality of the applications. It also seems likely that as AI tools are improved over time, many will (or should) eventually become standardized (and therefore used by all audit firms). The task force could therefore serve as the focal point for promoting best practices. It should consist of representatives of all PCAOB stakeholders groups, including audit firms (large and small), audit committees, internal audit managers and investors, as well as technology experts.

I have much to say about each one of these five recommendations, but unfortunately I have not found the time to write a complete letter by the comment letter deadline. Nevertheless, I would be happy to expand upon any or all of these recommendations at the Board's request.

Sincerely,

Stephen P. Percoco

May 11, 2026

By email: comments@pcaobus.org

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

Re: PCAOB Release No. 2026-001, *Strategic Priorities*

Dear Board Members:

The Audit Committee Council (ACC) appreciates the opportunity to provide input to the Public Company Accounting Oversight Board (PCAOB or Board) on its strategic direction. The ACC is an independent advisory committee of the Center for Audit Quality comprised of independent audit committee members, including audit committee chairs. We support the PCAOB's investor protection mission and offer the perspectives below to continue to help promote audit quality, regulatory effectiveness, and efficient use of resources.

In our view, the PCAOB's strategic priorities over the next two to five years should emphasize: (1) improvements to the inspections program—particularly its focus, consistency, and timeliness—given its central role in driving confidence in the audits of public companies; (2) regulatory efficiency and durability through consistent, transparent application of standards; and (3) disciplined prioritization of initiatives based on clear costs and benefits.

Key Points

Improve the inspection process as a top priority. The inspections program is a primary touchpoint for audit committees and firms. Enhancements to focus, consistency, and timeliness would meaningfully improve its usefulness to stakeholders and reinforce audit quality.

Regulatory efficiency and durability. Consistency in the interpretation and application of PCAOB rules and auditing standards is essential to durable improvements in audit quality. The Board should continue to evaluate whether regulatory actions are producing commensurate benefits relative to their costs for investors, issuers, auditors, and audit committees.

Prioritization is critical. The PCAOB's agenda should be disciplined and sequenced so that the highest-impact initiatives receive focus before launching additional projects that may create implementation risk or uncertainty. We are concerned that an overly expansive agenda will stretch the Board's resources too thin, thereby limiting the Board's ability to achieve the outcomes for which its aiming.

Responses to PCAOB Questions

1. *What should the PCAOB focus on as its strategic priorities in registration, inspections, and enforcement over the next two to five years to further its statutory mission?*

   Inspections

   - Review the inspections program for focus, consistency, and timing. We encourage the PCAOB to evaluate whether inspections are targeted to the areas of greatest or highest audit quality risk and whether inspection approaches are applied consistently across firms and inspection cycles. This includes a risk-based approach regarding the level of documentation required of auditors, which impacts companies. We are concerned that firms are required to produce a higher level of documentation than is necessary for low-risk areas. We provided recommendations in response to questions 2 and 3 that we believe should be a high priority for the PCAOB in this area.

   - Evaluate the usefulness of current inspection reports to all users. The Board should assess whether the content, format, and timing of inspection reports provide decision-useful information to audit committees, investors, and other stakeholders. We do not believe tweaks to the current inspection report format will provide audit committees with meaningful or new information. Instead, making substantial changes to inspection reports should be a priority. We encourage the PCAOB to seek feedback broadly from stakeholders, including other audit committee members. We provided recommendations in response to questions 2 and 3 that we believe should be a high priority for the PCAOB in this area.

   Standard Setting

   - Finalize the NOCLAR project. We strongly suggest stopping the project related to AS 2405, *A Company's Noncompliance with Laws and Regulations* in its current form and commencing a new effort that clearly articulates the problem being addressed and considers international requirements in tandem with any approach to fraud-related responsibilities.

   Enforcement

   - Reduce duplicative oversight where possible. To the extent the Securities and Exchange Commission (SEC) and PCAOB have overlapping enforcement-related rules or processes, we encourage the PCAOB to consider opportunities to eliminate redundancies and improve overall regulatory efficiency and clarity without diminishing investor protection.

2. *What changes should the PCAOB make to its inspection program including, but not limited to, changes in light of its new quality control standard (QC 1000)?*

We support a PCAOB inspection program with a focus on a firm's system of quality control (SQC). A quality-control focused approach can provide more useful information about firm-level root causes and sustainable improvements than engagement-by-engagement findings alone.

- Provide more decision-useful information on firm systems and the profession. Reporting focused on quality control can better inform audit committees about how a firm designs, implements, and monitors its audit quality activities. Armed with such information, audit committees can discuss with the highest levels of their audit firms and help ensure focus, attention and investment is made where it is needed.

- Increase efficiency and recognize investments already made by firms. A focus on a firm's SQC may be more efficient than an engagement-specific inspection approach and can better leverage firms' existing quality management investments (which issuers ultimately pay for as part of their audit engagement fees, alongside the PCAOB's accounting support fees).

- Relieve pressure on audit practice teams and reinforce accountability at leadership levels. Evaluating firm systems places appropriate emphasis on tone at the top, governance, and monitoring activities. While we support a robust and rigorous inspection process, we are concerned about the stress that the inspection process puts on talented firm personnel so much so that they are exiting the profession. This has a negative impact on continuity for companies and negatively impacts audit quality.

- Clarify that interpretation of auditing standards should reside with standard setting. We strongly support a model where interpretations are developed through the standard-setting function (with appropriate transparency), rather than being shaped through inspections or enforcement. This should reduce uncertainty and improve audit quality by clarifying expectations from the start.

    - Support robust consultation mechanisms. Long-standing consultation and pre-clearance processes at the SEC are invaluable to issuers and audit committees. These processes are well-known and utilized by issuers and auditors. The processes support consistent application of requirements. Therefore, we are delighted to hear of Chair Logothetis' announcement that the PCAOB is designing a formal consultation process within the PCAOB's Office of the Chief Auditor (OCA) to provide timely guidance on complex or novel auditing issues.[1] For this to be most effective, the Chief Auditor and Office of the Chief Auditor must be empowered in a manner comparable to the SEC's Chief Accountant and Office of the Chief Accountant. This should be a high priority of the PCAOB.

    - Support Audit Practitioner Fellowship Program. Similarly, we strongly support the Audit Practitioner Fellowship Program and commend its launch. [2] Regulators need professionals with current, real-world experience, especially as audit execution and evidence continue to evolve. We urge the Board to maximize the program's impact by expanding beyond the initial two positions and adopting staggered terms to ensure continuity.

In addition, we believe the evolution toward a quality-control focused inspections program does not hinge on QC 1000 becoming effective. Many firms have already implemented international quality management requirements that have significantly enhanced their quality control systems. We support the Chair's direction to staff to develop a supplemental request for comment to seek public input on certain provisions of QC 1000. As the PCAOB considers next steps, we further encourage the Board to evaluate whether replacing QC 1000 with ISQM 1 would better promote alignment and implementation

[1] https://pcaobus.org/news-events/speeches/speech-detail/chairman-logothetis-statement-on-pcaob-strategic-priorities.
[2] Ibid.

clarity. Regardless of the path chosen, we urge the Board to minimize unnecessary differences between QC 1000 and ISQM 1, particularly prescriptive requirements that limit appropriate firm judgment.

3. *What inspection information would be most useful to stakeholders, and how could inspection reporting be enhanced under a quality-control focused inspection program?*

- Clearer communication of severity. Providing clearer distinctions in the relative severity of findings—and explaining their potential implications—would improve the usefulness of inspection reports for stakeholders. Not only is it important to make such distinction but only matters of high severity are important to audit committees. Less severe findings may be useful to firms and could be communicated in a nonpublic format for the benefit of continuous improvement.

  We encourage the Board to develop a framework for assessing the severity of audit deficiencies identified during inspections. It is important that inspection findings are not referred to as "audit failures." This is a mischaracterization. A framework should provide a definition for findings that are akin to a company's material weakness, i.e. such that omitted procedures should be of such severity that a material error of the financial statements could reasonably have gone undetected.

  In addition, it is necessary to develop a framework for determining what constitutes a quality control criticism (QCC) and what qualifies as remediation "to the satisfaction of the Board." This would enhance both the consistency and the utility of inspection reports.

- Improved timeliness. Inspection reports are most valuable when issued promptly. The Board should prioritize reducing the lag between fieldwork and report issuance and establish clear timelines for completing and communicating key inspection milestones.

- Industry-level observations and trends. Aggregated observations on significant quality control themes by industry or audit area (as appropriate) would help audit committees have an informed discussion with their external auditor about what these trends mean relative to their firm which will further enhance our evaluation and oversight of the external auditor.

4. *What standard-setting projects should the PCAOB pursue?*

Maintain focus; avoid unnecessary overhauls. In our view, PCAOB auditing standards are largely fit for purpose and do not require significant, broad-based revision, absent a clearly articulated problem statement.

Address technology through principles-based guidance where feasible. Technology is fast-moving and may be better supported through implementation guidance rather than prescriptive standard setting, including areas such as anomaly detection and considerations related to reperformance, preparation, and review procedures.

Finalize the NOCLAR project. We did not support the PCAOB's prior proposal on *AS 2405, A Company's Noncompliance with Laws and Regulations* (NOCLAR).[3] Do not leave the prior proposal

[3] https://www.thecaq.org/acc-comment-letter-pcaob-noclar.

"on the shelf." We strongly suggest stopping the project in its current form and commencing a new effort that clearly considers if there is a problem, and if yes, considers international requirements in tandem with any approach to fraud-related responsibilities. Accounting Standards Codification (ASC) 450, *Contingencies*, directly addresses the accounting for lack of compliance with illegal acts and other contingencies. To impose the requirements of NOCLAR as proposed by the prior Board would be a tax on the entire U.S. capital markets stemming from a few ineffective financial reporting and auditing incidents. This should be a priority of the Board.

Modernize independence while reducing duplication. Independence requirements are important and would benefit from modernization; however, the current framework is duplicative, with overlapping regulations. Only material matters should be reported to the audit committee – those matters that materially impact a reasonable person's view of the objectivity and impartiality of the firm rather than technical violations that occurred and have been addressed or are being addressed by the firm in a timely manner. Reporting of minor violations to those charged with governance may detract from important matters that should be addressed at the audit committee level.

The Board should pursue improvements that enhance clarity without adding unnecessary complexity. We strongly support the promulgation and interpretation of auditor independence rules to rest with the SEC in practice.

5. *How can the PCAOB achieve greater alignment of its auditing standards with international auditing standards?*

We do not typically hear that harmonizing PCAOB and international auditing standards should be a short-term priority. We understand that differences can lead to complexity and increased costs. Therefore, we support a long-term effort focused on collaboration and minimizing unnecessary differences as follows:

- Evaluate and prioritize closing major gaps. We encourage the PCAOB to identify the most significant differences between PCAOB and International Auditing and Assurance Standards Board (IAASB) standards and reduce gaps where doing so would not diminish investor protection.

- Collaborate with international standard setters. Ongoing coordination can improve consistency and reduce implementation burden for global firms and multinational issuers.

- Emphasize principles-based requirements and avoid "gold plating." To the extent possible, alignment efforts should focus on principles-based standards and implementation that does not add incremental requirements without clear benefit.

6. *In what ways should the PCAOB consider deploying technology, including AI, to further its investor protection mission?*

- Strengthen data foundations. The PCAOB should assess how its data—both internally generated and externally sourced—is captured, governed, and maintained to enable responsible use of AI and other advanced analytics.

- Establish robust governance over internal use of AI. Once the PCAOB determines how and where it will deploy technology, including AI, it will be essential to establish strong governance to oversee its use and to mitigate unintended risks or consequences. It will also be important for the PCAOB to clearly communicate to member firms when new technologies are being used and how the PCAOB is protecting the data of PCAOB-registered firms.

- Increase transparency on stakeholder input. The PCAOB could use technology to more systematically analyze, summarize, and publicize themes from comment letters and other feedback to improve stakeholder understanding of how input informs outcomes.

7. *How can the PCAOB enhance transparency with its stakeholders?*

- Engage with audit committees during and beyond inspection interviews. We encourage the PCAOB to enhance structured audit committee dialogue with audit committees during inspections and also expand engagement with audit committees outside of individual inspection interviews, including opportunities to discuss recurring themes and the usefulness of PCAOB communications.

- Promote two-way dialogue. Transparency is strengthened when stakeholders can provide feedback and understand how the PCAOB considered that feedback. Enhanced transparency during audit committee interviews in the inspection process – along with regular forums and clear communication of the PCAOB's rationale - can help build durable trust and shared understanding.

As the Board gathers feedback from other interested parties, we would be pleased to facilitate a meeting of the Audit Committee Council with the Board regarding the views expressed in this letter. Please address meeting requests to hello@thecaq.org.

Respectfully submitted,

Members of the Audit Committee Council

cc:

PCAOB
Demetrios Logothetis, Chair
George M. Botic, Board member
Steven D. Laughton, Board member
Mark A. Calabria, Board member
Brent A. Simer, Chief of Staff

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

Members of the Investor Advisory Group

Via Email

May 13, 2026

Phoebe W. Brown
Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Reference: PCAOB No. 2026-001, Request for Public Comment – PCAOB Strategic Priorities

Dear Secretary Brown and Members of the Public Company Accounting Oversight Board (PCAOB or Board):

The Members of the Investor Advisory Group (MIAG)[1] appreciate the opportunity to share our views regarding the PCAOB's request for comment related to the development of priorities that will inform the Board's 2026-2030 strategic plan.[2] We applaud the Board for its process that includes direct consultation with investors and solicitation of public comment. Indeed, we find that the market values the Board and its work, and we recognize the Board's enormous and consistent investor support, as demonstrated in 2025 when there was a risk of losing the Board as an independent audit regulator.[3]

The PCAOB's mission under the Sarbanes-Oxley Act (SOX) is to protect investors,[4] so from the outset, the MIAG would like to state the need for the Board to maintain a dedicated investor advisory group (IAG) that is responsive to investor concerns. The IAG should be distinguished from the Standards and Emerging Issues Advisory Group (SEIAG). Overall, it is critical for the new board members to prioritize the needs of investors

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[1] This letter represents the views of Investor Advisory Group (IAG) and does not necessarily represent the views of any individual members, any member's employer or affiliated organization, or any other organization with which a member may be associated. IAG views are developed by the members of the group independent of the views of the Public Company Accounting Oversight Board (PCAOB) and its staff. For more information about the IAG, including a listing of the current members, their bios, and the IAG charter, see https://pcaobus.org/about/advisory-groups/investor-advisory-group.

[2] *See Request for Public Comment: PCAOB Strategic Priorities*, PCAOB (Mar. 31, 2026), https://pcaobus.org/news-events/news-releases/news-release-detail/pcaob-requests-public-comment-on-strategic-priorities.

[3] *See, e.g.,* Letter from Jeffrey P. Mahoney, General Counsel, Council of Institutional Investors to The Honorable John Thune, Senate Majority Leader et al., 5 (June 5, 2025), https://www.cii.org/files/issues_and_advocacy/correspondence/2025/June%205%202025%20letter%20(final).pdf ("CII strongly opposes Section 50002 of the Reconciliation Bill, in the first instance, because it includes provisions that diminish the independence of the PCAOB.").

[4] 15 U.S.C. § 7211(a) (2002), *available at* https://www.law.cornell.edu/uscode/text/15/7211 ("There is established the Public Company Accounting Oversight Board, to oversee the audit of companies that are subject to the securities laws, and related matters, in order to *protect the interests of investors* and further the public interest in the preparation of informative, accurate, and independent audit reports.") (emphasis added).

and continue to obtain their perspectives. It is also critical for the Board to maintain a line of communication directly with investors, in addition to actively participating in regularly scheduled IAG meetings.

The following responses to the questions posed by the Board represent the MIAG's perspective on various topics, including the Board's statutory mission, audit quality standards, technology, and transparency. In those responses, we reference previous MIAG communications addressed to the Board.

Question 1: What should the PCAOB focus on as its strategic priorities in registration, inspections, and enforcement over the next two to five years to further its statutory mission?

Measuring and Reporting the Effectiveness of Inspection and Enforcement Activities

In a MIAG letter written to comment on the draft of the Board's 2022-2026 strategic plan, we recommended adding a goal entitled "Increase Total Transparency of the PCAOB's Activities."[5] We cover some specific suggestions under Question 7 below, but we note here that a broader goal of the Board should be to be more transparent in everything it does. For instance, the current strategic plan mentions transparency only in connection with reporting inspection results and enforcement actions. In many regards, we believe the Board itself needs to be more transparent to investors, the constituency for whom the Board owes its existence. Because of the Board's unique legal stature, it is allowed to operate with relative opaqueness compared to the U.S. Securities and Exchange Commission (SEC) and the Financial Accounting Standards Board (FASB). It is not, however, required to operate with such opacity.

To that end, an important initiative under a goal intended to increase transparency would be for the Board to determine measures by which it would evaluate the effectiveness of its inspection and enforcement activities, conducting evaluations based on those measures, and then reporting the results to the public in an easily accessible, straightforward, and intuitive manner. The initiative could consider including a greater focus on material audit deficiencies as opposed to minor process-related deficiencies. While the process for determining measures for evaluating the effectiveness of its inspection and enforcement activities would require input from stakeholders, the Board's evaluation of its own effectiveness would be critical to identifying areas of improvement to better serve its statutory mission to "*protect the interests of investors and further the public interest* in the preparation of informative, accurate, and independent audit reports."[6]

Aligning Budget Constraints to Prioritize Areas of Higher Risk, Namely China-Based Audits

Earlier this year, the SEC announced the Board's 2026 budget, which reflects a 9.4% ($37.6 million) decrease from the prior year, as well as an 18.4% ($68.9 million) decrease in the accounting support fee.[7] Accordingly, the Board must prioritize how to allocate its more limited budget. One approach to managing this challenge is optimizing the budget to focus on matters that represent the highest risks. One such area of high risk involves China-based audit firms. Indeed, past PCAOB inspections of such firms resulted in historic sanctions.[8]

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[5] *See* Letter from Members of the IAG to PCAOB, Reference: PCAOB No. 2022-003, Request for Public Comment – PCAOB Draft Plan 2022-2026, at 1 (Sept. 15, 2022), https://assets.pcaobus.org/pcaob-dev/docs/default-source/about/administration/strategic-plan-comments-2022/10_iag.pdf?sfvrsn=f24d0e63_4.

[6] 15 U.S.C. § 7211(a) (emphasis added).

[7] *See SEC Approves 2026 PCAOB Budget and Accounting Support Fee*, Securities and Exchange Commission (Jan. 22, 2026), https://www.sec.gov/newsroom/press-releases/2026-11-sec-approves-2026-pcaob-budget-accounting-support-fee.

[8] *Fact Sheet: PCAOB Imposes Historic Sanctions on China-Based Audit Firms,* PCAOB (Nov. 30, 2023), https://pcaobus.org/news-events/news-releases/news-release-detail/fact-sheet-pcaob-imposes-historic-sanctions-on-china-based-audit-firms (outlining a PCAOB enforcement action that resulted in sanctions against three China-based firms and four individuals for a total of $7.9 million, representing the highest civil money penalties the PCAOB has imposed against a China-based firm and some of the highest penalties it has imposed against any firm around the globe).

In this context, even with a more limited budget, the Board could inspect China-based audit firms once a year, much in the same way it inspects broker-dealers and large accounting firms. The added expense from such regular inspection and related reporting could be counterbalanced by a decrease in resources expended on less risky matters. We note that China-based firms engage in practices that have been questioned by some Members of the U.S. Congress.[9] Specifically, recent developments in which the Chinese Communist Party has required Chinese companies to use Chinese auditors could raise issues regarding the trust that U.S. investors should place on the audit reports of those companies.[10]

As a result, we underscore the importance of access to, and review of, the workpapers from registered firms operating in China. That said, while the PCAOB announced in 2022 that it had successfully obtained complete access to inspect Chinese audit firms,[11] the effectiveness and substantiveness of this access has been questioned by some market participants.[12] The entirety of the PCAOB's bilateral agreement with Chinese authorities to inspect the auditors of Chinese companies has not been disclosed by either party.[13] Furthermore, the PCAOB's announcement had the effect of vacating its December 2021 finding that Chinese authorities took measures to inhibit the PCAOB's ability to inspect and investigate firms based in China and Hong Kong.[14] Law firm K&L Gates notes this reversal of position could reduce the risk of issuers being delisted under the Holding Foreign Companies Accountable Act.[15] An SEC fact sheet about the agreement asserts that the PCAOB has unredacted access to *all* audit documentation but notes that certain restricted data may only be available on a view-only basis; furthermore, the China Securities Regulatory Commission would serve as a middleman for any document requests by the PCAOB from Chinese audit firms.[16]

Accordingly, we support SEC Chair Paul Atkins's recent comments committing the Board to prioritize inspections of Chinese company audits by Chinese registered firms.[17] And we believe any changes to Rule 6100[18] regarding complete access to inspect Chinese audit firms should go through proper notice-and-comment rulemaking.

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[9] *See SEC Chair Paul Atkins Testifies on Oversight of the Securities and Exchange Commission*, CNBC Television (Feb. 12, 2026), https://www.youtube.com/watch?v=Bn5YQoFcJBU.

[10] *See id.*

[11] *See* Emmanuel Tamrat, *Behind the Veil: Risks of Chinese Companies and the VIE Structure An Update*, Council of Institutional Investors (Aug. 2025), https://www.cii.org/Files/publications/Behind-the-Veil-Risks-of-Chinese-Companies-and-the-VIE-Structure-Aug-2025.pdf; *see also* Chair Erica Y. Williams, *PCAOB Secures Complete Access to Inspect, Investigate Chinese Firms for First Time in History*, PCAOB (Dec. 15, 2022), https://pcaobus.org/news-events/news-releases/news-release-detail/pcaob-secures-complete-access-to-inspect-investigate-chinese-firms-for-first-time-in-history.

[12] *See* Tamrat, *supra* note 11.

[13] *See id.*

[14] *See id.*

[15] *See* Yuki Sako & Michael G. Lee, *United States: PCAOB's Vacating 2021 Determination under HFCAA Lowers the Risk of Delisting*, Global Investment Law Watch (Dec. 22, 2022), https://www.investmentlawwatch.com/2022/12/22/united-states-pcaobs-vacating-2021-determination-under-hfcaa-lowers-the-risk-of-delisting/; *see generally* 15 U.S.C. § 7214(i)(3)(A) ("If the Commission determines that a covered issuer has 2 consecutive non-inspection years, the Commission shall prohibit the securities of the covered issuer from being traded—**(i)** on a national securities exchange; or **(ii)** through any other method that is within the jurisdiction of the Commission to regulate, including through the method of trading that is commonly referred to as the "over-the-counter" trading of securities.").

[16] *See* Tamrat, *supra* note 11; *see also Fact Sheet: Statement of Protocol – Questions & Answers*, U.S. Securities and Exchange Commission (Aug. 26, 2022), https://www.sec.gov/files/china-sop-qa_0.pdf.

[17] *See SEC Chair Paul Atkins Testifies*, *supra* note 9.

[18] *See* PCAOB; Order Granting Approval of Proposed Rule Governing Board Determinations Under the Holding Foreign Companies Accountable Act, Exchange Act Release No. 93,527, File No. PCAOB-2021-01 (Nov 4, 2021), https://www.sec.gov/files/rules/pcaob/2021/34-93527.pdf; and PCAOB; Order Granting Approval of Proposed Amendments to Conform PCAOB Rule 6100 to the Consolidated Appropriations Act, Exchange Act Release No. 97,514, File No. PCAOB-2023-01 (May 16, 2023), https://www.sec.gov/files/rules/pcaob/2023/34-97514.pdf.

Private Capital

As indicated, SOX defines the Board's statutory mission "to oversee the audit of *companies that are subject to the securities laws*, and related matters, in order to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports."[19] This mission, of course, excludes private companies and likely could not be broadened without Congressional action.

However, the landscape of the capital markets is radically different from when the PCAOB was created. Private markets have expanded dramatically, and private companies have reached a scale (multiple hundreds of billions of dollars in valuations) where they are systematically important for markets, investor portfolios, and the broader economy. Moreover, as discussed at the September 2024 IAG meeting, important issues have emerged about how private markets have impacted audit firm ownership structures and funding arrangements.[20]

Given the growing segment of business represented by private companies and the importance of private capital, a priority for the Board's next strategic plan should include some consideration of how private markets may impact on the Board's initiatives and goals. In the words of former SEC Chair Mary Jo White: "[B]eyond any specific regulatory requirements, some of the principles that characterize public companies – transparency with investors, controls on financial reporting, strong corporate governance – have applicability and relevance to private companies, especially those pre-IPO companies that aspire to go public, and should not be overlooked or avoided, whether or not mandated by federal law or an SEC regulation."[21]

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)?

Inspection Program

Regarding changes to the Board's inspection program, the MIAG appreciates the Board's engagement with, and consideration of, the investor perspective. While we generally agree that identifying quality control deficiencies is one way for the PCAOB to demonstrate the importance and value of its inspection program, we note that Board Member George Botic said the Board should move carefully when updating its inspection program and consult investors and other stakeholders.[22] He warned that limiting the publication of inspection findings "runs the risk of losing something that I think the PCAOB's reputation and the capital markets have benefited from extensively over two-plus decades."[23] In addition, Botic suggested that individual audit inspections would still be necessary to test whether quality management systems function effectively in practice.[24]

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[19] 15 U.S.C. § 7211(a) (emphasis added).
[20] PCAOB IAG Meeting, Agenda (Sept. 26, 2024), https://pcaobus.org/news-events/events/event-details/pcaob-investor-advisory-group-meeting-september-2024 ("**IAG Presentation to the Board on Emerging Issues in Audit Firm Ownership Structures and Funding Arrangements**").
[21] Chair Mary Jo White, U.S. Securities and Exchange Commission, *Keynote Address at the SEC-Rock Center on Corporate Governance Silicon Valley Initiative* (Mar. 31, 2016), https://www.sec.gov/newsroom/speeches-statements/chair-white-silicon-valley-initiative-3-31-16.
[22] *See* George R. Botic, Board Member, PCAOB, *Looking to the Future ---Moving Forward while Staying on the Right Track at the 2026 Deloitte/University of Kansas Auditing Symposium* (May 8, 2026), https://pcaobus.org/news-events/speeches/speech-detail/looking-to-the-future---moving-forward-while-staying-on-the-right-track ("I would hesitate . . . to move away from our established approach to engagement reviews before we have carefully considered whether important things would be sacrificed by doing so.").
[23] Shubhendu Vimal, *US Accounting Firms Brace for Fewer SEC Audit Inspections – Report*, The Accountant Online (Dec. 29, 2025), https://www.theaccountant-online.com/news/us-accounting-firms-sec-audit/?cf-view.
[24] *See id.*

Representing the investor perspective, the MIAG shares Botic's concerns about reducing the number of audit workpapers inspected and the resulting reduction in frequency and transparency of the publication of inspection findings. We generally believe that any future consideration of reducing the number of audit workpapers inspected should be conditioned upon the firms' first demonstrating over a reasonable period the implementation of robust, effective firm-wide audit quality controls.

In addition, we believe the public version of the PCAOB inspection reports should be issued on a timelier basis and should be required to disclose the identity of each issuer that had its audit workpapers inspected. We note that our view is generally supported by empirical research on how frequency and transparency of inspection information affect company returns:

> Identifiable companies experience positive abnormal returns following non-deficient inspection outcomes and negative returns following deficient ones. In contrast, companies that cannot be linked to specific inspection results show no price response. The return differentials persist across a battery of robustness tests and are stronger when inspection information is more timely. Overall, our findings show that markets incorporate audit-quality information when inspection outcomes can be credibly mapped to individual companies, suggesting that greater transparency enhances the informational role of audit oversight and strengthens market-based incentives for audit quality.[25]

Finally, as more companies may consider electing to leave Delaware to reincorporate under less burdensome corporate law statutes,[26] the Board should consider the state of incorporation in connection with its risk-based method for selecting issuer audits for review. As one example, empirical data finds that Nevada attracts firms that are 30–40% more likely to report financial results that later require restatement than firms incorporated in other states, including Delaware.[27] In other words, a correlation may be evident between less burdensome Nevada law and a firm's propensity for financial restatement after it's incorporated in Nevada.[28]

Quality Control: QC 1000, Upcoming Implementation, and Other Inspection Issues

Regarding quality control more broadly, and QC 1000 specifically, the MIAG notes that Board Chair Demetrios (Jim) Logothetis stated "[c]ertain requirements included in QC 1000 may be unnecessary for the standard to meet the regulatory objectives of the PCAOB, and may not contribute to audit quality," adding that the PCAOB would invite feedback on "narrow revisions to the standard and related amendments," without outlining which provisions might be altered.[29] We note that at least some of the proposed revisions appear to be in response to requests from large audit firms to more closely align QC 1000 with global audit standards.[30]

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[25] Andrew Acito et al., *Market-Based Incentives for Audit Quality*, SSRN (Nov. 15, 2024), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4997362.

[26] *See* James Crowe, *2026 Comparison of Key Corporate Governance Features in Select Jurisdictions*, CII Research and Education Fund (Apr. 2026), https://www.ciiref.org/jurisdiction-comparison.

[27] *See* Michal Barzuza & David C. Smith, *What Happens in Nevada? Self-Selecting into Lax Law*, 27 Rev. Fin. Stud. 3593 (2014), *available at* https://www.jstor.org/stable/24466828; *see also* Michal Barzuza, *Nevada v. Delaware: The New Market for Corporate Law*, Harvard Law School Forum on Corporate Governance (Feb. 26, 2026), https://corpgov.law.harvard.edu/2026/02/26/nevada-v-delaware-the-new-market-for-corporate-law.

[28] *See* Barzuza & Smith, *supra* note 27.

[29] Ellichipuram Umesh, *US Audit Watchdog to Revisit Contested Firm Quality-Control Standard*, International Accounting Bulletin (Apr. 2, 2026), https://www.internationalaccountingbulletin.com/news/us-audit-watchdog-to-revisit/?cf-view.

[30] *See id.* ("Dennis McGowan, a CAQ vice-president, supported the prospect of 'targeted amendments' that would align QC 1000 more closely with global standards.").

We appreciate that some provisions of QC 1000 may be amended before its implementation on December 15, 2026. As the Board considers potential amendments, the MIAG generally believes the following items should also be considered.[31] The items are consistent with the MIAG's prior communications to the Board in response to the 2022 "Request for Public Comment – A Firm's System of Quality Control and Other Proposed Amendments to PCAOB Standards, Rules, And Forms":

- **Make information about the quality of audits and auditors publicly available:** The MIAG reiterates what we previously shared in a 2023 letter: "An effective quality control system should provide investors with data regarding the quality of audits. We have already mentioned audit quality indicators as lacking . . ., but there is [also] other insufficient data [regarding audit quality]. Pursuant to SOX, the PCAOB has the authority to conduct inspections of independent audits of publicly listed companies. As a result, the PCAOB has first-hand information about the quality of an audit it has inspected and the failures by the audit engagement team to perform the audit in accordance with the PCAOB's auditing standards. By withholding the names of companies whose audits have been inspected, the PCAOB is willingly withholding from investors knowledge of which specific audits complied with laws, regulations, and professional standards. SOX specifically requires the PCAOB to keep Part II of Inspection Reports confidential for up to, but no more than 12 months, and also requires enforcement actions to remain confidential until the end of the process. There is no such requirement for the disclosure of companies whose audits were selected for inspection, however. Consistent with our earlier comment on this topic, we recommend the PCAOB reverse its past policy of withholding this information from investors."[32]

- **Expand requirement to furnish audit committees with only a firm-wide evaluation of the quality control system:** In a previous letter, the MIAG also wrote the following, a position we continue to hold: "<u>We find the requirement to furnish audit committees with only a firm-wide evaluation of the quality control system to be insufficient</u>. We question whether or not the audit committee would be inclined to seek a new auditor based only on a firm-wide evaluation of quality control – and one furnished to them by the auditor. The audit committee would be far more influenced by an independent verification of the quality system such as the PCAOB inspection report on their auditor, and its performance on their engagement, and including audit quality indicators."[33]

These items are consistent with the expectations of investors, as we outlined in a previous letter: "Investors need more than just a pass/fail grade on the audit as expressed in the auditor's opinion."[34] Investors also need information to help them decide whether the audit was performed capably, which in turn would allow them to inform their decision on whether to vote or approve the ratification of the auditor or the election of the Chair or members of the audit committee.[35] As one major asset manager has stated in its voting guidelines: "We may vote against the audit committee members where the board has not facilitated quality, independent auditing. We look to public disclosures for insight into the . . . audit committee . . . ."[36] Most importantly, this information is

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[31] *See* PCAOB; Order Granting Approval of QC 1000, A Firm's System of Quality Control, and Related Amendments to PCAOB Standards, Rules, and Forms, Exchange Act Release No. 100,968, File No. PCAOB-2024-002 (Sept. 9, 2024), https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket046/34-100968.pdf?sfvrsn=6c0ced5c_2.
[32] Letter from Members of the IAG to PCAOB, Reference: PCAOB No. 2022-06, Request for Public Comment – A Firm's System of Quality Control and Other Proposed Amendments to PCAOB Standards, Rules, And Forms, at 2 (Jan. 13, 2023), https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket046/4_iag.pdf?sfvrsn=1941e7c0_4.
[33] *Id.* at 3.
[34] *Id.* at 1.
[35] *See id.*
[36] *BlackRock Investment Stewardship: Proxy Voting Guidelines for Benchmark Policies – U.S. Securities*, BlackRock, at 11 (Jan. 2026), https://www.blackrock.com/corporate/literature/publication/blackrock-investment-stewardship-benchmark-guidelines-us.pdf.

key to provide investors with confidence in the financial statements of the companies in which they invest, which influences the prices they are willing to pay for these investments.[37]

More generally, and as previously indicated, while the MIAG believes that quality control is important, assessing that quality should not take precedence over engagement-level inspection and reporting. In this sense, we echo the words of IAG member Sandra Peters, Senior Head of Global Financial Reporting Advocacy at CFA Institute:

> Assessing a firm's system of quality management is important, but it is, at best, a test of design. It considers whether controls exist and are structured appropriately; it does not demonstrate that they operate effectively at the audit engagement level. . .. Recurring failures in areas such as revenue recognition, impairment and group audits have not arisen from a lack of firm-level policies, but from failures in execution. These issues have been identified only through inspection of individual audit engagements. A supervisory model that places greater weight on firm-wide systems risks missing where assurance is actually delivered. While firm-level controls matter, much can go wrong in execution — particularly in complex, judgmental areas. Reducing engagement-level inspection may also weaken the behavioural discipline and deterrence that such scrutiny creates.[38]

Question 3: What inspection information would be most useful to stakeholders, and how could inspection reporting be enhanced under a quality control-focused inspection program?

The Board describes its inspections as being "designed to review portions of a firm's issuer audits and evaluate elements of a firm's quality control system. The process aims to drive improvement in the quality of audit services through a focus on effective *prevention, detection, and deterrence* of audit and quality control deficiencies—and oversight of firms' remediation of identified deficiencies."[39]

As indicated in a previous communication, the MIAG welcomed an objective of the current strategic plan to increase transparency in reporting inspection results, given that investors had expected more details in the reporting of inspection results for years.[40] We noted, however, that there was no timeline identified for the objective, nor an anticipated date upon which increased transparency could be expected.[41] We also recommended that the discipline of setting milestone timelines for increasing transparency of reporting inspection results be embedded in the strategic plan. We consider this to be an important aspect of increasing transparency in reporting inspection results.[42]

In addition, we commended the Board for placing a greater focus on firms' remediation efforts.[43] The objective stated: "Consistent with the requirements of the Sarbanes-Oxley Act, we will publish all quality control

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[37] *See id.*
[38] Sandra Peters, *Letter: Easing Oversight of Audit Firms Is a Capitulation by the Regulator*, Financial Times (Apr. 9, 2026), https://www.ft.com/content/39086e4a-dbcd-4b1e-830b-8e0d81e8afaf.
[39] *Inspections*, PCAOB, https://pcaobus.org/oversight/inspections (last visited Apr. 7, 2026) (emphasis added).
[40] *See id.; see generally* Preeti Choudhary et al., *Pervasiveness of PCAOB Part 1A Findings as a Signal of Audit Quality,* SSRN, at 6 (Mar. 2026), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=6702280 (suggesting that providing a summary of the total and unique count of audit standard paragraph references included in the inspection findings could be useful to investors to ease processing of this information).
[41] *See* Letter from Members of the IAG, *supra* note 5, at 3.
[42] *See id.*
[43] *See id.*

criticisms that the firms have not remediated to the Board's satisfaction within the required time period."[44] We noted that investors need to know how seriously auditors view the PCAOB's findings, and they need to know them as soon as possible before the next audit is completed – or the next proxy vote on approval of the auditor or election or reelection of audit committee chair and members takes place.[45] However, the objective did not state any intended acceleration of the transparency surrounding the remediation process, and we recommend setting one—and making it happen—given that there was no goal set for the timing of the improvement.[46] The MIAG found at the time, and continues to find, that investors benefit from this information and wish for the Board to be accountable for the goal they have set for itself.[47]

Overall, we find that it would be advisable for the PCAOB to improve its communication strategy to focus more on the needs of investors and other stakeholders, rather than its own needs. As one example, the PCAOB should summarize lessons learned from its inspections, so that investors and other stakeholders could have greater transparency about the impact of inspections on audit quality.

Question 4: What standard-setting projects should the PCAOB pursue?

The standard-setting agenda of the Board is primarily focused on enhancing investor protection by prioritizing the areas where improvements to PCAOB standards could have the most significant impact on audit quality and the public interest.[48] Two such projects the Board should consider pursuing are the following:

(1) **Firm and engagement metrics:** The MIAG supported the Board's Firm and Engagement Metrics (F&EM) Proposal, which was withdrawn on February 11, 2025.[49] The MIAG recommends that the Board revisit this proposal and re-engage with stakeholders to develop a corresponding final rule. In a previous communication, the MIAG expressed its support for the proposal as such: "The MIAG strongly supports the F&EM Proposal which . . . implements a long overdue 2008 recommendation of the ACAP [U.S. Department of Treasury Advisory Committee on the Auditing Profession] Report to provide investors with decision-useful metrics about audit firms and individual audits. We believe the proposed metrics would provide significant benefits to investors by providing information they currently cannot access. This information can assist them in making more informed decisions about whether to vote to approve the ratification of the auditor or the election or reelection of the audit committee chair or members, or in exercising their responsibilities for oversight of the audit committees of public companies."[50]

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[44] *Strategic Plan 2022-2026*, PCAOB, at 12 (Nov. 18, 2022), https://assets.pcaobus.org/pcaob-dev/docs/default-source/about/administration/documents/strategic_plans/strategic-plan-2022-2026.pdf?sfvrsn=b2ec4b6a_4.
[45] *See* Letter from Members of the IAG, *supra* note 5, at 3.
[46] *See id.*
[47] *See id.*
[48] *See Standard-Setting, Research, and Rulemaking Projects*, PCAOB, https://pcaobus.org/oversight/standards/standard-setting-research-projects (last visited Apr. 7, 2026).
[49] *See* PCAOB; Notice of Withdrawal of Proposed Rules on Firm Reporting and Firm and Engagement Metrics and Related Amendments to PCAOB Standards, Exchange Act Release No. 102,399, File No. PCAOB-2024-006 and PCAOB-2024-07 (Feb. 11, 2025), https://www.sec.gov/files/rules/pcaob/2025/34-102399.pdf.
[50] *See* Letter from Members of the IAG to PCAOB, at 10 (May 29, 2024), https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket_041/4_iag.pdf?sfvrsn=2680ecfd_2.

(2) **Potential amendments and staff guidance to improve the decision-usefulness of the disclosure of critical audit matters:** The MIAG believes that critical audit matters (CAMs) can be improved in several major ways, including the following:[51]

a. CAMs should include what the auditors found: Investors are generally not familiar with auditing procedures, and CAMs should provide them with an opportunity to communicate with the auditors.[52] Nevertheless, investors have expressed concerns regarding the lack of decision-useful information communicated by auditors, especially what the auditors found.[53] As such, to facilitate communication, auditors should present their findings by including a description of how the CAM was addressed in the audit.[54] In particular, the MIAG recommends amending the note under Section 14(c) of AS 3101[55] to say the following:

> In describing how the critical audit matter was addressed in the audit, the auditor ~~may~~ shall describe: (1) the auditor's response or approach that was most relevant to the matter; (2) a brief overview of the audit procedures performed; (3) an indication of the outcome of the audit procedures; and (4) key observations with respect to the matter~~, or some combination of these elements~~.

This proposed amendment would eliminate the option that currently permits auditors to omit two related categories of information about CAMs that "are of most interest to investors," i.e., an "indication of the outcome of the audit procedures performed" and "key observations with respect to the matter."[56]

b. The number of CAMs reported should increase: The average number of CAMs has been decreasing over the years, so consistent with the MIAG's recommendations for improving CAMs in a previous report, the language and intent of AS 3101, and recent academic research, auditors should consider increasing the number of CAMs included in their reports.[57] In particular, we note that the decreased number of CAMs appears to relate, at least in part, to AS 3101's "especially challenging" language used in paragraphs 11 and 12. We believe this language (1) has been interpreted narrowly in a manner that results in a fewer number of CAMs being disclosed — about 1.5 — than the PCAOB had intended, and (2) may actually discourage auditors from issuing potential CAMs.[58] Speaking at a 2023 IAG meeting, Martin Baumann, former Chief Auditor of the Board, recommended amending AS 3101 to eliminate the word "especially" in paragraphs 11 and 12.[59] We generally agree with Baumann's recommendation.

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[51] *See The Second Annual Investor Advisory Group Most Decision-Useful Critical or Key Audit Matters for 2024*, Members of the IAG (Dec. 2025), https://assets.pcaobus.org/pcaob-dev/docs/default-source/about/advisory/documents/second-annual-most-decision-useful-critical-or-key-audit-matters-for-2024.pdf?sfvrsn=ba19a3a8_1.
[52] *See id.* at 11.
[53] *See id.*
[54] *See id.*
[55] *AS 3101: The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*, PCAOB, https://pcaobus.org/oversight/standards/auditing-standards/details/AS3101 (last visited Apr. 22, 2026).
[56] *See The First Annual Investor Advisory Group Most Decision-Useful Critical or Key Audit Matters for 2023*, Members of the IAG, at 6 (Dec. 2024), https://assets.pcaobus.org/pcaob-dev/docs/default-source/about/advisory/documents/seiag-november-2024/iag-report---the-first-annual-iag-critical-or-key-audit-matter-report.pdf.
[57] *See The Second Annual Investor Advisory Group*, *supra* note 51, at 13.
[58] *See The First Annual Investor Advisory Group*, *supra* note 56, at 5-6.
[59] *See* PCAOB IAG Meeting (June 7, 2023, Part 1 of 2) (Martin Baumann comments during discussion of agenda item: "IAG Subcommittee on Standards Briefing to the PCAOB – Critical Audit Matters"), https://pcaobus.org/news-events/events/event-

c. Other improvements could be in the form of staff guidance encouraging auditors to adopt more useful, consistent procedures that could result in higher quality CAMs that include, for example, more:
    i. Quantitative information; and
    ii. Descriptions of audit procedures performed.[60]

Question 5: How can the PCAOB achieve greater alignment of its auditing standards with international auditing standards?

We note recent comments by the SEC's Chief Accountant, Kurt Hohl, regarding the SEC's focus on international issues, including international auditing standards:

> Many people don't know that international standards on auditing are the basis for most firm audit methodology and are used as the baseline for the AICPA [American Institute of Certified Public Accountants] and the development of auditing standards in the United States. There's great interest for my office in the development of international standards of auditing. *There are some problems there in terms of funding, and challenges in terms of governance that we will try to address*.[61]

The MIAG finds that the Board could take the approach of using international auditing standards as the basis for determining PCAOB auditing standards, with adjustments made as needed to fit the specific context of the U.S. That said, the MIAG recommends, at this time, that the funding and governance challenges identified by the SEC's Chief Accountant be resolved before the Board considers how to proceed in terms of reaching greater alignment between the PCAOB's auditing standards and international auditing standards.

Question 6: In what ways should the PCAOB consider deploying technology, including AI, to help further its investor-protection mission?

The Board's current research project on the use of data and technology is designed to "[a]ssess whether there is a need for guidance, changes to PCAOB standards, or other regulatory actions in light of the increased use of technology-based tools by auditors and preparers. This includes evaluating the role technology innovation plays in driving audit quality. Research from this project may give rise to individual standard-setting projects and may also inform the scope or nature of other projects that are included on the standard-setting agenda."[62]

To support the research project, we recommended in a prior letter the establishment of a working group to assess data and technology developments affecting audit quality.[63] We were generally pleased to see the establishment of such a group, i.e., the Technology Innovation Alliance Working Group, the two primary functions of which were to: "Advise the Board on the use of emerging technologies by auditors and preparers relevant to audits and their potential impact on audit quality" and to "[m]ake recommendations to the Board

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details/pcaob-investor-advisory-group-meeting-june-2023; *see also* Briefing to the PCAOB – Critical Audit Matters, Subcomm. on Standards, PCAOB IAG Meeting (June 7, 2023), at 14 ("MODIFYING CAM LANGUAGE IN THE STANDARD (AMEND THE RULE)"), https://assets.pcaobus.org/pcaob-dev/docs/default-source/about/advisory/documents/iag-june-7-2023/4.-briefing-cams.pdf?sfvrsn=c27adf0a_3.

[60] *See The Second Annual Investor Advisory Group*, *supra* note 51, at 13.

[61] Douglas R. Carmichael, *A Conversation with SEC Chief Accountant Kurt Hohl: Highlights from the 20th Annual Baruch College Audit Conference*, The CPA Journal (Apr. 2026), https://www.cpajournal.com/2026/04/17/a-conversation-with-sec-chief-accountant-kurt-hohl (emphasis added).

[62] *Data & Technology*, PCAOB (Nov. 30, 2022), https://pcaobus.org/oversight/standards/standard-setting-research-projects/data-technology.

[63] *See* Letter from Members of the IAG, *supra* note 5, at 2.

regarding how the Board's existing or future oversight programs might address the use of emerging technologies by auditors and preparers."[64]

We applaud the group's effort to produce the Transforming Audit Quality Through Technology report.[65] In particular, we value the report's focus on promoting structured data creation and dissemination in public company audits by standardizing audit documentation taxonomy and digital signatures, facilitating ongoing innovation in audit quality, and encouraging technology literacy in auditor skillsets.[66] We also appreciate the report's focus on Artificial Intelligence (AI), including the recommendation to establish an AI Task Force.[67] The MIAG, however, finds the report to be somewhat ambiguous. As such, we would like to share some recommendations we made before in a previous letter, which could lend more granularity to the Board's approach toward the use of technology to improve audit quality.[68]

Specifically, we would recommend that when using technology-assisted audit procedures, it is vital that the auditor considers and evaluates the evidence they provide in the context of the entire audit.[69] In other words, "an auditor may determine to test an entire population of data, such as 100 percent of the adjusting journal entries made throughout the year. The auditor would be remiss, however, if consideration were not given to the possibility that there were adjusting entries that had not been entered into the data selected for testing. Likewise, it would be unwise for an auditor to fail to gain an understanding of the internal controls that ensure the completeness and accuracy of the data."[70]

Also, auditors' procedures should include gaining an understanding of digital analysis tools, such as credit rating algorithms, loan loss calculations, pension obligation calculations, or even criteria for revenue recognition, and assessing their reliability while considering current developments.[71] Moreover, we note the following about how auditors should use technology:

> [W]hile the PCAOB is continuing its assessment of the use of technology in audits, we strongly urge the Board to include in its final standard a requirement that auditors should use technology that has existed for decades and used by other market participants to assess and verify the accuracy and completeness of financial reports. Financial research and investment management firms have long undertaken the use of technology-based tools noted above to evaluate whether transactions were not reflected in financial statements; whether revenues reported were inflated; to seek unrecorded obligations; or to determine if asset values were inflated. For too long, the auditing profession has not kept up to date with such useful tools, nor utilized them in a timely manner.[72]

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[64] *Technology Innovation Alliance Working Group*, PCAOB, https://pcaobus.org/about/working-groups-task-forces/technology-innovation-alliance-working-group (last visited Apr. 14, 2026).
[65] *See Transforming Audit Quality Through Technology*, Technology Innovation Alliance Working Group (May 30, 2024), https://assets.pcaobus.org/pcaob-dev/docs/default-source/about/working-groups/technology-innovation-alliance-working-group/tia-future-state.pdf?sfvrsn=dddda0c7_2.
[66] *See id.*
[67] *See id.* at 16.
[68] *See* Letter from Members of the IAG to PCAOB (Aug. 25, 2023), https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket-052/4_miag.pdf?sfvrsn=f77f0fec_4.
[69] *See id.* at 3.
[70] Letter from Members of the IAG, *supra* note 68, at 3.
[71] *See id.* at 3.
[72] Letter from Members of the IAG, *supra* note 68, at 3.

We note that speaking recently at the University of Buffalo, Board Member Botic expressed the following views about AI:

> AI agents are increasingly used not just for automating routine tasks but for exercising judgment. This will undoubtedly happen with accounting and auditing. . .. The core question . . . is how much cognitive work should audit teams delegate to AI agents? In addition to the mundane, time-consuming tasks, will the auditors delegate tasks that require the application of professional judgment and skepticism to AI? Although still in the future but given the rapid and seemly endless advances in AI, it is not hard to conceive of an entire financial statement audit performed by AI. But should the audit be performed solely by AI? What are the repercussions of replacing human judgment with AI? . . . AI can enable auditors to be more effective and improve audit quality, that outcome is not guaranteed. . .. The use of AI in financial statement audits will require steady vigilance to determine where AI is used and where it should not be used.[73]

An AI Task Force established by the Board could consider not just the nature and extent of the use of AI in an audit, but also how the auditing field could benefit from further AI development while ensuring audit quality control. As one comment letter to this request for public comment states: "Some firms have made significant progress in applying AI to improve productivity, cost effectiveness, and quality. The PCAOB could establish a process to evaluate how different firms are applying AI and the subsequent impact on quality, as firms are currently at quite different stages of implementation."[74]

In addition, the Board could take an active role providing oversight and transparency regarding AI-related risks. Enhanced oversight could in theory take multiple forms. As one example, the Board could incorporate inquiries regarding AI governance into its inspection programs. The coming effective date of QC 1000 may present a timely opportunity for the Board to observe firms' systems concerning AI and to share findings more broadly. Another example would be to require audit firms to report details on AI usage in audits in a way that is like the reporting requirement that is currently applied to Certain Audit Participants under Form AP as Board Member Botic has suggested. Overall, investors would like the Board to collect and publish material information about AI risks via inspections, reports, rules, and guidance.

In a broader context, this comment can be seen in relation to findings that state, for instance, that institutional investors perceive that audit firms have significantly or fully implemented AI into the audit process, adding that investors believe that AI can enhance fraud detection, increase confidence in the validity of the audit, and save on costs by reducing manual labor, among other things.[75] As such, an AI Task Force could aim to shed some light on to how different actors in the auditing ecosystem perceive the use of AI, how it is actually being used now and how it will continue to be used in terms of audit quality control.

Separately, we propose that the Board consider using AI to create an "answer-bot" or an AI search function so that investors and members of the public might be able to query the public database of inspection reports and other valuable information the PCAOB already possesses. AI has reached the point now where it can access and analyze structured and unstructured data. It also can embed necessary confidentiality restrictions. This use of AI

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[73] George R. Botic, Board Member, PCAOB, *From One Acorn to a Thousand Forests: Trust, Financial Statement Auditing, and the Future of the Accounting Profession at the University of Buffalo Department of Accounting and Law's Helen and Oscar Sufrin Lectureship in Accounting* (Apr. 7, 2026), https://pcaobus.org/news-events/speeches/speech-detail/from-one-acorn-to-a-thousand-forests--trust--financial-statement-auditing--and-the-future-of-the-accounting-profession.

[74] Letter from Gary Crittenden to PCAOB, RE: PCAOB No. 2026-001 (Apr. 4, 2026), https://assets.pcaobus.org/pcaob-dev/docs/default-source/about/administration/strategic-plan-comments-2026/3_gc.pdf?sfvrsn=bd88d3ea_2.

[75] *See Annual Institutional Investor Survey*, Center for Audit Quality, at Appendix Slide 22-23 (Mar. 2026), https://thecaq.wpenginepowered.com/wp-content/uploads/2026/03/caq_annual-institutional-investor-survey_2026-03.pdf.

could free up PCAOB staff time in responding to requests and trying to figure out what investors and the public want. In addition, it could unleash the power of crowds to identify interesting and impactful questions. The proposed approach here also speaks to the question on transparency below.

Question 7: How can the PCAOB enhance transparency with its stakeholders?

IAG

As indicated, the PCAOB's foundational mission under SOX is the protection of investors — and that mission must remain the north star for the incoming Board. As the new Board establishes its priorities, we strongly urge it to preserve and strengthen the mechanisms that ensure investor perspectives are not merely considered but actively sought and meaningfully integrated into the PCAOB's work.

To that end, we respectfully request that the new Board commit to maintaining a resolute IAG that represents the interests of investors and who can provide the Board with direct, candid, and ongoing input on the issues that matter most to the investing public. The IAG plays a critical and irreplaceable role: it gives the Board a structured, reliable channel for hearing from the very constituency it exists to protect. Eliminating or diminishing this group would be inconsistent with the PCAOB's statutory mandate and would deprive the Board of essential perspectives at precisely the moment when strong investor-focused governance is needed most.

We also wish to be direct: **we do not support the establishment of an audit committee advisory council** as a substitute for the IAG. The focus of any advisory structure should remain squarely on investor perspectives, not on the preparers or those whose work the PCAOB is charged with overseeing.

Beyond the formal IAG structure, we urge the Board to maintain **robust and initiative-taking outreach to investors** between IAG meetings. Investors should not have to wait for scheduled meetings to have their voices heard. The Board should seek ongoing, substantive engagement with the investor community — through roundtables, direct consultations, and other outreach mechanisms — to ensure that its standard-setting and oversight activities remain responsive to investors' evolving needs.

The strength of the PCAOB's credibility depends, in large part, on the confidence investors have that the Board is listening to them. We urge the new Board to demonstrate that commitment in both structure and practice.

Other Transparency Matters

On February 11, 2025, the PCAOB "withdrew a pair of rules intended to increase audit firm transparency that auditors had strongly opposed when the requirements were being written . . .. The two rules—one is on audit firm reporting and the other is firm and engagement metrics—were adopted in November 2024 and sent to the SEC for approval."[76]

As we wrote in 2022, we believe that transparency is key. At the time, we recommended adding a goal to the strategic plan to increase total transparency of PCAOB activities.[77] As such, the withdrawal of the rules in question is problematic. Instituting a strategic priority focused on transparency moving forward will continue to be important.

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[76] Soyoung Ho, *In a Win for Audit Firms, PCAOB Withdraws Transparency Rules*, Thomson Reuters (Feb. 13, 2025), https://tax.thomsonreuters.com/news/in-a-win-for-audit-firms-pcaob-withdraws-transparency-rules.
[77] *See* Letter from Members of the IAG, *supra* note 5, at 1.

A strategic priority focused on transparency could include periodic informed disclosure that provides thoughtful analysis and identifies key underlying trends. A strategic priority focused on transparency could also include the following MIAG 2022 initiatives aligned to this priority that we continue to generally support:

(1) Issue an annual survey on the standard setting priorities of the PCAOB, open to the public and including a ranking by priority of standard setting and research projects (with brief explanation) by each individual PCAOB member and the Chief Auditor, as well as members of the IAG and SEIAG;[78]
(2) Publish the meeting calendar with external parties for each of the Board members and the Chief Auditor on the PCAOB website;
(3) Make all advisory group meeting minutes publicly available (in addition to the webcasts, which are already public); and
(4) Make public on the Board's website all third-party written communications sent to PCAOB members and the Chief Auditor, including concerns, requests, and comments.[79]

We also now add that the Board should hold more broad-based in-person meetings that investors and members of the profession and audit committees can attend and provide constructive feedback to the Board. More generally, the Board could benefit from embedding more substantive discussion or debate during public meetings. In the words of Dennis R. Beresford, CPA, drawing from his experience as Chair of the FASB, "open deliberations – where staff recommendations are actively discussed and challenged – lead to better outcomes and a more informed constituency," adding that the Board should "consider increasing the transparency and interactivity of its meetings and to move away from what may appear to observers as an overly legalistic process with Board members mainly reading from prepared scripts."[80] As such, "[g]reater openness, combined with enhanced external engagement, should improve both the quality and credibility of PCAOB standards."[81]

Finally, as indicated in response to Question 1, we believe the Board can enhance transparency with stakeholders by setting and reporting on clear, quantitative goals for its inspection process. One example might be reporting on restatements. An improved, more effective, inspection program could potentially report on restatements with the goal of lowering the rate of restatements over a reasonable period.

Thank you for considering the comments of the MIAG, who represent the primary customers of audited financial reports. If you, any members of the Board, or your staff have questions or seek further elaboration of our views, please contact Amy McGarrity at mailto:amcgarrity@copera.org.

Sincerely,

Members of the Investor Advisory Group

Members of the Investor Advisory Group

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[78] *See, e.g., Priorities of the Financial Accounting Standards Board: 2013 Survey*, Financial Accounting Standards Advisory Council (May 2013) (on file with MIAG) (survey by the Financial Accounting Standards Advisory Council (FASAC) to FASAC members, on behalf of the Financial Accounting Standards Board (FASB), to identify key areas of suggested focus, as well as other initiatives and efforts, for the FASB); *see also Priorities of the Financial Accounting Standards Board: Responses to the FASAC Survey*, FASAC (Summer 2013), https://fasb.org/page/ShowPdf?path=2013%20FASAC%20Survey%20Responses%20Final.pdf&title=2013%20FASAC%20Survey%20Results.

[79] *See* Letter from Members of the IAG, *supra* note 5, at 4-5.

[80] Letter from Dennis R. Beresford, CPA to PCAOB, RE: PCAOB No. 2026-001, at 2-3 (Apr. 3, 2026), https://assets.pcaobus.org/pcaob-dev/docs/default-source/about/administration/strategic-plan-comments-2026/4_drb.pdf?sfvrsn=f2b0524f_2.

[81] *Id.* at 3.

PICPA
Pennsylvania Institute of CPAs

May 12, 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. 2026-001

Dear Chair Logothetis:

The Pennsylvania Institute of Certified Public Accountants (PICPA) appreciates the opportunity to provide input on Public Company Accounting Oversight Board's (PCAOB) Strategic Priorities 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

Thank you for the opportunity to share our feedback regarding PCAOB's strategic priorities.

Our advocacy is centered on promoting high audit quality and strong ethical standards while supporting the continued participation of small to midsize audit firms in the capital markets – an essential component of resilient and well-functioning markets. We are concerned by a continuing decline in small exchange-listed companies, as well as the notable reduction in PCAOB-registered firms – estimated at nearly 21% since 2021. A diverse audit firm landscape is critical to enabling companies of all sizes to access capital markets. Accordingly, the scalability of standards and the broader regulatory framework should be carefully evaluated to ensure they do not create unintended barriers for small and midsize firms. Further, we have heard concerns from smaller firms about an adversarial tone from PCAOB inspectors toward smaller firms and a lack of

understanding of the operating environment of small public companies. We commend the PCAOB for establishing a resource group for smaller firms, which is a step in the right direction.

We believe PCAOB's most important strategic priority should be the development of a unified, forward-looking technology strategy. Rapid innovation is transforming how audits are planned, executed, and reviewed, and without a stable, expert-led framework to guide the responsible use of emerging tools, regulators risk either falling behind industry practices or unintentionally impeding advancements that could enhance audit quality. Technological capabilities are increasingly enabling more comprehensive and effective audit procedures, in some cases rendering traditional approaches less relevant. Balancing these advancements with the need for stable, principles-based standards presents a challenge and calls for a more adaptive and innovative approach to standard-setting.

In a rapidly evolving environment, flexibility in standard setting is essential. For example, the use of technology to gain a deeper understanding of a client's financial data should be encouraged, where appropriate. However, the impact of these technologies needs to be evaluated, and the standards revised to ensure that the audit scope remains reasonable. While standards do not need to *mandate the adoption of specific technologies, firms that choose to leverage them should have clear guidance – supported by inspection and oversight processes – to do so with confidence. The recently established audit consultation line, operating independently from enforcement, is positive movement toward fostering constructive dialogue on these issues.

The PCAOB should also proactively identify barriers to technology adoption and evaluate opportunities to promote broader, responsible use of innovative tools to improve audit quality. This includes assessing whether existing standards, inspections, or enforcement practices may be inadvertently hindering adoption. To support this effort, we recommend adding a standard-setting project focused on the integration of technology into the audit process, ensuring that the regulatory framework evolves in step with advancements in practice.

Finally, the PICPA has frequently expressed that the overpoliticization of the PCAOB has led to wild policy swings following changes in presidential leadership, which we believe hinders its mission. Some practitioners have observed that the PCAOB is organized in ways similar to

government agencies, such as by using job titles like Chief of Staff, and have raised concerns about whether Washington D.C.'s political climate might have an undue impact on how it operates. We support improved guardrails around enforcement, standard-setting, and the inspection program to insulate the PCAOB from political changes.

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 submission with you at your convenience.

Sincerely,

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

Appendix – Comments to Specific Questions

1. **What should the PCAOB focus on as its strategic priorities in registration, inspections, and enforcement over the next two to five years to further its statutory mission?**

   We believe enforcement should be better aligned with investor protection. Actions should target egregious audit quality failures – not technical or administrative errors that can be addressed through remediation or guidance. The use of enforcement actions for administrative errors (e.g., Form AP 60 filings) is not clearly tied to improving audit quality or to the quality of the financial statements.

   Enforcement also should be more clearly separated from inspections to avoid incentives that distort inspection outcomes. We have noted, for example, enforcement actions against individuals for workpaper document failures (e.g., engagement letters and audit committee communications). We support high-quality audit documentation requirements, documentation failures of this level should be covered by the inspection program and not be singled out for enforcement penalties and censure. Some of these enforcement actions have been disproportionate to the identified issue (akin to being sentenced to prison for a parking ticket) and can have a significant impact on an individual's career, including automatic ethics and state board actions.

   We appreciate that recent enforcements trends have been more targeted and focused on audit quality, but we believe there should be a transparent accountability framework for enforcement actions. Clear and reasonable guidelines for these actions should include reasonable parameters for the amounts of the fines, which currently seem unbounded. Where PCAOB enforcement overlaps with Securities and Exchange Commission (SEC) authority, both entities should pursue efficiencies to reduce duplication of effort. The enforcement framework should balance transparency, consistency, due process, and measurable outcomes while still preserving confidentiality where appropriate. An accessible appeals process should be provided to ensure that there are checks and balances integrated into the system to ensure that enforcement actions and related fines are balanced.

The framework should be grounded in well-defined objectives, consistent sanctioning principles, and meaningful stakeholder engagement, including enhanced transparency through aggregated reporting and thematic insights, a structured approach to sanctions that promotes fairness and predictability, and remediation-focused outcomes that incentivize corrective action. The framework should also include robust feedback loops, using post-enforcement reviews and data analytics to identify root causes, improve standards, and inform future oversight. Leveraging technology and engaging regularly with stakeholders will further ensure that enforcement remains effective, proportionate, and aligned with the goal of improving audit quality that supports the investor-protection mission of the PCAOB.

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)?

General – We advocate for an inspection program that is consistent across firms of all sizes. The inspection process should be remedial, and enforcement should be separate from the inspection process. Given PCAOB's investor-protection mandate, we do not believe that exempt broker dealers should be a part of PCAOB's permanent inspection program.

Communication of inspection results should be clearer and more constructive. Firms should have access to a meaningful and timely appeals process, and response timelines should reasonably accommodate firm size and capacity.

To emphasize the importance of the firm's tone at the top, the exit conference should be held with the firm's leadership, not just those with delegated responsibility for quality control within the firm.

Reporting – We believe that the inspection reporting process should more clearly communicate the severity of issues rather than referring to all inspection findings as "deficiencies that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or ICFR." While a note on PCAOB's website provides context to the meaning of the terminology, we believe that it is misleading to refer to every instance of noncompliance as a deficiency. This misleading terminology led Sens.

Elizabeth Warren and Sheldon Whitehouse to conclude that a recent deficiency rating represented "a nearly complete failure, indicating that investors and the public essentially face a coin flip when it comes to whether they should believe and trust the results of public companies' audits."[1] Practitioners observed that audit committee members they have spoken with generally disregard PCAOB inspection deficiencies because they lack value for decision-making. This should be expected since all noncompliance cases are rated similarly.

Oversight and Due Process – In numerous instances, practitioners express disagreement with inspectors' findings, yet find a lack of clarity, transparency, and accessibility within the current appeals process. Practitioners have observed that their feedback is not being acknowledged and feel subject to the whim of the inspectors. Field inspectors are often unresponsive to questions, and at times inquiries remain unanswered. We advocate for an appeals process that is clearly defined, transparent, and readily accessible for practitioners who contest conclusions reached by PCAOB inspectors. Furthermore, we endorse an oversight mechanism that is transparent to firms, ensuring inspection findings are consistent, balanced, and reasonable. Such oversight could also encompass firm appeals. Finally, practitioners need an ombudsman to assist them with procedural issues, answer questions, and address concerns. For example, one practitioner was asked to provide all internal inspection reports, including nonpublic company audits not subject to PCAOB oversight. This request seems to go beyond the purview of the PCAOB, but the practitioner complied to keep the regulatory relationship from becoming adversarial. Many of the practitioner's questions remain unanswered, as it is not clear who should address these types of questions (e.g., what the retention period for provided documents is, how they are maintained to ensure client confidentiality, etc.).

Timing – We believe that inspection scheduling should take into account the limited resources of small firms, with realistic deadlines and response periods. Many practitioners have reported issues with inspections being scheduled at challenging times, such as one case where inspectors required six hours of kickoff meetings on March 31, a major deadline for the

[1] Final Letter from Warren, Whitehouse to PCAOB on Audit Deficiencies

firm. Small firms often struggle to meet unreasonable response expectations due to their limited capacity.

Logistics –We request that the meeting location for an inspection be determined by the firm's preference, with PCAOB's offices as an option for firms that operate in a completely remote manner. File transfer was also noted as a challenge. Working with PDFs of workpapers is not the easiest format to review, and firms would prefer the ability to provide inspectors with a file directly from their practice aids. There are only a handful of third-party practice aids on the market, and firms have requested that PCAOB inspection teams be provided with access to these practice aids.

Perspective – Small firms note that in many instances inspectors are long-tenured individuals who may be current on the standards but not necessarily familiar with the current operating environment or the unique aspects of small clients. These inspectors quote standards without seemingly understanding the application of the standards to the specific business circumstances. As a result, many practitioners in small firms sense a bias against their firms during inspections. We recommend that inspection teams include professionals who have recent experience with small clients and firms, or those with a wide-ranging business outlook. Multiple practitioners have observed a shift in how inspectors have approached inspections since 2025.

3. What inspection information would be most useful to stakeholders, and how could inspection reporting be enhanced under a quality control-focused inspection program?

See previous comments at #2 regarding clarifying the severity of identified areas of noncompliance to avoid misleading stakeholders.

4. What standard-setting projects should the PCAOB pursue?

A. QC 1000 – We support immediate changes to the new quality control standard, including the following:

- Eliminating the design-only requirement for registered firms that do not issue public company audit reports.

- Removing overly prescriptive requirements (e.g., specified quality responses, use of Sept. 30 as the quality control period, etc.), which hamstring professional judgment by adding unnecessarily to auditor workloads without necessarily contributing to audit quality. We support clearly defined quality risks and flexible responses similar to the international standards.
- Reevaluating key instances in which the standard is not harmonized with the international standards and unnecessarily adds to the auditor's cost of compliance without contributing to audit quality.
- Removing the requirement that firms issue audit reports for more than 100 issuers should be required to incorporate an external quality control function, EQCF, which was not included in the original proposal.
- Overall, firms noted concerns regarding what the PCAOB will do with a firm's internal inspection and monitoring results. We request further clarification of the intended use of the information and believe that firms should be given appropriate time to remediate identified inspection and monitoring findings.

B. General comments on standard-setting:

- Modernize standards through evidence-based approaches.
  - Conduct a comprehensive review of existing standards to identify opportunities for modernization that enhance audit quality.
  - Incorporate evidence-based standard-setting, including pilot testing of innovative concepts (e.g., continuous monitoring).
  - Ensure standards remain flexible to accommodate evolving technologies and do not inadvertently hinder innovation.
- Enable responsible integration of technology.
  - Update standards to explicitly address emerging areas, including auditing digital assets; use and evaluation of large and complex data sets; auditing algorithms and AI-driven processes; and documentation of audit evidence generated through generative AI.
  - Assess and remove barriers that limit access to advanced technologies, particularly for small and medium-size firms.

  - Clearly articulate documentation expectations when a firm embraces AI or other technology tool. Provide practical examples to help firms meet inspection requirements.
  - Provide guidance on governance, validation, and ethical use of AI in audit processes.
- Improve audit quality through technology-driven practices.
  - Recognize and support the shift toward the greater use of data analytics and AI to identify risks and anomalies; testing larger portions—or the entirety—of audit populations where appropriate.
  - Reevaluate traditional sampling methodologies in light of technological capabilities, while preserving flexibility for appropriate use cases.
  - Explore the development of a standardized audit documentation taxonomy to enable consistency, automation, and enhanced regulatory insight. The adoption could be optional with early adoption incentives such as reduced inspection focus in certain areas included in the tagged documentation. This could be piloted to determine how best to leverage the data provided by the taxonomy.
- Enhance regulatory efficiency and reduce unnecessary burden.
  - Evaluate the cost of compliance and eliminate overly burdensome requirements that do not contribute meaningfully to audit quality.
  - Consider the cumulative impact of new and existing standards, particularly on smaller firms and capital formation and market access for emerging companies.
  - Reassess requirements (e.g., documentation expectations for inactive firms) that may impose disproportionate costs.
- Strengthen economic analysis and rulemaking discipline.
  - Require robust cost-benefit analyses, including compliance with the Paperwork Reduction Act, for all new standards.
  - Aggregate proposals to assess their combined impact on the profession.
  - Explicitly evaluate effects on small and midsize firms.
- Expand field testing and post-implementation review.

  - Increase the use of field testing prior to finalizing standards to ensure practicality and clarity.
  - Conduct post-implementation reviews to assess effectiveness and identify needed refinements.
  - Provide timely implementation guidance to support consistent adoption.
- Improve standard-setting process and implementation timing.
  - Ensure comment periods are sufficient (minimum 90 days, longer when proposals overlap).
  - Stagger effective dates to avoid operational strain from concurrent implementations.
- Leverage technology in oversight and inspections.
  - Use advanced analytics and AI to identify higher-risk engagements; detect anomalies and patterns indicative of deficiencies; and prioritize inspection focus areas.
  - Explore the use of standardized, technology-enabled documentation to streamline inspections and reduce manual review burden.
  - Shift toward a more risk-focused inspection model supported by data-driven insights.
- Address the technology adoption gap across firms.
  - Acknowledge disparities in technology adoption, and assess whether current standards adequately encourage innovation or unintentionally allow outdated practices to persist.
  - Consider whether minimum expectations should evolve to reflect capabilities that materially enhance audit quality.
- Ensure the regulatory framework remains future-ready.
  - Evaluate whether current standards, inspections, and enforcement approaches support ongoing innovation or risk rendering audits less relevant if not updated.
  - Take proactive steps to ensure the profession continues to deliver high-quality, technology-enabled audits aligned with stakeholder expectations.

5. **How can the PCAOB achieve greater alignment of its auditing standards with international auditing standards?**

   No comment.

6. **In what ways should the PCAOB consider deploying technology, including AI, to help further its investor-protection mission?**

   See our comments regarding a standardized documentation taxonomy (at question #5) and the potential for leveraging data to better pinpoint risks for oversight and inspection.

7. **How can the PCAOB enhance transparency with its stakeholders?**

   PCAOB meetings and meeting materials should be readily accessible on PCAOB's website. The website is difficult to navigate. While videos of open board meetings are retained on the board's website, related materials are not easy to locate. Deliberations of key items should not be behind closed doors.

   Further, it can be challenging to locate certain data points that should be reasonably accessible. For instance, when trying to determine the number of firms registered with the PCAOB in a specific year, the website only provides information about currently registered firms and does not offer access to historical data.

   This concludes our remarks on PCAOB's strategic priorities. Please contact Allison Henry for elaboration on any points made herein.

May 13, 2026

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

RE: PCAOB No. 2026-001, Request for Public Comment, PCAOB Strategic Priorities

Dear Madam Secretary,

We appreciate the opportunity to provide input on the PCAOB's strategic priorities. We commend the board for its transparent and inclusive approach to engaging with stakeholders as it sets priorities. We support the board's plans to release its first standard-setting agenda consultation, which we understand will also seek recommendations to improve the overall standard-setting process. We welcome the chance to share our perspectives.

Strong, effective oversight of public company auditors promotes audit quality.

As auditors, we play a vital role in fostering trust in the accuracy, reliability, and consistency of information that supports the US capital markets—and audit quality is at the heart of all we do. The multi-stakeholder approach underpinning the Sarbanes-Oxley Act of 2002 (SOX) has meaningfully strengthened the quality of financial reporting and audits over the past two decades. Effective oversight of public company auditors has been, and will continue to be, a critical contributor to audit quality. This oversight is exercised through standard setting, inspections, and enforcement, all of which should operate in an appropriate balance.

Both the overall financial reporting ecosystem and the audit landscape are facing unprecedented and rapid change driven by new and emerging technologies, particularly artificial intelligence (AI). Like PwC and most organizations in the current environment, the PCAOB should take the opportunity to reflect on these developments, challenge the status quo, and prepare for the future. Within this letter and its appendix, we offer our perspectives and initial recommendations for the PCAOB's consideration as it sets and executes its strategic plan for 2026-2030 (the 2026 Plan) and seeks to enhance its operational effectiveness and efficiency, including its standard-setting process. To vet these and other recommendations and gather further input in setting the 2026 Plan and supporting agenda, the board should consider mechanisms such as public roundtables and working groups. Most importantly, the PCAOB should be

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transparent about its final choices in the 2026 Plan and the basis for them, including why each supports the PCAOB's mission.

The PCAOB's mission is enduring, but how it fulfills that mission and engages with its stakeholders must evolve.

We commend the PCAOB for taking this important first step toward more transparent and agile processes founded on increased multi-stakeholder engagement. Multi-stakeholder engagement and transparency should be foundational principles for the PCAOB. It is also important that the 2026 Plan and supporting agenda are grounded in the PCAOB's dual mission—to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports. PCAOB actions are most effective in supporting audit quality and protecting investors when they (1) are underpinned by a robust economic analysis, and (2) consider the respective responsibilities of preparers, audit committees, and auditors, resulting in actions that appropriately complement other rules, regulations, and policies across the financial reporting ecosystem.

To supplement its work with its advisory groups,[1] the PCAOB and its staff should pursue deeper engagement with audit committees and related organizations, given their shared oversight responsibilities with the PCAOB, their fiduciary duty to investors, and their ability to interact directly with firms to monitor audit quality. Similarly, enhanced coordination with the SEC will be beneficial both in relation to accounting and disclosure matters affecting preparers and in considering complementary actions that may be necessary to protect investors, for example, with respect to audit committee oversight. Continued robust engagement with the SEC, the FASB, and fellow US and international auditing standard setters will be important to developing comprehensive solutions to the emerging issues that affect the financial reporting ecosystem.

Finally, the PCAOB can be more agile in how it engages with its advisory groups to fully benefit from their expertise and perspectives; those groups should not be restricted in the timing or frequency of meetings or when they can provide feedback on proposals.

The impact of technology, particularly AI, is a defining challenge requiring coordinated, ecosystem-wide action.

The impact of technology on a company's operations—and on audits and attestation engagements—is the most significant development that is likely to impact the PCAOB's standard setting and other activities in the next five years, and it should therefore be a priority within the 2026 Plan. While the staff guidance issued to date has helpfully raised

[1] See further descriptions of the **Investor Advisory Group** (IAG) and **Standards and Emerging Issues Advisory Group** (SEIAG), which to date have met semi-annually.

awareness, the PCAOB's efforts will need to become more pronounced and proactive to address emerging issues and effectively serve the public interest as the environment in which audit and attestation engagements are conducted continues to evolve. The near-constantly changing economic and business environment requires the PCAOB to be agile, thoughtful, and responsive to emerging issues to achieve its mission. As a matter of priority, the PCAOB should address the use of AI by companies and auditors.

We have developed and advanced our own methodology, guidance, and training to enable our teams to effectively address these topics in our audits. We continue to learn from our experience deploying AI in our audits and have developed business rules and governance mechanisms to enable its responsible use, and we have been pleased to share feedback about our AI journey, including at recent SEIAG and IAG meetings. In order to promote more consistency across the profession and support audit quality, the PCAOB should consider how it could best address the risks that firms and auditors may deploy AI and other technological tools without the necessary governance, may over-rely on the output of such tools without appropriate review, and may fail to communicate transparently with audit committees about how AI is being used in their audits. The board's efforts in this space will likely need to comprise both a short-term focus on issuing relevant guidance grounding new concepts such as generative AI in existing principles-based standards, as well as a longer-term dialogue about the nature and extent of potential changes to auditing and quality control standards to drive audit quality and consistency across firms and public company audits.

On an initial basis, we recommend the PCAOB continue to engage with stakeholders to understand and evaluate:

- How firms are addressing these topics in their methodologies and whether there are best practices and observations regarding companies' and firms' use of technology that could be highlighted through PCAOB staff guidance
- How best to collaborate with other US and international auditing standards setters and professional accountancy organizations, including to enable a dialogue about whether there are complementary actions needed by the SEC, FASB, or COSO,[2] in order to address the use of AI in a timely and holistic manner. For example, it would likely be helpful for the SEC to discuss the advancements in AI in the context of public companies' obligations to maintain accurate books and records, internal accounting controls, and an effective system of internal control over financial reporting, given how these concepts transcend changes in technology and serve as the basis for management certifications and the audit.

[2] See COSO's publication, **Achieving Effective Internal Control over Generative AI**.

The implementation of QC 1000 provides a valuable opportunity to strengthen inspections and support the PCAOB's vision of forward-looking, responsive, and innovative oversight.

A strong and effective system of quality control consistently underpins and helps drive audit quality—which is why our firm has invested significantly in efforts to strengthen and modernize our system of quality management in light of the environment in which we operate. Our consistent track record on quality has been supported by these investments and demonstrates the importance of focusing on timely monitoring and remediation activities, including evaluating and responding to root causes when issues arise.

That's also why we welcomed the development of QC 1000, **A Firm's System of Quality Control**,[3] which (1) facilitates international alignment given its similarities to the International Auditing and Assurance Standards Board's (IAASB) ISQM 1,[4] (2) is integrated, risk-based, and scalable for application by firms of all sizes, and (3) promotes accountability. Its implementation represents a unique opportunity for the board to evaluate how best to modernize and improve the inspections program. We support the PCAOB's plans to form a task force composed of experts across the financial reporting ecosystem to help inform transparent proposals related to potential changes to the inspections program. In our response to question 2, we offer initial recommendations with the premise that the PCAOB's focus will be on whether a firm's system of quality control is appropriate for the size, complexity, and risk of its audit practice.

The goal of aligning the inspections program with the desired outcomes of QC 1000 and modernizing the program is to enhance audit quality and reduce unnecessary duplication and cost across the system. The PCAOB's evaluation of a firm's system of quality control gleaned through the inspections program can and should be used to tailor the nature, scope, and extent of that firm's individual engagement inspections—scaling up or down depending on the PCAOB's view of a firm's system of quality control, its internal and PCAOB inspection history, and other factors. Similar to how auditors think about companies' components of internal control when developing their risk assessments and audit responses, the PCAOB would be able to leverage the results of the firm's monitoring programs and remedial actions, as well as the PCAOB's observations related to the firm's system of quality control, to design and execute the PCAOB's further work to inspect individual engagements in a given year. Finally, the outcomes of the PCAOB's and firms' inspections of individual engagements can be taken into account when scoping both the planned evaluation of the firm's system of quality control and the nature and extent of individual inspections in subsequent years.

We also recommend fulsome consideration be given to the content and timing of inspection reports to enhance their usefulness and understandability. Inspection reports can provide valuable insights to audit committees, investors, and others about matters that could significantly affect audit quality. But care should be taken that the reports' value is not

[3] In our **comment letter** to the SEC, we identified aspects of QC 1000 that could be improved. We therefore support the planned supplemental request for comment to seek public input on targeted changes to QC 1000.

[4] International System of Quality Management (ISQM) 1, **Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements**

compromised by a lack of contextual information about the severity of Part I.A comments to an overall audit or diminished by inclusion of matters that did not affect the accuracy of the firm's audit reports or otherwise have little or no effect on audit quality. Other communication mechanisms may also be relevant to convey the PCAOB's observations gained through its inspections program and views on audit quality both in relation to individual firms and the profession as a whole. Our responses to questions 2 and 3 in the appendix provide further details that could be used to support a multi-stakeholder dialogue on an appropriate way forward.

The board should be clear as to its decisions on previous standard-setting projects and its agenda going forward.

We appreciate the board intends to take a fresh look to inform its prioritization of standard-setting projects. Taking a multi-stakeholder engagement approach, the PCAOB should identify areas where standard-setting activities or additional guidance would most meaningfully contribute to audit quality. This will likely drive a focus on areas that either frequently result in inspection comments or where there is inconsistency in practice that needs to be resolved—rather than focusing on disclosure (e.g., Form AP and standard-setting related to firm and engagement metrics) and broader policy matters that divert attention from performance and quality control standards.

Opportunities exist for the PCAOB to work closely with preparers, audit committees, other accounting and auditing standard setters, and the profession to understand emerging issues and what an appropriate response would be (standard setting, implementation guidance, etc.). Efforts by other auditing standard setters, including the IAASB and the US Auditing Standards Board (ASB), to enhance their respective suites of standards can help inform the PCAOB's work, including any efforts to modernize its own suite of standards.

We appreciate the transparency with respect to the board's current efforts on its recently updated **project webpage**, and support those areas as a matter of immediate priority. As further described in our response to question 4, on an initial basis we recommend the board move forward in a measured way in three areas of focus in standard setting:

1. Emerging technologies
2. Reset, advancement, and closure of longstanding projects with outcomes more closely aligned to the role of the auditor, audit committee, and management
3. Deferred maintenance on areas of alignment with accounting standards

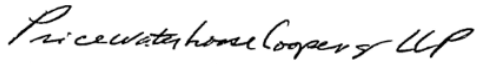
* * * * *

In establishing the 2026 Plan, the focus of its standard-setting agenda, and other areas in which to invest board and staff resources, the PCAOB should give due consideration to the views of all stakeholders and be transparent about the decisions it makes based on the feedback it receives to this request for public comment and through other outreach. Robust economic analysis at all stages of policy making and standard setting is critical to the board's

success. Including a clear articulation of the issues to be addressed, why a standard-setting response is being pursued, what inputs were taken into account (including the work of other regulators, standard setters, and policymakers), and how alternatives were considered will help stakeholders better evaluate the board's proposals and protect the board from criticism that it is unduly influenced by any one stakeholder group or political affiliation. Finally, as the environment in which audits are conducted continues to evolve, it is vital to acknowledge that not all issues may require a regulatory solution.

We look forward to the opportunity to further engage with the board, staff, and stakeholders more broadly on our observations and initial recommendation. Please contact Deanna Byrne (**deanna.marie.byrne@pwc.com**), Dan Felgner (**dan.felgner@pwc.com**), or Brian Croteau (**brian.t.croteau@pwc.com**) regarding our submission.

Sincerely,



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Appendix

Detailed responses to the questions posed in the request for public comment

1. What should the PCAOB focus on as its strategic priorities in registration, inspections, and enforcement over the next two to five years to further its statutory mission?

The 2026 Plan must be grounded in the PCAOB's mission. The priorities should be those that are expected to have the most meaningful impact on audit quality and support the capital markets.

Registration and inspections

The PCAOB's main priority should be reimagining the inspections program for the future, informed by multi-stakeholder engagement and considering the impacts of QC 1000, ISQM 1, and the PCAOB's knowledge and experience with each firm's track record in maintaining its systems of quality control. Additionally, the PCAOB should work with the SEC to enhance or establish policies and procedures aimed at improving operational effectiveness and consistency in the regulatory approach that focuses on quality and can transcend political party shifts over time. Two of the more pressing issues are:

- How firms can effectively engage in a timely manner with SEC staff on accounting and auditor independence matter that may arise during PCAOB inspections; formalizing such a process would acknowledge the SEC's responsibilities for oversight of accounting and auditor independence matters and help make sure that these matters are resolved with the benefit of all the facts, including from the companies whose audits are being inspected, and in a timely manner to the satisfaction of the PCAOB, SEC, the firms, and the companies themselves.

- Finalizing the scope of a permanent broker-dealer inspection program as contemplated by SOX, which we were pleased to see is contemplated in the PCAOB's updated projects webpage. To best serve investor protection and effectively use staff resources, this program could be focused on annual inspections of carrying brokers and dealers subject to AT 1 examination engagements, with a potential risk-based approach related solely to the exemption report and AT 2 review engagements for introducing brokers (rather than a set schedule).

Enforcement

PwC strongly favors a robust enforcement regime in order to maintain and enhance investor confidence and thereby ensure well-functioning capital markets. That said, more than two decades after the enactment of SOX, it is at best unclear whether the benefit of having a second enforcement program with powers duplicative of, but less than, those of the SEC's outweighs the inevitable costs of duplication. We therefore offer the following observations for the board's consideration assuming there remains a standalone PCAOB Enforcement regime, but note the importance of that threshold issue:

- The board, in coordination with the SEC, could benefit from implementing a more consistent and calibrated approach to assessing which matters warrant formal investigation or sanction that distinguishes between potential substantive audit quality failures and administrative compliance matters.

  While all violations of PCAOB standards and rules merit appropriate attention, the board should consider how best to utilize its enforcement resources by distinguishing between those substantive matters that directly impact audit quality, investor protection, or credibility in financial reporting versus administrative compliance matters (such as inadvertent and minor form filing deficiencies)[5] that, while requiring correction, do not reflect underlying audit quality concerns or pose meaningful risks to the capital markets. Such an approach would be consistent with recent remarks by SEC Chairman Atkins about refocusing enforcement on harm to investors, consistent with Congressional intent.[6]

- The board, again in coordination with the SEC, should consider an approach that eliminates duplication with the SEC's own enforcement program.

  This is all the more relevant in light of the SEC's recent announcement that it is forming a new "SOX Group" within the SEC's Division of Enforcement that will "investigate and litigate matters involving potential violations of auditing and related professional standards and provisions of the Sarbanes-Oxley Act and other relevant federal securities laws" that will complement the SEC's continued active role in auditor-related enforcement. Duplicative enforcement efforts do not produce incremental investor protection benefits but do impose real costs on both agencies and on firms and companies that must respond to concurrent investigations, sometimes in completely separate and uncoordinated proceedings, requiring redundant work for all involved. A clear delineation of roles—or coordinated protocols to avoid duplication—would advance both agencies' missions more efficiently. One possibility would be for PCAOB Enforcement to focus exclusively on threats to its inspection regime, such as non-cooperation or spoliation matters.

- Absent such a focus, the board should consider how better to leverage its supervisory model by striking an appropriate balance between its enforcement and inspections authorities, reserving its formal enforcement apparatus (whether by the PCAOB or, where warranted, by the SEC) for matters where it can achieve maximum impact on audit quality and investor protection.

  In this way, the PCAOB could more fully utilize its inspection program to identify, remediate, and, importantly, incentivize cooperation and remediation of compliance matters, while strategically deploying the enforcement

[5] For example, amendments to Form AP and Form 2.

[6] See SEC Press Release 2026-34, **SEC Announces Enforcement Results for Fiscal Year 2025: Resets the measure of enforcement effectiveness to investor protection and Congressional intent,** which states that its FY 2025 results "re-establish the definition and measure of enforcement effectiveness, grounded in Congress's original intent and focused on bringing actions that actually prevent investor harm instead of headlines and inflated numbers."

program when more egregious circumstances require. (We note that, in the alternative, such matters could be referred to the SEC for enforcement-related investigation.) Remediation-focused approaches for more routine compliance matters often produce more timely and better audit quality outcomes than after-the-fact enforcement sanctions. Further, where enforcement may not be the appropriate response, the board has other tools at its disposal that can meaningfully advance audit quality and investor protection, including Spotlight documents, inspection reports (including firm-level and thematic observations), clarified standards guidance, staff practice aids, and other communications that raise awareness of the board's concerns and expectations.

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)?

The establishment of QC 1000 provides a basis for the PCAOB to centralize its inspections program and then further tailor it to individual firms as appropriate. Simply put, the balance of the board's efforts in relation to the three core elements required by SOX[7] can and should shift going forward to recognize the expected improvements to firms' systems of quality control based on requirements in QC 1000 for firms to identify, assess, and appropriately respond to firm-specific quality risks.

The primary focus should be on evaluation of the sufficiency of a firm's system of quality control—enabling inspectors to assess whether the firm has adequate policies and procedures that are operating effectively to support audit quality across all its engagements. Inspection of selected audit engagements would remain an important complementary and scaled focus, and the PCAOB would continue to retain its ability to perform other testing as appropriate to fulfill its SOX mandate.

We offer initial recommendations on how to meaningfully evolve the inspections program.

We have invested heavily in our system of quality management in recent years—setting quality objectives, strengthening our quality risk assessment, tailoring our policies and procedures to respond to risks, and establishing a robust monitoring and remediation process, including our root cause analysis that helps to drive timely remediation as necessary when issues are identified. We leverage data and technology to operate our system of quality management and accordingly have a rich body of information we use to evaluate audit quality. The imminent implementation of QC 1000 means similar information will soon be available to the PCAOB about the firms it inspects, much of which was not available when the current inspection model was designed.

[7] Section 104(d) of SOX requires the PCAOB to (1) inspect and review selected audit and review engagements of the firm (which may include audit engagements that are the subject of ongoing litigation or other controversy between the firm and one or more third parties), performed at various offices and by various associated persons of the firm, as selected by the board; (2) evaluate the sufficiency of the quality control system of the firm, and the manner of the documentation and communication of that system by the firm; and (3) perform such other testing of the audit, supervisory, and quality control procedures of the firm as are necessary or appropriate in light of the purpose of the inspection and the responsibilities of the board.

A modernized inspection program should make full use of this information rather than duplicating effort. By beginning with what each firm already knows about itself and is required to consider in evaluating its system of quality control, PCAOB inspectors can develop a more comprehensive and better-informed view of whether a firm's system of quality control is sufficient. This approach does not reduce rigor; it redirects some of the inspection effort from reperforming work the firm has already done toward a tailored focus on the firm's facts and circumstances, including its risk profile, leveraging the PCAOB's broader knowledge of matters related to audit quality across the profession.

Our initial recommendations are grounded in the objective of enabling PCAOB inspections to protect investors by directing inspection resources to where they can most effectively identify potential audit quality issues and drive audit quality improvements.[8] We encourage the PCAOB to engage in a multi-stakeholder dialogue about whether the following elements could form the foundation of a modernized inspection approach:

- First, inspectors could focus on understanding how each firm identifies its bespoke quality risks and develops appropriate responses to those risks. No two firms are identical. A firm's quality risks are shaped by how it is organized and managed and how it establishes accountability across the organization. A firm's quality risks are also affected by the nature of the engagements it performs, including the sectors it serves and the size and composition of its US public company audit practice. Inspectors who understand these firm-specific dynamics are better positioned to evaluate whether the firm's quality responses are genuinely fit for purpose. This approach would require significant but not unexpected initial investment by PCAOB inspection resources in the period after firms' first reporting on Form QC (i.e., after the September 30, 2027, required evaluation and subsequent November 30, 2027, reporting). It may then be reasonable for subsequent inspections to focus on changes to the firm's system of quality control year over year, given QC 1000's emphasis on continuing improvement.

- Second, inspectors could continue to deepen their understanding and evaluation of each firm's root cause analysis and remediation of both internal and external inspection comments. A firm's willingness and ability to rigorously diagnose the underlying causes of audit deficiencies and to implement remediation that prevents recurrence is one of the most reliable forward-looking indicators of audit quality. Inspectors who evaluate this capability directly are able to assess not just whether past deficiencies have been corrected, but whether the firm has the institutional capacity to prevent future ones.

- Third, the number and scope of individual engagement inspections could vary based on a defined set of risk factors, including, for example: (1) the strength of the firm's system of quality control, as evaluated through the processes we recommend; (2) the size and risk profile of the firm's audit portfolio, including consideration of

[8] The UK Financial Reporting Council's recent publication, **An evolved audit supervision approach**, and recent efforts by the Canadian Public Accountability Board related to its **audit quality assessments**, may offer ideas for the board's consideration.

significant changes that may occur over time; (3) the firm's structure and approach to accountability, including the nature of any leadership changes; (4) macroeconomic trends and emerging risks affecting the firm's client base; (5) the firm's inspection history, including observations from its own internal inspections program as well as its history of restatements and reissued audit opinions; and (6) how the firm demonstrates its ongoing commitment to audit quality. The number of individual engagement inspections could be scaled up or down for each firm in each inspection period, with a continued focus on the areas of most significant risks within those individual engagements. Understanding and evaluating the outcome of the firm's own internal inspections program (including the breadth of its program and its results) can also inform inspectors' decisions as to the number and scope of PCAOB individual engagement inspections that are warranted in a given year. Firm inspection programs could also potentially be leveraged by the PCAOB as part of its inspections program after evaluation of the efficacy of such programs, including through observing or being involved in some aspects of the firm's internal engagement reviews.

A risk-based approach should not be understood as a retreat from engagement-level inspections, as there is benefit in evaluating whether the firm's quality controls are operating effectively at the engagement level and evaluating whether sufficient appropriate audit evidence has been obtained. Rather, it is consistent with the PCAOB's current approach of directing the majority of its inspections efforts at the engagements and risk areas where deficiencies are most likely to occur and most likely to affect investors while also considering the ability to place increased emphasis on the firm's system of quality control. The current practice of conducting a fixed number of inspections applied relatively uniformly across annually inspected firms may provide a sense of thoroughness, but it can also spread inspection resources thinly and leave emerging risks under-addressed. A calibrated approach—in which sample size and scope flex upward for firms the PCAOB believes may have increased quality risks and is thoughtfully scoped for firms that have demonstrated sustained quality—is likely to surface more meaningful observations and drive audit quality improvements.

We share initial recommendations to improve the consistency and timing of the inspections program.

To complement QC 1000 and promote a more consistent application of judgments by both firms and PCAOB inspectors in their evaluations of systems of quality control, the PCAOB should formalize and publish a principles-based framework for evaluating audit deficiencies. Such a framework should be developed based on outreach with stakeholders and should clearly tie evaluation of the deficiency back to risk, materiality, and the judgment as to whether the auditor did or did not obtain reasonable assurance. Doing so can also help users of inspections reports understand the nature and severity of audit deficiencies, an area we explore further in our response to question 3.

Finally, in light of the fixed November 30 Form QC annual reporting date, the PCAOB should consider changes to both the timing of inspections as well as when inspection reports are made available. Timing engagement-level inspections to avoid peak audit periods would enable both the firms' audits and the PCAOB's inspections to benefit from full attention and resources. Committing to issuing firms' inspection reports within a reasonable and consistent timeframe

so that reports are released publicly before the end of each calendar year would increase their utility. Finally, more timely remediation determinations that contemplate the firm's own root cause analysis and monitoring of actions would enable more effective and timely resolution of issues related to quality control criticisms and potentially further accelerate the release of Part II matters.[9]

3. What inspection information would be most useful to stakeholders and how could inspection reporting be enhanced under a new quality control-based inspection program?

A modernized, risk-based inspection program (as described in our response to question 2) should be paired with a thoughtful evolution of inspection reporting. The value of the PCAOB's inspections program depends not only on the rigor of the inspections themselves, but on whether the resulting reports provide useful information. SOX notes that the purpose of inspections is to assess the degree of compliance of audit firms with standards and rules. We question whether inspection reports as written today help users understand the degree of compliance and enable them to evaluate the significance of inspection observations and how they relate to audit quality.

As the board considers how reporting about individual firms' inspection results could be enhanced under a quality control-based inspection program, we encourage it to ground that consideration in direct engagement with users of the inspection reports who each may use them differently. An audit committee may use this information to supplement its direct interactions with its auditor or as input when evaluating the benefits and risks of appointing a new firm. A firm itself may look to such information to benchmark and improve its system of quality control. These different use cases suggest there may be no one single way to improve firm inspections reports, but rather actions could be undertaken in tandem to improve transparency about the application of the board's inspection programs and the observations it gained beyond a singular focus on an overall Part I.A comment rate relating to a sample of the firm's engagements.

Stakeholder engagement is particularly important as the PCAOB's inspections program evolves, because the nature of inspection comments under a quality control-based model will look different from comments under the current engagement-centric model, and firm inspection reports will need to communicate those comments in ways users can readily understand. Additionally, profession-wide reporting pursuant to Rule 4010 could become increasingly relevant given the greater focus on firms' systems of quality control, as the provisions in SOX Section 104(g)(2) require individual firm quality control criticisms to be kept confidential (1) for at least 12 months to allow firms the opportunity to remediate those criticisms and (2) permanently when the criticisms have been satisfactorily addressed. Care should be taken to avoid the risk or perception that this SOX-driven restriction does not enable stakeholders to understand significant quality control issues with firms in a timely manner.

[9] A recent PCAOB **Spotlight** highlighted audit committee chairs' desire for more timely and accessible PCAOB information, with some voicing frustration with the timing of the release of PCAOB inspection reports, especially Part II criticisms.

One of the ways the PCAOB can support users' understanding under a modernized program is by being transparent about the factors the board has used in determining how to scope firms' inspections across the profession as a whole, especially if sample sizes and inspection intensity vary across firms based on risk, as we recommend. The board could consider disclosing, at appropriate levels of generality, the following in a Staff Inspection Spotlight:

- The factors that informed the number and selection of engagements inspected across firms
- How firms' systems of quality control influenced the scope of their inspection
- How firms' inspection histories, portfolio risk profiles, and other risk indicators were considered
- How current year's inspections broadly compare, in scope and focus, to prior years

Today's firm inspection reports can be dense, technical, and difficult to understand without additional context. The volume of detail can obscure rather than illuminate overall compliance and the significance of specific observations, including whether and how they affect audit quality. Several potential enhancements merit dialogue with stakeholders and thoughtful consideration, including by the planned inspections task force:

- More summary-level information emphasizing patterns, themes, and overall compliance

  Users would benefit from reports that lead with a clear, accessible assessment of overall audit quality and compliance at the firm, supported by discussion of themes across the inspection. This approach can help "tell the story" of a firm over time and demonstrate whether audit quality is improving or whether concerns persist.

- Additional context on Part I.A comments

  Part I.A comments are currently reported in a way that can make it difficult for users to assess severity. Two comments of similar technical description may reflect very different underlying risk: one may indicate a serious failure affecting the reliability of the audit opinion while another may reflect a documentation shortfall with limited investor-protection implications. Providing additional context such as the nature and potential consequence of the comment and whether the audit opinion was ultimately supported would promote more consistent understanding and comparability across firms and periods.

- Addressing certain Part I.B observations through Spotlight publications rather than individual inspection reports

  Part I.B comments, which involve instances of noncompliance with PCAOB rules and other requirements that do not relate directly to the sufficiency of audit evidence, may be better suited to thematic, profession-wide observations. Consolidating these matters into Spotlight publications or similar thematic guidance would allow the board to highlight areas for improvement and provide necessary context, communicate expectations more effectively across the profession, and keep individual inspection reports focused on the matters most relevant to assessing a firm's audit quality. To the extent comments that are currently addressed in Part I.B result in a

quality control criticism, disclosure would be appropriate when those quality control criticisms were not addressed to the satisfaction of the board during the initial 12-month period following the issuance of the inspection report.

- Reconsidering disclosure of certain Part I.C independence matters in individual inspection reports

  We recognize and support the PCAOB's focus on independence; however, we understand from audit committees that these communications may be difficult to place in context, particularly those that are self-identified and promptly remediated. The approach to disclosing both PCAOB-identified and firm-identified Part I.C matters is inconsistent with the approach to Part I.A and Part I.B comments. PCAOB disclosure of firm-identified Part I.C matters in the firm's inspection report may also convey a degree of concern that is disproportionate to the underlying matter and can disincentivize proactive self-identification and remediation.

  A more calibrated approach would be to focus independence-related disclosures in firm inspection reports on those matters that (1) were identified as a result of a PCAOB inspection, and (2) ultimately resulted in resignation by the firm or termination by the audit committee. PCAOB inspectors could continue to evaluate the impacts of independence matters identified by the firm through its monitoring processes to evaluate whether they result in a quality control criticism. Similar to our recommendation in relation to Part I.B comments, independence-related quality control criticism that are not remediated to the satisfaction of the board would be disclosed. Matters firms have identified through their own system of quality control that have been remediated could be addressed through aggregate or thematic reporting to raise awareness for stakeholders and reaffirm the PCAOB's expectations related to independence.

4. What standard-setting projects should the PCAOB pursue?

The impact of AI and digital assets should be at the forefront of the PCAOB's priorities.[10]

Artificial intelligence

AI is likely already being used to some extent by most companies and its use is likely to increase over time. While the use of AI presents opportunities to transform businesses, financial reporting, and audits, its use also introduces risks for management and auditors that need to be adequately addressed. As a first step, thought leadership and guidance grounding new concepts such as generative AI in existing principles-based standards can be helpful for auditors and

[10] Recent discussions at the PCAOB SEIAG highlighted actions that could be prioritized related to the impacts of AI on preparers, auditors, and firms as well as potential accounting and auditing guidance related to digital assets including blockchain and cryptocurrency (e.g., transparent and common understanding of role and limitations of an audit, expectations of evidence related to safeguarding, sole ownership, and with custodial arrangements).

support audit quality. Recent discussions of the IAG and SEIAG indicate consensus on the need for PCAOB action related to AI with potential focus on the following:

- How a company's growing use of AI impacts the auditor's risk assessment and approach to obtaining sufficient appropriate audit evidence
- How auditors (1) consider the relevance and reliability of the sources of information used in AI tools, (2) use prompts that are appropriately aligned to the audit procedure to be performed and the source being used, and (3) evaluate the output that has been generated
- What constitutes sufficient appropriate audit evidence when an auditor relies on AI-generated analysis
- How foundational concepts of direction, supervision, and review, as well as professional skepticism and professional judgment, are affected by the auditor's use of AI
- What considerations may be relevant to a firm's system of quality control to promote more consistent responses to quality risks that arise when using technological resources that incorporate AI
- How communications with management and those charged with governance should be enhanced to focus on management and auditor user of AI
- How PCAOB standards related to direction, supervision, and review, and appropriate exercise of professional judgment and professional skepticism are expected to be applied

Digital assets

The PCAOB should more fully evaluate the implications of increasing use of digital assets on audit quality. The PCAOB can work with the SEC, FASB, and COSO to consider how best to promote a common understanding of the accounting and reporting issues related to digital assets, including unique risks that may arise from their use (e.g., in relation to the nature and extent of evidence over safeguarding of assets, sole ownership, and custodial agreements). While digital assets may not be relevant to all public companies, further action is nevertheless necessary to promote consistent application, accountability, and execution by auditors when auditing digital assets.

We recommend that the PCAOB leverage ASEC's Digital Assets Practice Aid[11] to make progress in this area in the near term, and in the longer-term, consider whether changes are needed to core PCAOB standards. For example, the PCAOB could tailor the ASEC's guidance to align with PCAOB auditing standards to promote a greater understanding

[11] ASEC's **Digital Assets Practice Aid** is a nonauthoritative resource that sets out guidance on pertinent accounting and auditing issues and is periodically updated to reflect FASB Accounting Standards Updates, other regulatory developments, and practical questions from auditors.

of internal controls related to digital assets and guidance on how these are expected to be considered in conducting public company audits (i.e., when applying AS 2110 and AS 2201).[12] Transparency about the auditor's responsibilities will support the public interest and help avoid both expectations and performance gaps.

The board should perform more specific stakeholder engagement to determine other standard-setting priorities.

Having reflected on the previous standard-setting agenda, on an initial basis we recommend the board move forward in a measured way in three areas of focus in standard setting:

1. Emerging technologies (primarily AI and digital assets, but also areas such as cybersecurity)
2. Reset, advancement, and closure of longstanding projects with outcomes more closely aligned to the role of the auditor, audit committee, and management (such as noncompliance with laws and regulations (NOCLAR) and firm and engagement metrics)
3. Deferred maintenance on areas of alignment with accounting standards (such as going concern)

For example, to improve consistency in practice, the PCAOB could pursue modest updates to its existing illegal acts standard to address NOCLAR and align with SEC requirements. Doing so would enable the board to consider prior feedback and developments of other standard setters (including the AICPA's Professional Ethics Executive Committee), without making dramatic changes to the scope of audits that may substantially increase audit costs without commensurate benefits to audit quality.

On firm and engagement metrics, resolution of the topic could include working with the SEC and issuing a board or staff publication on matters for audit committees to consider when monitoring audit quality, rather than attempting to develop a regulatory response to a very nuanced topic.

Certain topics that had previously been on the board's short-term and mid-term agenda remain relevant and could be evaluated from a prioritization standpoint. For example, discussion at the November 2023 SEIAG meeting related to service organizations focused on the use of third-party services and related auditor considerations to consider how the requirements in AS 2601, **Consideration of an Entity's Use of a Service Organization**, should be revised. The use of service organizations continues to grow, as does those organizations' use of AI, which may warrant PCAOB consideration of how auditors evaluate service auditor's reports in an audit, as well as wider stakeholder discussion about the nature, scope, and oversight of those attestation engagements given their use by public companies and their auditors.

[12] AS 2110, **Identifying and Assessing Risks of Material Misstatements**, and AS 2201, **An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements**

There is also likely benefit in the board undertaking a maintenance project, similar to the respective "Clarity projects" undertaken by the IAASB and ASB. The purpose of such a project would be to update the more than 20 remaining auditing standards that have not been revised in the more than two decades since the PCAOB initially adopted them. Doing so would increase the interoperability of the standards and result in a congruent set of PCAOB standards to support audit quality.

Finally, the staff should also monitor other relevant projects of the IAASB and ASB, including on audit evidence and risk response, inventory, and attestation standards, and collaborate as necessary on matters of mutual interest and as part of its objective to achieve greater alignment of its auditing standards with international auditing standards.

5. How can the PCAOB achieve greater alignment of its auditing standards with international auditing standards [International Standards on Auditing or ISAs]?

We support the PCAOB's consideration of how to achieve greater alignment with ISAs. Divergence across auditing standards can create complexity, inefficiency, and the potential for inconsistent application—without corresponding investor-protection benefit. A more deliberate approach to alignment would likely reduce these frictions while strengthening global audit quality.

The ISAs serve as the basis for national auditing standards in more than 160 jurisdictions worldwide and apply to both audits of public interest entities (including supporting audits of publicly traded entities in most capital markets) as well as nonissuers. ISAs are subject to due process in their development and benefit from input from regulators and audit oversight bodies such as the International Organization of Securities Commissions (IOSCO) and the International Forum of Independent Audit Regulators (IFIAR) (in which the SEC and PCAOB participate) as well as oversight from the Public Interest Oversight Board.[13]

The PCAOB should first understand actions of the ASB to develop its standards for US nonissuers.

The AICPA's ASB, which issues auditing, attestation, and quality management standards for audits of entities outside the PCAOB's jurisdiction, has long maintained a formal commitment to converging its standards with those of the IAASB. The ASB's recently issued **Strategic Plan for 2026–2030** reaffirms that commitment and describes it with specificity. The ASB identifies continual contribution to, and drawing from, the development of high-quality international standards issued by the IAASB as one of the keys to successfully fulfilling its mission.

Importantly, the ASB's convergence commitment is not passive. The ASB's strategic plan describes direct and ongoing engagement with the IAASB regarding its strategy, work plan, proposals, and consultations, all with the goal of

[13] The **PIOB** oversees the multi-stakeholder and independent **IAASB**, including the appointment of its Chair and members. At the end of the IAASB's processes to develop new or revised standards, an analysis of public interest responsiveness is prepared and the PIOB board makes a decision whether to certify the standard on the basis that it was prepared in accordance with agreed due process and is responsive to the public interest, based on the concepts and principles of the **Public Interest Framework**.

influencing IAASB standards and guidance that are consistent with the ASB's convergence commitment. The ASB evaluates the extent to which IAASB standards are appropriate in the US legal and regulatory environment, are responsive to US market needs, and address the unique needs of US stakeholders. The ASB's process acknowledges the IAASB's standards may require revision to remain effectively implementable in the US context. The ASB also considers the work of other US standard setters, including the PCAOB, in determining whether to make changes to its standards or develop additional guidance. This active engagement throughout the IAASB's standard-setting lifecycle, combined with a disciplined evaluation of whether and how international standards require adaptation for the US context, offers a practical template for the PCAOB.

The PCAOB should seek opportunities to be more engaged in the IAASB's work so it may consider whether alignment with international auditing standards is appropriate.

We encourage the board to adopt a similar approach of treating the work of the IAASB as a core input to work on new topics. Doing so would not compromise the PCAOB's independence or its authority to issue standards tailored to the US public company context, as the PCAOB would retain the ability to add or tailor requirements and solicit feedback through stakeholder engagement and public consultation. Rather, it could enhance the PCAOB's efficiency by leveraging a strong global foundation, enabling the board to identify points of divergence deliberately rather than incidentally, and produce standards that are more interoperable with those applied in other jurisdictions and on US nonissuer audits (including those that may in the future become issuers).

To make this approach operational, we recommend that the PCAOB seek active involvement throughout the IAASB's standard-setting process. Early and ongoing engagement would give the board timely visibility into emerging international developments, enable it to share US public company audit perspectives at formative stages, and reduce the likelihood that the PCAOB, IAASB, and ASB arrive at substantially different conclusions on the same underlying public interest issues.

The goal of such coordination should be to minimize unnecessary differences in definitions, core requirements, and overall approach across the three sets of standards. Where differences are warranted by the distinct legal, regulatory, or market contexts in which each set of standards is applied, those differences should be transparent and purposeful. Where differences are not warranted, they should be reduced or eliminated. This approach would serve (1) investors by promoting consistent audit quality across jurisdictions and engagement types, (2) preparers and audit committees by reducing complexity in multi-national and dual-standard environments, and (3) firms by enabling more consistent training, methodology, and quality control globally—all without diluting the PCAOB's authority, the rigor of its standards, or its ability to inspect and enforce against its standards.

6. In what way should the PCAOB consider deploying technology, including AI, to help further the investor protection mission?

Technology, including AI, can offer meaningful opportunities for the PCAOB to operate more effectively and efficiently in service of its investor protection mission. Technology is a natural complement to the modernized, risk-based inspection program we recommend. As the PCAOB considers how to calibrate the scope and focus of inspections based on firm-specific risk factors, technology can strengthen the underlying risk assessments in several ways:

- Analyzing public company filings and related communications to identify unique, novel, or emerging issues to inform the PCAOB's risk-based approach to inspection selection

  AI can process a volume of filings, earnings materials, and disclosures that would be impractical to review manually, surfacing patterns and outliers that can inform engagement selection and scoping.

- Supporting the review of firm documentation during inspections, including identifying areas of potential concern in large volumes of workpapers and enabling inspectors to spend more time on substantive evaluation and less on mechanical review

- Identifying cross-firm themes and trends by analyzing inspection observations, restatement data, and other indicators to inform both inspection scoping and the board's broader communications about audit quality, such as Spotlight publications and guidance

Beyond inspections, technology can likely improve the efficiency of a range of board activities, including:

- Analyzing comment letter responses to standard-setting proposals and other consultations, helping staff synthesize large volumes of stakeholder input and identify areas of consensus, divergence, and emerging concern

- Synthesizing academic research and other external literature relevant to standard setting and policy development, enabling the board to draw on a broader evidence base in a timely manner

- Facilitating timely and appropriately robust economic analysis that informs policy decisions

- Supporting internal operations such as document review, data analysis, and knowledge management, freeing staff capacity for higher-value work

Efficiencies gained in these areas may allow the board to be more responsive to emerging issues, engage more substantively with stakeholder input, and deliver guidance and standards in shorter cycles.

7. How could the PCAOB enhance transparency with its stakeholders?

Throughout this letter, we have emphasized the value of transparency and stakeholder engagement as foundations for the PCAOB's vision of forward-looking, responsive, and innovative oversight. We have also identified opportunities for the board to consider coordinated and holistic actions with the SEC and other standard setters and policymakers, including the IAASB and ASB. The same principles apply, perhaps most directly, to the PCAOB's standard-setting process. A more transparent and less insular approach to standard setting—one that meaningfully involves stakeholders throughout the lifecycle of a project—would enhance audit quality by producing standards that are better informed, more implementable, and more widely understood.

Improvements could be made to how the board and staff explain the resolution of key issues when issuing proposals and final standards.

Stakeholders currently have limited insight into how the PCAOB staff considers and resolves comments received on proposed standards, unlike the processes that are currently undertaken by the other standard setters such as the FASB, IAASB, and ASB. Given the highly technical nature and the interrelationships within and across standards, such transparency is helpful in promoting a consistent understanding of the board's intent in issuing proposals, and how concerns by stakeholders have been addressed in final standards. We encourage the board to enhance transparency in this area by exploring how it could provide public discussion of:

- Alternatives considered at the proposal stage, including how the work of the IAASB and the ASB on related topics was evaluated and leveraged, and the reasons for adopting a different approach when the board chose to do so
- How significant comments received during the public comment period and through outreach activities are being addressed, including the alternatives considered in response to those comments and the reasoning behind the staff's recommended resolution

This kind of visibility would not delay the standard-setting process; rather, it would strengthen the quality of final standards by surfacing issues earlier, inviting refinement before finalization, and building broader understanding of and support for the board's ultimate conclusions.

The board's advisory groups could be used more effectively throughout the standard-setting process.

The PCAOB can be more agile in how it engages with the SEIAG and IAG to fully benefit from their expertise and perspectives; those groups should not be restricted in timing or frequency of meetings or when they can provide feedback on proposals. We observe that the SEIAG and IAG engagement has been unduly limited once the comment period on a proposal has closed—precisely the point when their perspectives could be most valuable in considering significant issues raised in comments. Engaging advisory groups at this later stage—when feedback and has been

received and the substantive questions are most sharply defined—would meaningfully enhance the board's deliberations and give advisory group members a more substantive role in shaping final standards. Giving these groups this opportunity to react to the staff's intended response to comment letter feedback would help final standards both achieve the PCAOB's intent and be able to be implemented in practice, which benefits audit quality.

Actions the board has already announced will increase transparency and the profession's ability to more deeply interact on matters related to audit quality.

We are pleased by the PCAOB's plan to further develop a formal consultation process within the Office of the Chief Auditor (OCA) to provide timely guidance on complex or novel issues. While our experience engaging with the staff has been positive, formalizing and encouraging consultation is a welcome step. A central function staffed by experienced CPAs interpreting the auditing standards supports the appropriate application of those standards and enhances audit quality, while avoiding unnecessary costs and minimizing unintended consequences. We also encourage the staff to routinely consider whether questions raised through consultation should be addressed publicly, for example through FAQs, interpretive guidance, best practice observations, or, when warranted, changes to the standards themselves—so that the insights developed through consultation benefit the broader profession.

We also support the Audit Practitioner Fellowship Program within OCA. Bringing experienced auditors with recent practical experience into the PCAOB for defined terms is a meaningful step toward board work that is informed by current, in-the-field perspectives on the technologies, practices, and emerging issues reshaping the audit profession and influencing audit quality. Such structured exchange strengthens the board's standard-setting and interpretive activities, complements the broader stakeholder engagement we have encouraged throughout this letter, and reflects exactly the kind of forward-looking initiative that will help the board anticipate and respond to emerging challenges.

Taken together, the formal consultation process and the Audit Practitioner Fellowship Program reflect a welcome commitment to engagement, practical expertise, and responsiveness. We appreciate the opportunity to share our perspectives and look forward to continued dialogue with the board as it advances its investor protection mission.

From: Art Nazzaro <art@riskgraphs.com>
Sent: Tuesday, April 21, 2026 12:13 PM
To: Comments
Subject: [EXT]: Comments on QC 1000

For firms auditing SR11-7 governed institutions

Firms auditing RS-11-7 governed institutions
Risk Assessment Component
The firm's QC risk assessment should treat failure to understand or test management's compliance with SR-11-7 as a quality risk for affected engagements (e.g., for credit losses models, ALM models).

Engagement Performance Component
Methodologies, tools, and guidance for auditing models should explicitly reference S-11-7 concepts (model definition,
Development, implementation, validation, ongoing monitoring, use and governance) when scoping and performing model-centric audit procedures.

Resources Component
QC 1000 requires the firm to ensure appropriate resources, including specialists for banking clients subject to sR-11-7, that implies model risk specialists and training so engagement teams can evaluate SR-11-7 controls and validation work.

Monitoring and Remediation
If inspections or internal reviews find that teams did not adequately consider SR-11-7 in evaluating model risk and related estimates, those findings feed back into QC 1000's monitoring and remediation loop (e.eg.; methodology revisions, training, consultation requirements).

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May 15, 2026

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

Re: PCAOB Strategic Priorities, PCAOB No. 2026-001

Dear Office of the Secretary:

RSM US LLP (RSM, "we") values the opportunity to offer our comments on the Public Company Accounting Oversight Board's (PCAOB) *PCAOB Strategic Priorities* (the proposal). RSM is the leading provider of assurance, tax and consulting services focused on the middle market, with nearly 18,000 professionals in 77 U.S. cities, six locations in Canada, one in El Salvador and four in India.

Overall Comments on the Proposal

We genuinely appreciate the proposal and the PCAOB's engagement with stakeholders on its strategic priority planning process. The PCAOB serves a wide range of stakeholders while executing its mission to protect investors and further the public interest in the preparation of informative, accurate and independent audit reports. Engagement of the public accounting profession and transparency are foundational to successfully executing this mission.

Comments on Specific Questions Posed by the Board

1. What should the PCAOB focus on as its strategic priorities in registration, inspections, and enforcement over the next two to five years to further its statutory mission?

We believe the PCAOB's oversight resources are best directed at areas that most directly and significantly impact audit quality and investor protection. In the inspection program, this means evaluating whether auditors obtained sufficient appropriate evidence and exercised sound judgment in critical areas, rather than focusing disproportionately on documentation formalities or minor technical departures that do not substantially impair the quality of the audit.

In enforcement, we recommend the PCAOB concentrate on actions involving negligence or recklessness that pose a substantial risk of investor harm, rather than penalizing firms for compliance with nuanced technical rules such as Form AP reporting requirements. Enforcement resources directed toward the most consequential audit failures will yield the greatest improvement in public protection and audit quality. Further, we believe that the PCAOB should not pursue enforcement matters where the SEC has primary jurisdiction, such as independence matters. In recent years, there has been a change in how technical errors, such as compliance with reporting requirements, are addressed between inspections and enforcement. We recommend that the PCAOB publish a general framework addressing errors, deficiencies and observations that are addressed through the inspection process (e.g., quality control criticisms), and rule or standard violations that are referred to enforcement.

Additionally, we believe the interaction between the inspections program and teams and the Office of the Chief Auditor (OCA) can continue to be enhanced. This will allow for greater consistency by allowing the

OCA to be directly involved in the final interpretation of the auditing standards. We are encouraged by the statements regarding the creation of a formal consultation process within the OCA. This formalized OCA consultation process will help all firms but will particularly help smaller firms that do not have annual engagement with the PCAOB or dedicated technical resources. By sharing learnings from the consultation process—such as through guidance, education and thought leadership—audit quality considerations can be proactively identified by firms and the perspectives of OCA on audit standards implementation can be mutually understood by all stakeholders. This can assist in the execution of strategic priorities for inspection and enforcement by enabling firms to address thematic issues prior to their inspection cycles, even when triennially inspected.

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)?

As stated in our response to question 1, we believe the PCAOB's inspection resources are best directed at areas that most directly and significantly impact audit quality and investor protection. To this end, changes can be made to incorporate firms' implementations and evaluations of the system of quality control, to more closely tailor inspections with the nature of the firms, and to improve timeliness of the inspection reports and the remediation process.

We are encouraged by the forthcoming supplemental request for comment on QC 1000. We believe further alignment with ISQM 1 will lay the foundation for changes to the inspection program to allow it to be strengthened by the firm's evaluation of its system of quality control. In addition, this further alignment will eliminate the cost associated with supporting two separate standards that are aligned in objective, but where the underlying requirements diverge in a significant manner. We also believe that open collaboration among the firms, OCA and the PCAOB's inspection teams during the QC 1000 implementation process will support audit quality by enabling proactive practical consultations and guidance. As mentioned above, this will allow for greater consistency by allowing the OCA to be directly involved in the final interpretation of the auditing standards.

We recommend the PCAOB update the inspections process to include a practical evaluation of firms' system of quality control implementation, operation and monitoring. A firm's system of quality control is a system of processes and controls designed using professional judgment. We strongly urge the PCAOB to design an inspection program that takes into account the principles-based nature of the system of quality control and allows for risk-based differences across firms.

A firm's system of quality control should look different based on the size and complexity of the firm and its clients. The inspection process for a firm's system of quality control can be consistently applied but will need to permit firms to have different quality risks, responses and controls. This inspection approach will be fundamentally different from the conclusions of an individual engagement. For example, it will not be helpful to audit quality for inspection to focus on direct quantitative comparisons across firms, such as the number of quality risks or responses. Firms have significant latitude in the standard to design their system of quality control with tailored specificity at the individual quality response level. This should be encouraged, so long as the system of quality control as a whole is operating effectively.

Audit quality and the public interest are served by clear and timely information. While the timeliness of inspection reports has improved, significant improvement is required with respect to the timeliness of the remediation process. Currently, firms have remediation schedules established by the PCAOB with timelines to provide action plans responsive to quality control criticism issued in an inspection report. However, there is no such timeline or timeliness in the remediation process; rather, it often takes years beyond when the firm has provided a finalized action plan for the PCAOB to conclude on whether sufficient actions have been implemented to address the quality control criticisms. With a shift toward

inspections prioritizing more testing and understanding of a firm's system of quality control, the remediation process should similarly be better understood and the timeline shortened.

Shortening the remediation process will serve the public interest by providing relevant information on a firm's audit quality that could impact current audit engagements.

3. What inspection information would be most useful to stakeholders, and how could inspection reporting be enhanced under a quality control-focused inspection program?

As noted in our response to question 2, timeliness is essential. Timely reporting ensures that information available to stakeholders reflects the current state of audit quality and does not include items that have since been remediated. We urge further improvement in the cycle timing between performing inspections and publishing public reports, including determining whether or not to make quality control criticisms public.

We recommend the PCAOB consider including broader context in inspection reports of how prevalent the inspection findings are across the profession and whether the findings are in the PCAOB's focus areas for inspection. This context can highlight audit standards that may benefit from clarifying amendments or additional guidance. Further, providing insight on whether the findings are in inspection focus areas provides qualitative information on the findings relative to the focus work being performed by the inspections team. It is not uncommon to have more inspection findings in areas where the inspection teams are dedicating more time. These changes would be an enhancement over simply reporting deficiency rates. This information could be particularly helpful to audit committees as well as smaller firms that are inspected triennially.

We also encourage the PCAOB to highlight positive attributes in inspection reports, such as best practices, positive actions and strong design elements of a system of quality control. The U.K.'s Financial Reporting Council (FRC) currently highlights best practices in firm inspection reports, and this approach serves as a useful model. If inspection reports are intended to provide transparency and an understanding of the overall quality of the audits performed by the firm, including elements of successful outcomes will provide stakeholders with a balanced perspective of the quality of the firm and provide useful guidance for consideration by other firms. Such balanced reporting would incentivize continued investment in quality and demonstrate to investors and other stakeholders that the PCAOB recognizes audit quality holistically.

4. What standard-setting projects should the PCAOB pursue?

As addressed more thoroughly in our response to question 5, our foremost recommendation for the PCAOB's standard-setting agenda is to pursue greater engagement with international standard-setting and alignment with international standards. Greater alignment between PCAOB standards and the International Standards on Auditing (ISA), where appropriate, would provide meaningful benefits to audit execution without diminishing audit quality. Differences in underlying requirements that pursue the same objectives often necessitate maintaining separate systems, processes, methodologies and documentation approaches. This duplication increases complexity and requires incremental time and resources that could otherwise be directed toward performing and supervising high-quality audits. Aligning requirements where objectives are consistent would allow firms to focus efforts on risk assessment, professional judgment and audit quality, rather than on managing avoidable differences in form or compliance.

We believe significant progress could be made by performing a thorough qualitative alignment of PCAOB standards to the ISAs issued by the International Auditing and Assurance Standards Board (IAASB). Historically, the PCAOB has published grids that line up the paragraphs from various standards, but no

qualitative or instructive analysis of where the performance, documentation or reporting by the auditor is intended to be different. The PCAOB should publish guidance setting forth the intentional, qualitative differences between PCAOB auditing standards and ISAs and seek input from the public. This can provide the PCAOB with input on areas in which firms have differing interpretations of their expectations as well as input from stakeholders on the need for disparate standards.

In areas where the words are different but there are no intended practical execution differences, this should be identified and shared as well. Going forward, if there are intentional differences, those should be clearly outlined in future proposals with their reasoning and related expectations (e.g., expectations regarding performance and documentation).

This proposed comment process can provide the PCAOB with a foundation to establish a prudent plan to modernize the legacy AICPA rules. Standards that are in need of modernization should begin with the current form of the ISA requirements, which have been updated using a full due process structure. These can then be adapted as necessary for the U.S. environment. Certain standards, while old, may not need to be updated based on the comparison analysis as recommended above.

We strongly support the consultation process with the OCA that has been recommended. This will also provide opportunities for staff guidance publications or FAQ documents to be published shortly after new standards are adopted to aid effective implementation. Additionally, the consultation process can identify emerging trends where standard-setting may be needed.

Overall, increased transparency throughout the PCAOB's standard-setting process—including clearer articulation of objectives, greater visibility into the evaluation of stakeholder feedback, and more explicit discussion of alternatives and differences from other standards—would support more consistent interpretation and implementation. In this context, providing sufficient time for stakeholders to assess proposals and respond meaningfully is equally important. Thoughtful feedback requires careful analysis across methodologies, systems and global networks; adequate response periods help ensure that comments are substantive, constructive and ultimately supportive of high-quality audits.

5. How can the PCAOB achieve greater alignment of its auditing standards with international auditing standards?

The PCAOB can achieve greater alignment with international auditing standards through development of a harmonization roadmap, minimization of stylistic differences, more transparent due process and active global participation in the standard-setting process.

As described more thoroughly in our response to question 4, the PCAOB should begin with an analysis of the current state of alignment between PCAOB auditing standards and ISAs. This analysis, supplemented by public comment, will enable the PCAOB to identify priority areas where its standards can be harmonized with ISAs and to develop a phased roadmap addressing key standards (e.g., risk assessment, auditor reporting, quality control) over a defined timeframe. This effort should aim to move toward aligned high-quality standards that reduce discrepancies across jurisdictions and improve the comparability and reliability of audit reports for global investors.

The PCAOB should consider developing a published framework for standard setting to help minimize differences that are purely stylistic or related to verbiage. Additionally, greater transparency into the standard-setting journey and deliberations, beyond only the final proposal and release, would also help stakeholders understand and support alignment efforts and improve the adoptability of standards. For example, we were very supportive of the PCAOB's use of roundtables in 2024 in connection with the NOCLAR proposal, which included stakeholders from a range of constituent groups and provided a valuable forum for dialogue and illustrated how earlier and broader engagement can enhance transparency and stakeholder buy-in.

The IAASB's standard-setting process included multiple open meetings for which meeting materials, discussion papers and the discussions themselves are publicly available. The PCAOB should similarly increase the public discussions throughout the standard-setting process with particular focus on issues highlighted during the comment letter process. This could include open discussions through mechanisms such as advisory boards (e.g., existing Investor Advisory Group and Standards and Emerging Issues Advisory Group), roundtables or open board discussions. This iterative process is necessary to develop and revise standards and guidance, as appropriate, that are consistently understandable, executable and inspectable.

Finally, the PCAOB should be actively involved in participation with the IAASB through the standard-setting process. This could include active engagement as a recognized observer to the IAASB or nominating a board member, providing support for task forces, monitoring standards development, providing comments at each board meeting, and commenting on exposure drafts. This should also include active involvement in the International Forum of Independent Audit Regulators (IFIAR) Standard-Setting Working Group to share ideas and drive consensus among the largest and most mature global audit regulators. By being involved early in the ISA development process, the PCAOB can help ensure that new international standards have contemplated U.S. capital market needs such that they can be efficiently adopted or adapted domestically.

6. In what ways should the PCAOB consider deploying technology, including AI, to help further its investor-protection mission?

We note that this question has two potential dimensions: how auditors should be permitted to use technology under PCAOB standards, and how the PCAOB itself should deploy technology in its oversight functions. We have chosen to respond to both dimensions of this question.

From an auditor's perspective, standards should not only avoid prohibiting technology adoption but should actively encourage and enable its use where it improves audit quality. It would be helpful for the PCAOB to publish additional guidance on expectations for the auditor's evaluation of technology processing and outputs as part of the firm's system of quality control and individual engagement performance. For example, the Committee of Sponsoring Organizations recently issued guidance, *Achieving Effective Internal Control Over Generative AI*; the IFIAR released a report, *Use of technology in audits – observations, risks and further evolution*; and the FRC published guidance, *AI in audit – Illustrative example and documentation guidance*. It would be helpful to understand how the PCAOB may or may not consider this relevant to a firm's system of quality control. One key principle we recommend for consideration is that when artificial intelligence (AI) is used in the performance of an audit, if AI is required to be 100% reperformed, it is not useful to audit quality or efficiency. Auditors also do not face the same requirement when performing supervision and review on an audit engagement, using internal audit work or supervising component auditors. Today, PCAOB audit standards do not prohibit the use of technology, but there are areas of ambiguity and fear of inspection that may prevent firms from adopting innovative tools. The PCAOB can address these areas through timely focused guidance and the open consultation process, supported by the development of a scalable framework with examples and frequently asked questions designed to evolve with ongoing technological advances.

From the PCAOB's perspective, we recommend the PCAOB implement ideas from the 2024 Technology Innovation Alliance report, *Transforming Audit Quality Through Technology*. Specifically, we recommend the PCAOB consider creating innovation labs, hosting tech sprints, and developing more guidance and use cases for AI in the audit. The Dutch regulator AFM Netherlands has a sandbox environment for firms to work with the regulator to experiment with implementation approaches in a safe setting—the PCAOB could draw on that model.

We also believe that technology can be utilized by the PCAOB for benchmarking and analysis of data. Technology also creates an opportunity to enable OCA consultations to be shared more quickly with all

stakeholders on a redacted basis or through practice aids and guidance. Additionally, the PCAOB could evaluate the potential to use technology for benchmarking to identify outliers related to particular trends determined to be relevant to stakeholders.

7. How can the PCAOB enhance transparency with its stakeholders?

This consultation process is a valuable step toward increasing transparency with stakeholders. Continuing open engagement with stakeholders through this process as well as standard setting, implementing the formal consultation process and providing enhanced balanced reporting on inspections will continue to demonstrate that the PCAOB's commitment to transparency.

As addressed in our response to question 5, holding open meetings during the development of new standards provides transparency throughout the process, the ability to include stakeholder perspectives in the development of standards and greater clarity on the final state of the standard, allowing for better adoption and higher quality of implementation.

As addressed in our response to question 4, we are exceptionally encouraged by the PCAOB creating a consultative process with OCA and consultative environment where stakeholders are encouraged to bring questions, concerns and observations to the PCAOB for a dialogue. Publishing outcomes of consultations in anonymized form (e.g., staff guidance or FAQ documents) will increase transparency into this process and allow all firms and stakeholders to benefit from shared knowledge and interpretive clarity.

Finally, as addressed in our response to questions 2 and 3, increasing the information included in and timeliness of inspection reporting will provide a more balanced view of a firm's quality and will give stakeholders a better understanding of audit quality trends.

* * * * *

We would be pleased to respond to any questions the PCAOB or its staff may have about our comments. Please direct any questions to Adam Hallemeyer, Chief Auditor, at 619.641.7318.

Sincerely,

RSM US LLP

RSM US LLP

tapestry
NETWORKS

303 Wyman Street
Suite 300
Waltham, MA 02451

May 15, 2026

By e-mail: comments@pcaobus.org

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803
Attn: Phoebe W. Brown, Secretary

Re: PCAOB Strategic Priorities (PCAOB Release No. 2026-001, March 31, 2026)

Dear Ms. Brown:

Tapestry Networks is pleased to respond to the recent *Request for Public Comment on PCAOB Strategic Priorities* (the "Comment Request") published by the Public Company Accounting Oversight Board (PCAOB or the Board). Since 2003, our firm has been a trusted convener of corporate directors, regulators, and capital markets leaders with a mission to foster dialogue and collaborate in problem solving.

Audit committees play a critically important role in governance and society, establishing confidence and trust in capital markets through oversight of high quality, reliable financial reporting. We recently convened a selection of audit committee chairs (hereinafter "audit chairs") who participate in our US networks (Audit Committee Networks and Audit Committee Leadership Network) to discuss the PCAOB's Comment Request. A partial list of chairs who participated can be found in the appendix.

This letter captures the input gathered during discussions with these audit chairs. While we heard broad agreement from many of those who participated on many of the matters described below, this letter does not purport to provide a consensus view. All of the individual audit committee chairs' quotes appearing here[*] were recorded under the Chatham House Rule, so that neither the individual audit chairs nor their organizations are identified. Each comment from an audit chair presented in this letter reflects an individual's view and not necessarily that of any company connected to the audit chair. EY sponsors Tapestry's US audit committee networks but did not contribute to the views set out here.

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[*]Italicized quotations below reflect direct comments from participating audit chairs.

The audit chairs we heard from support having a capable audit regulator. They believe the PCAOB has improved the level of audit quality over time. They are encouraged by the Board's recent outreach to audit committees as a constituency. And they were pleased to receive a direct invitation to comment on the Board's strategic priorities; they view this outreach as a step in the right direction to take advantage of a period of change to implement welcome improvements.

What follows are responses to the topics the Board posed for consideration.

A. Inspections and Quality Control (questions 1 through 3)

Audit chairs emphasized that the work of auditing public companies is a privilege, not an entitlement. As fiduciaries bearing oversight responsibility for the integrity of financial statements, audit chairs wholeheartedly support the Board's efforts to improve audit quality, and recognize that inspections are a key element of those efforts. However, audit chairs have over the years experienced various levels of frustration with the manner in which the PCAOB's inspections have been conducted.

- Audit chairs would like to see a reduction in the time lag between the conduct of inspections and the reporting of inspection results. *"I would like to see the PCAOB become a little bit more consumer focused, being that we, the audit committees, investors, the firms and the preparers are the consumers. Tell us what you've done, what you found, and what it's about. And try to move it up in timeliness."*
- Audit chairs would appreciate greater visibility into the inspection process, including the opportunity to discuss objectives and findings with the PCAOB inspection team.
- In the view of many audit chairs, there has been too little clarity about the severity, pervasiveness, and materiality of deficiencies, which leads to a perception that all deficiencies are equal. *"In an inspection of an audit, there needs to be a framework to help users of the inspection reports evaluate the findings. Something where it is easier to discern whether deficiencies identified were the equivalent of significant deficiencies, control deficiencies, or material weaknesses – have them based on severity, impact and pervasiveness."*
- Audit chairs invite the Board to consider how they could provide additional context to enable audit committees to compare the PCAOB's observations from inspections across firms, as the current inspection approach makes it difficult for audit committees to compare inspections across firms and over time. *"Right now, the inspections are not comparable, because they're pulling different companies every year, they're pulling different industries every year."*
- Some audit chairs expressed concerns about the PCAOB's expectations with respect to the audit firm's use of specialists. *"For highly specialized industries and sectors, the PCAOB inspectors appear to expect auditors to have the same level of specialists without consideration for the risk of material error related to that audit area. For example, in the energy sector around oil and gas reserves, it is expected that the auditors have in-house petroleum engineers. This seems to be driving unnecessary cost and effort."*

- Audit chairs would welcome an approach to implementing QC 1000 that adopts a view of audit quality that looks at the audit firm at the entity level, rather than through a build-up or composite view based primarily on inspections at the audit engagement level. In addition to magnifying the concerns about severity, etc., of deficiencies noted above, the current approach makes it extremely difficult to compare inspection reports year over year, or to compare firms one to another. *"There needs to be a change in mindset of the inspection staff to support QC 1000 implementation."*
- In the implementation of QC 1000, audit chairs would like to see due regard given to the existing quality control practices at the largest audit firms. Audit chairs recognize that firms' systems of quality control differ based on many factors, including the size of the firm and the complexity of the companies they audit. *"The PCAOB approach should be to gain comfort that the firms' systems of quality control and quality management processes are really effective."*

B. Enforcement (question 1)

Audit chairs would prefer that enforcement activity be conducted primarily by the SEC. *"The PCAOB and the SEC should be aligned on enforcement. Could the PCAOB just outsource enforcement to the SEC and move on?"*

C. Standard-setting projects (question 4)

Audit chairs support the PCAOB in continuing to improve audit quality, and encourage the Board to demonstrate professional rigor in its standard-setting processes while upholding due process.

- Audit chairs encourage the Board to update auditing standards in order to keep pace with the current state of audit industry practice.
- Audit chairs would like the Board to formally withdraw the NOCLAR proposal, or at the very least to substantially revise its scope in order to bring it current with other relevant standards.
- Audit chairs encourage the Board to examine whether current independence rules are appropriately calibrated. They are concerned that immaterial and attenuated relationships too frequently trip independence rules that are overly sensitive and do not take appropriate account of context or the principles undergirding the rules. Monitoring for independence at every level of the organization without appropriate regard for what is truly "material" is a costly undertaking, and these costs are ultimately passed on to preparers. *''The current rules around independence are not fit for purpose. They result in violations reported to multinational companies on a very regular basis, on issues that would never actually impair independence. In many cases this repeated foot fault reporting to audit committees (and boards) creates confusion around something that truly does not matter."*
- Audit chairs suggest that the Board proceed cautiously when it comes to any rulemaking that addresses artificial intelligence and other fast-moving technological advances. Something akin to interpretive staff guidance may be the better approach.

- Audit chairs would like the Board to assess its rulemaking process with a view to increasing the level of due process afforded to the public and key constituencies. This would entail, at a minimum, longer comment windows and a wider solicitation of views. *"The PCAOB proposals have previously given us a very narrow window to comment. There needs to be a wider window, and cost-benefit analysis should be included within the scope for comment."*
- Audit chairs encourage the PCAOB to emulate some of the established standard-setting practices of the FASB and IAASB.

D. Alignment with international auditing standards (question 5)

Audit chairs encourage the Board to align with international standards wherever possible, but to recognize where differences are necessary. Abiding by different sets of rules ultimately imposes a cost on preparers. Areas of difference should therefore be evaluated, understood, and explained. *"You're never going to get completely converged, but on big new areas, they should work together. On existing areas, they should understand where differences are causing problems for auditors, preparers and investors."*

E. Technology (question 6)

Audit chairs would like the PCAOB to develop a deeper understanding of how audit firms employ AI themselves, and how the firms interact with AI used natively by preparers, and to make this an ongoing area of engagement with the firms. Only by appreciating how, where, and why AI is deployed by the firms can the PCAOB assist in communicating to investors the value of these advances in the audit process. *"The PCAOB needs to really understand how audit firms are using AI today, otherwise the gap between the firms and the PCAOB is going to get wider and wider."* Meanwhile, audit chairs encourage the PCAOB itself to take steps to adopt AI and other new technologies as part of its own inspection methodology and standards research. *"More and more, every quarter, we find out how our companies are using AI, and the auditors are responding, and they're using it in their practice. So, the question is, how does the PCAOB keep up?*

F. Transparency (question 7)

Audit chairs are enthusiastic about the prospect of regular engagement between the PCAOB and audit committees. For a variety of reasons, over the PCAOB's lifespan a preexisting expectations gap between the investor community and the audit firms has widened rather than narrowed. Audit chairs believe that the PCAOB has a role to play in educating the investor community in order to bridge the gap. Audit committees are uniquely positioned to work with the PCAOB to help change investor perceptions of the role of the auditor. Audit chairs understand that public accounting is a noble pursuit, and would like to help the PCAOB in changing a narrative that has seen an unfortunate decline in the number of young people signing up to join the ranks of CPAs.

Audit chairs recognize that recent leadership changes at the PCAOB provide an opportunity to make a number of improvements to the way the Board carries out its mission. Audit chairs are keen to see the Board work quickly in order to make the most of the current momentum. They are pleased to see the

Board's commitment to receiving input from audit committees, and they look forward to the opportunity to continue engaging with the Board as it formulates its 2026 Plan, and beyond.

We would be happy to respond to any queries or requests for further information. Please do not hesitate to be in contact if we can be helpful.

Yours sincerely,

Jonathan Day
Chief Executive
Tapestry Networks, Inc.

About Tapestry Networks

Since 2003, Tapestry has been the premier firm for building collaboration platforms with leaders of the world's foremost organizations. Tapestry Networks brings senior leaders together to learn and to shape solutions to today's most pressing challenges. We are a trusted convener of board directors, executives, policymakers, and other stakeholders, connecting them with information, insight, and each other. Top experts join our discussions to learn from the leaders we convene and to share their knowledge. Our platforms help educate the market, identify good practices, and develop shared solutions. We call this the power of connected thinking.

Appendix

The following audit chairs participated in our discussions. A number of other audit chairs offered their views but asked that their names and companies not be listed, and are therefore not included here.

Name	Company
Vanessa Chang	Transocean
Mike Hanley	BorgWarner
Bob Herz	Morgan Stanley
Don Kendall	
Sara Lewis	Weyerhaeuser
Jim Turley	Citigroup

May 11, 2026

PCAOB
Office of the Secretary
1666 K Street, NW
Washington, DC 20006-2803

Email: comments@pcaobus.org

RE: PCAOB No. 2026-001

We appreciate the opportunity to provide feedback on the proposed PCAOB No. 2026-001, *PCAOB Strategic Priorities*, dated March 31, 2026. PCAOB No. 2026-001 seeks input from stakeholders regarding priorities as the Board develops a new strategic plan.

The views expressed herein are written on behalf of the Professional Standards Committee (PSC) of the Texas Society of CPAs. The committee has been authorized by the Texas Society of CPAs' Leadership Council to submit comments on matters of interest to the membership. The views expressed in this document have not been approved by the Texas Society of CPAs' Leadership Council or Board of Directors and, therefore, should not be construed as representing the views or policy of the Texas Society of CPAs. Please find our responses below for the request for comment.

Question 1:
What should the PCAOB focus on as its strategic priorities in registration, inspections, and enforcement over the next two to five years to further its statutory mission?

Response:
Registration: The PSC believes the PCAOB should encourage more firms to audit public companies. However, qualification screening procedures should be implemented as part of the firm's initial registration process. In accordance with the PCAOB's 2025 annual report, 60% of registered firms are not performing audits of public companies. Proactively screening firms applying for registration with obvious size and structure issues could act as a preventative quality control. In addition, implementing a gradual, phased quality control evaluation system during a firm's early years of operation would allow regulators to identify structural weaknesses earlier, reduce the likelihood of deficient audits reaching investors and support audit firms in developing sustainable issuer-audit capabilities aligned with PCAOB expectations.

Inspection: Refer to responses to question 2 and 3 below for specific inspections-related recommendations.

In addition, the PSC recommends that the PCAOB increase the frequency and rigor of inspection of firms with private equity investments to focus on the impacts to independence and audit quality resulting from significant influence or control by PE investors on the attest entity in an alternative practice structure (APS). The Board should be transparent with the results of these specialized inspections.

Enforcement: The PSC recommends developing and publicizing a clearer distinction of enforcement responsibilities between the SEC and the PCAOB. The PSC believes the historical inconsistency and

lack of transparency can lead to unnecessary duplication and inefficiencies. Consideration should be given to full transfer of enforcement responsibilities to the SEC, resulting in lower costs.

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)?

Response:
The PSC recommends developing and publishing an enhanced framework as part of PCAOB's inspection program to better distinguish severe deficiencies from less severe deficiencies, including a revised definition of Part 1A deficiencies. The PSC believes the current process leads to misleading conclusions about audit quality as many Part 1A items identified during inspections do not represent real threats to audit quality. The PSC also recommends incorporating risk and materiality considerations when developing the framework. Materiality continues to arise frequently in inspections, yet there is currently no specific PCAOB auditing standard that establishes a clear framework for determining or evaluating materiality thresholds.

In addition, the PSC believes the new quality control standard (QC 1000) imposes disproportionate implementation burdens on smaller firms relative to larger network firms. While the objectives of QC 1000 are understandable and aligned with strengthening audit quality, several requirements appear to function as one-size-fits-all expectations that may not scale appropriately across firms of different sizes and resource levels. Use of the 100-issuer threshold as a bright-line distinction for enhanced oversight results in further issues as it may trigger additional requirements that are costly to implement and difficult for small or mid-sized firms to operationalize efficiently, such as real-time investment monitoring systems and independent QC oversight board members, which can be particularly expensive and often designed with large-firm infrastructure in mind. The automated independence system and EQCF requirements in particular could provide disincentives for mid-sized qualified firms operating at or around the 100-issuer threshold to grow their public company audit practices.

Question 3:
What inspection information would be most useful to stakeholders, and how could inspection reporting be enhanced under a quality control-focused inspection program?

Response:
The PSC recommends providing more granular-level information to increase the usability of inspection reports. The PSC finds the practical usability of inspection information is sometimes limited because inspection reports are often written at a high level and follow a relatively standardized format. As a result, while practitioners track inspection findings to identify potential areas of regulatory focus or evolving expectations, the reports frequently do not provide sufficient granularity to translate observations into actionable improvements within firm-level quality control systems or engagement-level audit execution.

Although the PSC is in agreement that a shift to a more quality control focused inspection program is an idea worth exploring, we recommend that the Board move deliberately with extensive input, discussion and analysis before making wholesale changes to the existing engagement-focused inspection program.

Question 4:
What standard-setting projects should PCAOB pursue?

Response:
The PSC recommends the following areas as potential priority standard-setting projects:

- A new definition of audit quality: The PSC believes clarifying how the PCAOB defines and evaluates audit quality within its inspection framework will enhance inspection reporting and provide a more balanced and useful disclosure of firm audit quality results to the public.
- Attestation Standards: The PSC recommends fully aligning PCAOB attestation standards with AICPA attestation standards (currently in the process of being updated). Overlapping requirements can create operational inefficiencies and increase compliance burden without necessarily improving audit quality. Most attestation engagements are currently performed under AICPA standards. The is no clear benefit to expanding those standards.
- Substantive Analytics: The PSC recommends updating standards related to substantive analytics as firms currently often discourage the use of efficient substantive analytic procedures as a primary means of testing because of inspection uncertainty and inconsistency.
- Use of service organizations: The dramatically increasing use of service organizations and shared service centers in the audit process presents significant audit quality risks due to remoteness, language issues, time zone differences and adequacy of guidance and review by core engagement teams.

The PSC recommends the following projects be discontinued or significantly revised:

- Engagement Metrics: Projects relating to engagement metrics should be discontinued as the information generated is time consuming, costly and of limited value without extensive context.
- NOCLAR Standard: The PSC strongly recommends terminating the NOCLAR project as the standard would unnecessarily overturn traditional auditing concepts and dramatically expand costly auditing procedures with no demonstrated beneficial cost/benefit results.

Question 5:
How can the PCAOB achieve greater alignment of its auditing standards with international auditing standards?

Response:
The PSC believes that greater cooperation with the AICPA and the International Auditing and Assurance Standards Board (IAASB) should be a priority goal for the PCAOB, with substantial convergence wherever possible. Greater consistency across standard-setting bodies would help reduce complexity for practitioners operating in environments where multiple regulatory frameworks apply. For example, while QC 1000 (PCAOB) and ISQM 1 (IAASB) are both risk-based quality management standards, QC 1000 is generally stricter and often considered more prescriptive than the principle-based ISQM.

Question 6:
In what ways should the PCAOB consider deploying technology, including AI, to help further its investor-protection mission?

Response:
The PSC supports the PCAOB's consideration of AI primarily as a tool to enhance risk assessment and trend identification, rather than as a substitute for professional judgment in performing inspection procedures. Furthermore, the PSC suggests that PCAOB consideration of AI should address two distinct but related areas:

- The auditor's use of AI in performing audits, including expectations for validation, documentation and appropriate reliance on technology-assisted procedures; and
- The audit of client-developed AI systems, which presents emerging challenges related to controls evaluation, risk assessment and assurance over increasingly complex technology environments.

Question 7:
How can the PCAOB enhance transparency with its stakeholders?

Response:
The PSC suggests the following areas to enhance transparency of the PCAOB with its stakeholders:

- The PSC recommends further enhancements to Board publications relating to specific areas of concern or focus by the Board building on the existing Spotlight and Audit Focus series. Timely guidance on emerging or difficult topics is a key element of improving audit quality.
- Relating to the above suggestion, the PSC recommends the Board establish a rapid response group to address difficult evolving issues on a timely basis, along the lines of FASB's Emerging Issues Task Force. The PCAOB EITF should be comprised of staff and a small number of outside advisors. Large advisory boards move too slowly to effectively contribute to providing critical, timely guidance to firms and engagement teams. The level of authoritative guidance can be set when the group is established.
- The PSC also believes that reporting statistics, such as audit deficiency and failure rates, without adequate context and balance, may unintentionally undermine confidence in the audit industry. Providing greater clarity and further context around this information could improve stakeholder understanding. A revised definition of audit quality (as discussed in our response to Question 4 above) will assist in achievement of transparency in this area.

We appreciate the opportunity to submit comments on the proposed PCAOB No. 2026-001, *PCAOB Strategic Priorities*, dated March 31, 2026.

Sincerely,

Jeffrey L. Johanns, CPA
Chair, Professional Standards Committee
Texas Society of Certified Public Accountants

PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

Exhibit 2(a)(D)

Alphabetical List of Commenters on Possible Amendments to QC 1000 (Comments on PCAOB Release No. 2026-005)	
1	CBIZ CPAs P.C.
2	Deep Neuron Lab GmbH
3	Pennsylvania Institute of Certified Public Accountants
4	PricewaterhouseCoopers LLP

CBIZ CPAs P.C.

730 Third Avenue
11th Floor
New York, NY 10017

P: 212.485.5500

August 7, 2026

Ms. Phoebe W. Brown
Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006-2803

Re: PCAOB Release No. 2026-005, Request for Public Comment on PCAOB Standard-Setting

Dear Ms. Brown:

CBIZ CPAs P.C. appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the Board) Request for Public Comment on PCAOB Standard-Setting (RFC). We commend the Board for continuing to seek stakeholder input on updating the standard-setting and research agendas, revisiting the PCAOB's approach to standard-setting, and considering the potential impact of the Securities and Exchange Commission's (SEC) recent proposal to allow optional semiannual reporting.

CBIZ CPAs is a mid-sized accounting firm currently providing audit and internal control over financial reporting-related services to more than 100 issuer audit clients. We are committed to constructive engagement that advances investor protection and audit quality while maintaining a viable and competitive issuer audit market that includes firms of varying sizes and business models.

The RFC is consistent with the PCAOB's recent emphasis on early stakeholder engagement and transparency, including the Board's March 31, 2026, request for comment on strategic priorities. As we noted in our response to that request (Strategic Priorities Response),[1] our views are grounded in three foundational principles. First, audit quality is advanced by clear, risk-based standards that can be applied consistently across firms and engagements. Second, regulatory stability enables firms and preparers to invest confidently in people, technology, and processes that sustain audit quality over time. Third, transparency about priorities, expectations, and outcomes supports accountability and trust. We encourage the PCAOB to review the comments related to standard-setting contained in that letter together with the feedback provided below.

We strongly support the PCAOB's mission to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports. Standard-setting is central to that mission. For standard-setting to be most effective, standards should be understandable, implementable, capable of consistent application by audit teams, and capable of consistent inspection and enforcement by the PCAOB. Standards should not rely on inspections or enforcement to define expectations after the fact.

[1] CBIZ CPAs Response to the PCAOB's Request for Comment on Strategic Priorities.

Executive Summary

We respectfully offer the following views:

- The PCAOB should prioritize research and staff guidance on artificial intelligence and broader technology use in audits. The PCAOB should begin with a principles-based framework and illustrative examples before pursuing prescriptive standard amendments, except where targeted amendments are demonstrated to be necessary.
- The PCAOB should prioritize research and guidance on auditing digital assets, including in areas of potential risks of material misstatement related to, among other things, the relevance and reliability of external information sources, custody and the use of private key technology, existence, rights and obligations, occurrence of certain prevalent revenue activities, valuation, and internal control considerations.
- The PCAOB should coordinate with the SEC on auditor independence requirements to reduce unnecessary overlap and complexity while preserving the foundational principles of auditor independence.
- Fraud and noncompliance with laws and regulations (NOCLAR) remain important, and the PCAOB should proceed in a measured way informed by the knowledge, skills and ability of auditors and lawyers, international developments, and stakeholder outreach.
- Critical Audit Matters (CAMs) and firm or engagement performance metrics warrant further post-implementation analysis and stakeholder outreach prior to any standard-setting activity.
- The PCAOB should adopt a transparent project selection and standard-setting framework that identifies the audit quality issue to be addressed, evaluates whether guidance or standard-setting is the appropriate response, considers investor relevance, and includes robust economic analysis, including impacts on mid-sized and smaller firms.
- If the SEC adopts optional semiannual reporting, the PCAOB should consider targeted amendments to PCAOB Auditing Standard 6101, Letters for Underwriters and Certain Other Requesting Parties (AS 6101) and guidance or amendments to PCAOB Auditing Standard 4105, Reviews of Interim Financial Information (AS 4105) to address practical questions regarding comfort letters and auditor involvement with interim information that is less than a full set of GAAP-compliant interim financial statements.

I. Determining Standard-Setting and Research Priorities

We recommend that the PCAOB use a transparent framework for determining standard-setting and research priorities before deciding whether to undertake a new project, issue staff guidance, or pursue targeted amendments to existing standards. The framework should identify the specific audit quality issue or investor protection objective, the evidence supporting the need for action, the alternatives considered, and the basis for the Board's chosen path.

Absent such a framework, our views on the potential standard-setting and research priorities identified in the RFC are summarized below.

A. <u>Higher Priority: Data, Technology, and Artificial Intelligence</u>

The evolving technology landscape, including artificial intelligence, advanced analytics, automation, and digital assets, is one of the most significant developments affecting companies, auditors, audit committees, and investors. We therefore recommend that the PCAOB prioritize its Data and Technology research project, with an initial focus on guidance that clarifies how existing PCAOB standards apply to AI-assisted audit procedures and to company use of AI that affects audit risk.

We recommend that the PCAOB begin with a nonauthoritative principles-based framework and illustrative examples. This approach would allow the PCAOB to provide timely clarity while avoiding prescriptive requirements that may become outdated as tools evolve. The framework should distinguish among at least three categories of AI use:

- AI used as audit evidence or as part of an audit procedure, such as anomaly detection, substantive analytics, journal entry testing, population analysis, document review, risk assessment, or control testing.
- AI used as an audit enablement tool, such as workflow support, summarization, drafting assistance, research, or first-pass document comparison that informs but does not replace auditor judgment.
- AI used for administrative support, such as scheduling, preparing administrative communications, organizing information, or other activities that do not affect audit evidence or audit conclusions.

The framework, described in additional detail in our Strategic Priorities Response,[2] should address, among other things, documentation, supervision and review, prompt validation, professional skepticism and how the use of AI intersects with existing auditing standards such as fraud, risk assessment, and audit evidence in a manner that is proportionate to the role AI plays in the audit. The greater the effect of an AI output on audit evidence or audit conclusions, the greater the need for documentation of tool governance, inputs, assumptions, limitations, testing, review, and corroboration.

We also recommend that the PCAOB link AI governance to QC 1000. Firm-level responsibilities may include risk assessment, tool approval, vendor oversight, change management, data security, privacy, monitoring, training, and remediation. Where firms use third-party or network-supported tools, guidance should also address due diligence over providers, access controls, validation evidence, SOC reports or comparable assurance, and how limitations or deficiencies should be evaluated.

As a second AI-related priority, the PCAOB should clarify how existing PCAOB standards apply to AI-assisted audit procedures and based on that analysis, evaluate whether AS 1105, AS 2110, AS 2301, and related standards need targeted updates. Areas for consideration include evidence generated by systems, algorithms, or AI models, completeness and accuracy of large data sets, reliability of externally sourced data, traceability of model inputs and outputs, reproducibility of procedures, explainability of conclusions, and the auditor's response to technology-enabled fraud risks.

Practical examples would be especially valuable. Examples could address risk assessment, fraud brainstorming, ICFR, substantive analytics, journal entry testing, document review, tests of details, population completeness, and the use of AI in evaluating contradictory audit evidence. Such examples could promote consistent practice without developing prescriptive standards that may become outdated as tools evolve.

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[2] Ibid.

B. Higher Priority: Auditing Digital Assets

We recommend that the PCAOB prioritize research and guidance on auditing digital assets. Recent regulatory activity has focused on providing greater certainty to digital asset issuers and market participants, and we have observed an increase in companies obtaining, holding, transacting in, or providing services related to digital assets. As these activities become more prevalent, the need for guidance across the financial reporting ecosystem becomes more urgent.

We recommend that the PCAOB continue to focus on coordination with other standard setters and regulators, and either endorse or leverage existing resources, such as the AICPA Accounting for and Auditing of Digital Assets practice aid.

If it is determined that PCAOB-specific guidance is needed, we recommend staff guidance or illustrative examples before standard-setting. Potential areas of focus include:

- Reliability, relevance, and limitations of blockchain information, blockchain explorers, and other third-party external data sources.
- Custody arrangements, existence, rights and obligations, and control of private keys.
- Occurrence and completeness considerations for common digital asset revenue and income streams, including mining, staking, exchange activities, and custodial activities.
- Valuation, including fair value hierarchy considerations and use of specialists or pricing services.
- Related-party, counterparty, and associated fraud risks, including risks associated with asset managers, custodians, wallets, smart contracts, exchanges, token issuers, and affiliates.
- Evaluation of service organizations and SOC reports or equivalent assurance, including whether existing reports performed under AICPA standards are fit for purpose in increasingly complex technology environments.
- ICFR and IT general control considerations, including access, change management, private key management, and transaction monitoring.

Because accounting conclusions can directly affect audit procedures, we also recommend continued coordination with the SEC and FASB where financial reporting and disclosure matters intersect with audit procedures. For example, diversity in accounting conclusions for certain digital asset activities (e.g., principal versus gross conclusions related to staking) can affect the design and extent of audit procedures. Focused coordination would help auditors respond consistently to the related risks.

C. Higher Priority: Auditor Independence

We support a regulatory environment that is streamlined, effective, and not unnecessarily complex. Significant changes have occurred in business practices, corporate and audit firm structures, technology, and other (SEC and AICPA) regulatory requirements since many of the PCAOB interim independence standards were originally adopted over two decades ago.

The Board should evaluate whether the interim independence standards remain necessary, whether certain requirements have been superseded by SEC or AICPA requirements, and whether unnecessary duplication can be removed while reinforcing that independence is a shared responsibility among auditors, management, and audit committees.

We understand that the SEC is examining its independence rules considering current market developments. The SEC and PCAOB should work together to focus on issues that create meaningful threats to independence (emphasizing impartiality and objectivity) rather than documentation or technical requirements that do not affect investor protection and may require communications to the audit committee that may not be valuable to their oversight of the audit and their discussions with auditors. Another focus should be on limiting unnecessary duplication, interpretive complexity, and potential inconsistencies, including where the interim independence standards may overlap with SEC Rule 2-01 of Regulation S-X.

D. Medium Priority: Fraud and NOCLAR

Fraud and noncompliance with laws and regulations remain important to investor protection. We support continued consideration of these topics and recommend that the PCAOB should proceed in a measured way informed by the knowledge, skills and ability of auditors and lawyers, international standard-setting developments, and stakeholder outreach.

The PCAOB should use the Standards and Emerging Issues Advisory Group (SEIAG), the Investor Advisory Group (IAG), and topic-specific task forces to evaluate the objectives and scope of any potential changes. Coordination with the IAASB and AICPA Auditing Standards Board will be important to avoid materially different auditor responsibilities unless differences are warranted by the U.S. issuer environment.

For fraud, the PCAOB could focus first on practical audit quality improvements, including illustrative examples for fraud risk identification, guidance on management override and journal entry testing, examples of procedures responsive to technology-enabled fraud risks, and guidance on how company use of AI and other emerging technologies may affect fraud risk assessment.

For NOCLAR, any revised requirements should be grounded in auditors' skills, knowledge, and capabilities. Revisions should not expect auditors to perform legal analysis or make legal determinations that are more appropriately within the expertise of legal counsel. The PCAOB should also consider the limitations of information available to auditors. For example, responses from legal counsel may provide high-level summaries because of privilege and confidentiality considerations, which can limit their audit utility.

Before pursuing expanded auditor requirements related to NOCLAR, we recommend robust stakeholder engagement to identify what investors and other users are seeking, whether auditors are well positioned to provide that information, the costs of doing so, and whether the potential benefits to audit quality and investor protection justify the expanded role.

E. Lower Priority: CAMs

While we support continued evaluation of whether CAMs are providing decision-useful information to investors, research conducted by the Center for Audit Quality,[3] including its 2024 survey of institutional investors, indicates that institutional investors generally find CAMs useful and informative, with 92% of surveyed investors reporting that CAMs are useful. We encourage the Board to consider these findings when evaluating whether changes to the CAM framework are warranted and caution against prescriptive CAM quotas or

[3] CAQ 2024 Survey

expectations that could substitute form for auditor judgment. Should the Board decide to revisit this topic, they should conduct a post-implementation review of PCAOB Auditing Standard 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*, analyze trends in CAM reporting by issuer size, industry, audit firm, and risk profile, and evaluate any CAM-related inspection observations that resulted in a failure to obtain sufficient appropriate evidence or an inappropriate audit opinion before proposing amendments.

The PCAOB also should engage investors, audit committees, preparers, and auditors to understand whether CAMs are improving communication of relevant information about the audit and whether additional nonauthoritative guidance or examples would be more effective than standard amendments.

F. Lower Priority: Firm and Engagement Performance Metrics

Engagement metrics may provide useful information if they are meaningful, comparable, linked to audit quality, and interpreted with appropriate context. However, prior efforts by the PCAOB and SEC demonstrate that it is challenging to reduce audit quality to a set of quantitative measures without creating unintended consequences.

Given the subjective nature of many potential metrics, the PCAOB should proceed carefully before renewing standard-setting in this area. A single set of metrics may create checklist compliance, allow for misinterpretation, or impose costs that outweigh benefits, particularly for smaller and mid-sized firms that may need to build additional systems and processes to collect, validate, and report data. Additional research and outreach to investors, audit committees, and firms should precede any proposal.

G. Other Matters: Service Organizations and Broker-Dealer Inspection Program

We recommend that the PCAOB consider whether existing standards and guidance sufficiently address the use of service organizations in issuer audits. System and Organization Controls (SOC) 1 and SOC 2 examinations are performed under AICPA standards, but PCAOB engagement teams regularly use those reports in PCAOB audits. As company reliance on third-party technology providers, cloud platforms, AI tools, and digital asset custodians increases, the PCAOB should consider whether additional guidance is needed on evaluating the relevance and reliability of such reports for PCAOB audit purposes.

We also support continued consideration of a permanent broker-dealer inspection program that is tailored to investor risk, broker-dealer complexity, and the nature of the engagements subject to PCAOB oversight. Any related standard-setting or inspection activities should be calibrated to the risks presented by the broker-dealer population and should avoid unnecessary burden where investor protection benefits are limited.

II. Approach to Standard-Setting

We support the PCAOB developing and adopting a conceptual framework for standard-setting. The framework should not be an abstract exercise. It should be integrated into the PCAOB's agenda-setting, research, proposal, adoption, implementation, inspection, and post-implementation review activities. We also recognize that achieving consensus on such a framework may be a complex and time-intensive undertaking. Accordingly, we offer several key considerations that could inform a principles-based framework designed to promote stakeholder alignment and support a well-reasoned, iterative, and transparent process.

A. Project Selection and Lifecycle

The existing public description of the PCAOB's standard-setting process is high level and focuses heavily on the path to adoption. We recommend a framework that addresses the full lifecycle of a project, including implementation and application. Each project should have a clear public record explaining key decisions and how the project supports investor protection and audit quality.

The PCAOB's project selection framework should consider:

- The nature and severity of the audit quality issue or investor protection concern.
- Evidence of inconsistent practice, recurring inspection findings, enforcement matters, market developments, or stakeholder concerns.
- Whether the issue arises from unclear standards, implementation challenges, changing business practices, new technology, or inconsistent interpretation.
- Whether staff guidance, FAQs, illustrative examples, speeches, inspection observations, or other nonauthoritative materials could address the matter more efficiently than standard-setting.
- Expected benefits to investors, audit committees, and other stakeholders.
- Expected costs, including incremental audit effort, methodology changes, training, technology updates, quality control system changes, and audit committee communications.
- Potential competitive effects, including impacts on mid-sized and smaller firms and potential concentration effects in the issuer audit market.
- Scalability across firm sizes, issuer complexity, industries, and issuer reporting status.
- Activity at other standard setters and regulators, including the SEC, IAASB, AICPA, FASB, and relevant international bodies.
- Whether the appropriate path is research, guidance, targeted amendments, comprehensive standard-setting, or no action.

The framework should include transparent due process at key project stages, including agenda addition, research conclusions, proposal development, comment analysis, adoption, implementation, and post-implementation review. The PCAOB should provide thematic feedback summaries at critical stages so stakeholders can understand how their input was considered before the adopting release.

B. Characteristics of Effective Standards

If standard-setting is the appropriate response based on the project selection process described above, proposed and final standards should be clear, risk-based, principles-based where appropriate, economically justified, scalable, capable of consistent inspection and enforcement, and supported by practical implementation guidance. Effective standards should be capable of consistent application by audit teams and consistent evaluation by PCAOB inspectors. Inspection results may indicate potential gaps, ambiguity, or inconsistent interpretation in existing standards or rules, and could identify areas for clarification or guidance.

Standards should support audit quality while preserving a viable pathway for mid-sized and smaller firms to participate in the issuer audit market. This is important to competition, audit committee choice, and the resilience of the public company audit ecosystem.

C. Stakeholder Engagement and Standard-setting Expertise

As we discussed in our Strategic Priorities Response,[4] the SEIAG and the IAG could be used more actively to review project objectives, early issue papers, implementation concerns, and potential alternatives. The PCAOB should also consider establishing project-specific task forces when specialized expertise is needed, as they have recently done by establishing the multi-stakeholder Inspection Modernization Council. Task forces can provide practical insight on implementation challenges, emerging technologies, industry-specific considerations, and other specialized areas. We also support Board Member Laughton's proposal[5] to enhance early stakeholder engagement in the standard-setting process, including through a small working group charged with reviewing draft standards before they are exposed more broadly. Early input from practitioners and other stakeholders could help identify operational challenges, implementation considerations, and unintended consequences, resulting in more informed and effective proposals. Additionally, the PCAOB should use its consultation process to monitor questions related to evolving issues.

We encourage the PCAOB to increase transparency about how stakeholder feedback is considered throughout the project lifecycle. The PCAOB could use public meetings, staff summaries, roundtables, field testing, advisory group discussions, and topic-specific task forces to provide input earlier in the lifecycle of a project as well as transparency around how the input was considered.

We also encourage the Board to consider the knowledge, skills, and experience needed within the standard-setting and research function. Effective standard-setting requires technical auditing expertise, economic analysis, inspection experience, investor perspectives, academic research, technology understanding, and practical experience with implementation. A multidisciplinary standard-setting staff, supported by appropriate advisory input, will improve the operability and durability of PCAOB standards.

D. Comment Periods and Effective Dates

Comment periods should be calibrated based on the complexity of the proposal, the need for field testing or cost analysis, the amount of concurrent regulatory activity, audit cycle demands, the urgency of the issue, and the extent of methodology, training, technology, or quality control changes that are proposed. Complex proposals require longer comment periods, so firms, preparers, audit committees, investors, and other stakeholders can analyze operational effects and unintended consequences.

Similarly, effective dates should consider stakeholder feedback and the time needed for methodology changes, training, technology updates, quality control system changes, audit committee communications, and inspection team training. For complex standards, the PCAOB could consider phased effective dates, early adoption options, good-faith implementation periods, delayed inspection focus on minor implementation issues, or other implementation support where appropriate.

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[4] CBIZ CPAs Response to the PCAOB's Request for Comment on Strategic Priorities.

[5] Remarks made at the May 6, 2026 SEIAG meeting, Earlier Stakeholder Engagement in Standard-Setting | PCAOB.

Inspection teams should be trained on a standard's objectives and basis before the standard becomes effective. Inspection findings should not expand or reinterpret the standard beyond its text and adopting release. Where the PCAOB issues nonauthoritative staff guidance, inspectors should evaluate implementation consistently with the status and purpose of that guidance.

E. Coordination with Other Standard Setters

We support greater alignment between PCAOB standards and international auditing standards where alignment advances investor protection and audit quality without sacrificing U.S.-specific public interest objectives. Alignment should be considered prospectively when future projects are added to the agenda. Retrospective alignment may be appropriate only where there is demonstrated need and clear benefit.

The PCAOB should enhance their existing coordination efforts with the IAASB, AICPA, and other relevant standard setters when working on similar topics. Ongoing monitoring, including listening to the respective Board level discussion and debates on why changes are necessary in a particular jurisdiction would help inform the PCAOB as to whether divergence is necessary. Early involvement and information gathering is preferable to considering alignment only after standards have been drafted. If the PCAOB determines that U.S.-specific differences are necessary, the Board should explain the rationale for those differences and the expected benefits.

Alignment can create unique challenges for mid-sized and smaller firms whose methodologies, tools, training, and vendor platforms are more closely tied to U.S. standards. The PCAOB should consider scalability guidance, phased transitions, joint PCAOB and AICPA communications, and practical examples to support consistent implementation.

F. Post-Issuance Feedback and Implementation Support

Input on the front end is only one part of effective standard-setting. Regular feedback loops after issuance, such as webinars, roundtables, Q&A updates, inspection observations, and post-implementation reviews, can help align interpretations and surface areas where targeted revision or guidance may be needed. This would reduce the risk that expectations develop through inspections or enforcement rather than through transparent standard-setting.

III. Potential Impact of Optional Semiannual Reporting

We appreciate the PCAOB's focus on the potential impact of the SEC's proposal to allow optional semiannual reporting.[6] If the SEC adopts the proposed amendments, PCAOB standards should be evaluated for targeted changes.

A. AS 6101

AS 6101 currently limits the auditor's ability to provide negative assurance regarding subsequent changes in specified financial statement items that are within a 135-day threshold from the end of the most recent period for which an audit or review has been performed. That threshold is tied to a quarterly reporting environment and the age of financial statement requirements that exist today.

[6] See SEC Proposal on Semiannual Reporting, SEC Rel. No. 33-11414 (May 5, 2026). https://www.sec.gov/files/rules/proposed/2026/33-11414.pdf.

If the SEC adopts optional semiannual reporting and it is concluded that the period on which negative assurance can be provided should not be fully extended to mirror semiannual reporting, we nevertheless recommend that the PCAOB modify AS 6101 to reflect the proposed changes to the age of financial statement requirements for quarterly filers. In our view, negative assurance on a change period should be permitted as long as the date covered does not extend beyond the date on which the company would have been required to file its quarterly report if it were a quarterly reporting company, or the date on which it would be current if it were subject to Exchange Act reporting as a quarterly filer, such as in an initial public offering (note that this approach does not take into account any extension pursuant to Rule 12b-25).

The PCAOB could implement this approach by aligning AS 6101 with Exchange Act reporting requirements for domestic companies. Alternatively, the PCAOB could modify the current number of days in AS 6101 so that the permissible negative assurance period corresponds to the maximum number of days after the date and period of the latest financial statements included in the registration statement by which a quarterly filer would be required to file Form 10-Q. This should include the additional five days available to a small non-accelerated filer as that term is used in the SEC's proposal, *Enhancement of Emerging Growth Company Accommodations and Simplification of Filer Status for Reporting Companies, Securities Act Release No. 11419*.

While extant AS 6101 does accommodate issuers who prepare interim information on a semiannual basis, conforming amendments as suggested above could help align the guidance for management and auditors. If the SEC rule is adopted as proposed, underwriters and issuers will need to determine what auditor involvement would be necessary to obtain the level of comfort desired in a particular transaction.[7]

B. AS 4105

The RFC appropriately notes that the SEC proposal sought comment on whether the nature and extent of interim review procedures would need to change. We also believe the PCAOB should consider whether changes or guidance related to AS 4105 may be necessary if companies, audit committees, investors, or underwriters seek auditor involvement with earnings releases or other interim financial information that is not a full set of interim financial statements prepared in accordance with GAAP.

If companies elect semiannual reporting, some may continue to provide quarterly earnings releases, key financial data, selected financial information, or other interim communications outside of Form 10-S. Users may expect some level of auditor involvement because of historical practice, capital markets expectations, or underwriter requirements. However, extant AS 4105 is designed for reviews of GAAP-compliant interim financial information and does not clearly provide a framework for procedures on information that is less in scope than GAAP-compliant interim financial statements.

We recommend that the PCAOB develop guidance addressing the procedures auditors may perform over such information, the form of reporting, limitations on assurance, and the relationship of those procedures to comfort letters. Such guidance should make clear when a review under AS 4105 is not permissible, when agreed-upon or other procedures may be appropriate, and how auditors should communicate the scope and limitations of their involvement to avoid user confusion.

[7] Note that there are likely other areas within AS 6101 that should be modernized independent of the recent SEC rule proposal; however, we have focused our comments on the potential impact of semiannual reporting, if adopted.

This issue is important to investor protection because a semiannual reporting regime could lead to more voluntary interim information that is outside the full financial statement close and review process. The PCAOB should consider whether expanded guidance would promote clarity and consistency of review procedures in circumstances in which financial information is provided that does not comply with GAAP.

Conclusion

We appreciate the PCAOB's continued efforts to solicit stakeholder input and improve transparency in standard-setting. We welcome the opportunity to continue engaging with the Board and staff as the PCAOB updates its standard-setting and research agendas, considers a conceptual framework, and evaluates targeted amendments related to optional semiannual reporting.

If you have any questions or would like to discuss our views further, please contact Chief Executive Officer Jeff Gluck at jgluck@cbiz.com or Chief Quality Officer Adam Clark at Adam.Clark@cbiz.com.

Very truly yours,

CBIZ CPAs P.C.

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By email: comments@pcaobus.org

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August 7, 2026

Re: Request for Public Comment on PCAOB Standard Setting (PCAOB Release No. 2026-005)

Dear Office of the Secretary:

Thank you for the opportunity to comment and for opening the Board's standard-setting agenda to public input. It is the right moment to ask the question we address here: what should acceptable AI-assisted audit evidence look like? This letter responds principally to Questions 3 and 8–10, on the use of AI and the choice between staff guidance and standard setting, and to Questions 17–19, on alignment with international auditing standards.

We are Deep Neuron Lab GmbH, trading as dnl, a Berlin-based technology company building AI-assisted tools for financial audit. Our tools are used by audit firms across the United Kingdom, continental Europe, Australia, and Canada, from independent practices to Big Four member firms. We offer this comment as observers of how firms elsewhere are resolving the question now before the Board. We have a commercial interest in how the Board approaches this question, and we state that plainly. What follows is written from what we observe in audit practice rather than from a position of neutrality we do not hold.

Our view: the most constructive action the Board can take at this stage is to issue staff guidance. AI adoption in audit is outpacing multi-year standard-setting cycles, which is why staff guidance is the right first instrument, informing the eventual standard rather than replacing it.

When the safer choice is a weaker audit (Questions 8–10)

Consider a firm that uses AI to test 100 percent of a company's journal entries rather than taking the traditional manual sampling approach. One outcome is that regulators recognize the fuller coverage as an improvement. The other is that, absent clear standards, the firm cannot predict what an inspector will ask about the model, the data, and the method. In turn, the firm retreats to manual

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sampling because it is easier to defend from a compliance standpoint. The rational choice becomes the weaker audit.

The scenario is not ours. Last year, then-Board member Christina Ho set it out in her speech "AI and the Pursuit of Audit Quality: A Regulatory Perspective," and her closing question was the right one: does moving from full-population testing back to a sampling approach advance investor protection?

The firm that adopts the stronger method carries the risk; the firm that stays with the status-quo manual method is safe. When the safe choice is also the lower-quality choice, standards written without AI in mind work against the very thing the Board exists to protect. This is not hypothetical or far off. Firms face this choice now, in live audit seasons, without an AI-specific benchmark for what good AI-assisted work should look like.

The Board is not starting from nothing here. In 2024 it amended AS 1105 and AS 2301 to address technology-assisted analysis, and those amendments do real work, but they were not written for AI specifically, which is the gap that remains. Three examples (Question 10):

- **AS 2315 (audit sampling).** Full-population testing strains its sampling concepts, which assume selection from a population rather than examination of all of it.
- **AS 1215 (audit documentation).** It does not yet say what documentation of a model's inputs, versions, and outputs would make an AI-assisted procedure re-performable on inspection.
- **AS 2810 (evaluating audit results).** It requires the auditor to evaluate whether the financial statements contain the information essential for a fair presentation. It does not say what would support reliance on a tool that checks presentation and disclosures against the full population of applicable requirements, rather than a manually maintained checklist.

The Board has recognized this gap: its research agenda includes a data-and-technology project whose stated objective is to assess whether guidance or standards changes are warranted as auditors adopt new tools. Our comment is directed at that project, and our recommendation is that it produce staff guidance sooner, rather than as the output of a full standard-setting cycle; no timeline has been published, and adoption is accelerating.

Our proposal: guidance built on properties, not products (Questions 3, 8–10)

To date, the Board has wisely avoided endorsing a single model, tool, or vendor, and we are not asking it to start. But the guidance gap is real, and action is needed. Guidance can instead describe the properties that make AI-assisted evidence trustworthy, leaving firms free to meet them however they choose. That description should be technology-neutral and lean on three principles:

1. **Traceability**. Every AI-assisted conclusion can be traced back to the specific evidence on which it rests.

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2. **Reproducibility**. The inputs, model versions, configurations, and outputs are documented in enough detail that a reviewer can re-perform and evaluate the procedure, because re-performance is what an inspection depends on.
3. **Human accountability**. A documented record shows a human auditor reviewed the work and remains responsible for the conclusion. The tool proposes; the auditor decides and signs.

To make this concrete, consider disclosure completeness. A tool that checks a set of financial statements against the full population of applicable disclosure requirements, rather than against a manually maintained checklist, does fuller work than the method it replaces. Under these three properties, the auditor relying on it would show which requirement each flagged item traces to, would retain the requirement set, inputs, and outputs so a reviewer can re-perform the check, and would document the auditor's own resolution of every flagged item. Nothing in that record asks an inspector to understand the model's internals; everything in it can be inspected.

An auditor who can demonstrate their work in these three ways should be able to rely on an AI-assisted procedure with reasonable confidence that it will withstand inspection, whatever technology produced it. We offer these three properties as a starting framework the Board could refine within firms' existing obligations under AS 1105, AS 1215, and QC 1000. This keeps professional judgment and accountability with the human auditor while giving firms the certainty they need to adopt methods that expand audit coverage rather than retreat to narrower ones. In other words, the technology changes; the auditor's responsibility does not. We would note that this concerns the auditor's use of AI to obtain evidence, which is a distinct question from an issuer's use of AI in preparing the financial statements. Both merit the Board's attention.

Regulators are converging (Questions 17–19)

The Board asked how it might achieve greater alignment with international auditing standards, and its draft 2026-2030 Strategic Plan proposes fostering that alignment as an objective. The answer is unusually clear right now. On August 5, the IAASB published proposed revisions to ISA 330, ISA 500, and ISA 520 addressing auditors' use of technology, taking a principles-based rather than prescriptive approach; the comment period runs to December. The UK's Financial Reporting Council has gone furthest: its Generative and Agentic AI Guidance (March 2026), following its AI in Audit paper (June 2025), is explicit that responsibility for AI deployment and output quality rests unchanged with the human auditor. We raise this not to hold up another jurisdiction as a model the Board should adopt, but because it shows guidance of this kind can be written quickly without displacing the auditor's accountability. Germany's Chamber of Public Accountants (WPK) maintains a question-and-answer framework on the use of AI in audit practice, updated most recently in June 2026. The international direction is being set as we write.

Aligning with this direction, rather than developing a separate U.S. approach, would spare the firms the Board oversees from conflicting requirements on the same AI-assisted procedure. We are not proposing a single global rulebook. We are proposing that regulators moving into the same territory learn from one another rather than diverge, which is both more achievable and, ultimately, in the interest of the U.S. investors the Board protects.

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Our recommendation (Question 8)

We respectfully urge the Board to issue staff guidance on acceptable AI-assisted audit evidence now, anchored to traceability, reproducibility, and human accountability, rather than awaiting a full standard-setting cycle that may run for years. Firms are choosing their methods today. Staff guidance would remove the disincentive to adopt stronger methods, give investors the benefit of fuller testing, and keep the human auditor firmly accountable while the longer process runs its course. The cost of waiting is not neutral; it is measured in audit quality forgone, season after season.

We would welcome the opportunity to share aggregated, anonymized observations on adoption patterns at the practitioner level, without reference to any firm or engagement. We appreciate the Board's attention and stand ready to engage in any further dialogue.

Respectfully submitted,

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Aug. 5, 2026

Phoebe W. Brown, Secretary
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Via email – comments@pcaobus.org

Re: PCAOB Release No. 2026-005, Request for Public Comment on PCAOB Standard Setting

Dear Ms. Brown:

The Pennsylvania Institute of Certified Public Accountants (PICPA) appreciates the opportunity to comment on the Public Company Accounting Oversight Board's Request for Public Comment on PCAOB Standard Setting.

The PICPA is a professional CPA association of approximately 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. Our membership includes practitioners in public accounting, education, government, and industry.

General Comments

We believe the PCAOB has an opportunity to move beyond individual standard-setting projects and establish a modern framework that enables the profession to adapt to rapid technological change while maintaining high audit quality. A transparent, principles-based, internationally-informed, and evidence-driven approach will better position the PCAOB to respond to emerging risks, encourage innovation, reduce unnecessary regulatory burden, and preserve a competitive and resilient public company audit profession that continues to serve investors effectively.

Additional Comments

Please see the attached Appendix for our detailed comments to specific questions.

We appreciate the PCAOB's consideration of our comments and would welcome the opportunity to discuss them further.

Sincerely,

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

Attachment: Additional Comments

Appendix – Comments to Specific Questions

1. *Do you believe that the PCAOB should focus our standard-setting and research activities in areas discussed in the table? How would you approach these areas (e.g., conduct further research, issue staff guidance, or advance to standard setting)? How would you prioritize these areas? Are there areas not listed in the table that the PCAOB should prioritize?*

   The PICPA believes that the PCAOB should focus its standard-setting and research activities firstly on changes needed to the standards to enable firms to leverage technology tools to achieve the highest audit quality. We also agree with other commenters that alignment with the International Audit and Assurance Standards Board (IAASB) is an important priority. As the AICPA audit standards are harmonized with the IAASB and most small firms that perform work requiring PCAOB registration are also performing work under AICPA audit standards, further alignment with the IAASB would greatly enhance efficiency and audit quality

2. *Do you have any views not previously shared regarding the scope and objectives of potential standard setting or research in areas discussed in the table? If yes, what specifically should the PCAOB focus on in each of these areas?*

   No comment.

3. *In areas where you believe issuing staff guidance would be preferable to amending PCAOB standards, what matters should guidance specifically address?*

   We do not believe that amendments to AS 3101 related to critical audit matters (CAMs) are warranted at this time. Instead, if the PCAOB determines that additional action is necessary, we believe staff guidance and further research would be a more appropriate and proportionate response than a standard-setting project. Specifically, the PCAOB should first evaluate the root causes of the perceived disconnect between the information that investors expect to receive and the CAMs currently being reported. That assessment should distinguish between issues arising from implementation of the existing standard, evolving economic conditions, and expectations that extend beyond the intended purpose of the auditor's report.

The decline in the average number of CAMs, by itself, does not necessarily indicate that the standard is failing to achieve its objective. Since the implementation of CAM reporting, the profession has navigated several significant accounting changes, including ASC 842, *Leases*, and ASC 326, *Financial Instruments – Credit Losses*, without widespread circumstances requiring additional CAMs. Similarly, the economic disruption following the COVID-19 pandemic resulted in significant judgments surrounding goodwill impairments, fair value measurements, and other valuation issues that gave rise to more CAMs. As economic conditions stabilized, those judgments have become less pervasive. It is reasonable that the number of CAMs has declined. Accordingly, the decrease in CAMs alone should not be viewed as evidence that the standard requires revision.

If the PCAOB believes additional guidance is appropriate, staff guidance should focus on improving consistent application of existing CAM requirements, including providing illustrative examples of circumstances that would and would not constitute a CAM, clarifying the application of the "especially challenging, subjective, or complex auditor judgment" criterion, and explaining how auditors should evaluate emerging or novel transactions within the existing framework. Such guidance could promote greater consistency without fundamentally changing the standard.

Finally, the PCAOB should carefully consider whether the gap between investor expectations and current CAM reporting reflects expectations that an audit was never intended to satisfy. The implementation of the CAM standard required significant investments by audit firms and issuers, including methodology changes, training, legal review, and expanded communications with audit committees. Before undertaking another costly standard-setting project, the PCAOB should determine whether investors are seeking information that auditors cannot appropriately provide. For example, investors may desire commentary on a company's business model sustainability, future viability, strategic risks, or other confidential management information. These matters fall outside the scope of an audit and, in many cases, would conflict with the auditor's role, professional ethics, and confidentiality obligations. If that is the source of the perceived

communication gap, revising the CAM standard would not resolve the issue. Instead, additional stakeholder outreach and staff guidance would represent a more effective and measured approach.

4. *In addition to performing standard-setting or research activities in the potential focus areas, should the PCAOB undertake modernization of the remaining "interim" PCAOB standards (including those discussed by commenters, e.g., going concern, inventory, use of service organizations, use of internal auditors)? If the standards were to be updated on an individual basis, which standards should we prioritize?*

   We support modernizing the remaining "interim" standards to the extent that the changes results in greater alignment with the international standards.

5. *Some users of PCAOB standards have expressed concern about the accelerated pace of standard setting and length of comment periods to react to proposals. What would be the preferred length of comment periods to enable stakeholders to fully analyze and respond to proposals? What factors should be taken into account when determining the length of the comment period?*

   We have previously expressed concerns regarding both comment period duration and the volume of significant proposals issued simultaneously with overlapping due dates. While the length of individual comment periods is important, the greater challenge is the cumulative burden created by multiple complex, interrelated projects moving forward at the same time. From 2023 – 2024 the PCAOB issued proposals on quality control standards, noncompliance with laws and regulations, contributory negligence, firm reporting and firm and engagement metrics, audit procedures involving technology-assisted analysis, and several other significant initiatives. Several of these proposals had broad implications for audit methodologies, firm operations, technology, quality management systems, and professional responsibilities, requiring substantial time and coordination to evaluate.

   The overlap among these projects made it difficult for stakeholders to assess the cumulative impact of the proposals. Many were interconnected, creating uncertainty

about how one proposal might ultimately affect another. In some cases, stakeholders were effectively commenting on proposals that could be superseded or materially altered by the outcome of another concurrent project. This makes it challenging to provide thoughtful, practical feedback and creates unnecessary inefficiencies for practitioners, firms, and other stakeholders. Rather than fostering meaningful engagement, the pace of standard setting often results in stakeholders prioritizing responses based on limited resources instead of providing comprehensive feedback on all proposals. More deliberate sequencing of major projects would improve the quality of stakeholder input while reducing unnecessary burden.

We support the PCAOB's efforts to increase transparency in its standard-setting process and encourage the Board to engage stakeholders throughout the development of significant projects rather than primarily at the exposure draft stage. Periodic requests for input, public roundtables, field testing, pilot programs, and targeted practitioner outreach at key milestones would help identify implementation concerns earlier, improve the operability of proposals, and reduce the need for significant revisions after formal issuance. This iterative approach would also allow the PCAOB to better assess the practical implications of proposed requirements before asking stakeholders to evaluate a comprehensive exposure draft.

Accordingly, we do not believe there is a single comment period length that is appropriate for all projects. The appropriate length should be based on the scope, complexity, and potential operational impact of the proposal. Incremental amendments, technical corrections, or proposals intended primarily to align PCAOB standards with international standards or to address narrow practice issues may warrant comment periods of 45 to 60 days. In contrast, comprehensive proposals that significantly affect audit methodologies, firm governance, quality management systems, technology, or reporting requirements should generally get at least 90 to 120 days for comment, particularly when implementation requires consultation across multiple disciplines within firms. The PCAOB should also avoid overlapping comment periods for major projects

whenever possible, allowing stakeholders sufficient time to evaluate each proposal on its own merits and provide more meaningful, well-informed feedback.

6. *When setting the effective dates of new standards, what factors should be taken into account to provide a sufficient period of time for implementation? Recognizing that implementation timelines will vary depending on the nature and complexity of a standard, what range of time do firms typically need to implement a new standard, including updating audit methodologies and technological resources and training staff?*

   As identified in the question, we agree that the PCAOB should establish implementation periods based on the complexity, operational impact, and degree of change required by a new standard rather than applying a uniform approach. In determining effective dates, the Board should consider the extent to which firms must revise audit methodologies, update technology platforms and practice aids, develop or acquire new tools, redesign quality management processes, train personnel, communicate changes to audit committees and clients, and coordinate implementation across global networks or affiliated firms. The PCAOB should also consider whether implementation depends on actions by third-party software vendors or other organizations outside a firm's control.

   Implementation periods should also take into consideration firm size. While larger firms often have dedicated methodology, quality management, and technology teams, smaller and midsize firms typically rely on a limited number of professionals who must balance implementation activities with client service responsibilities. As a result, implementation timelines that may be achievable for larger firms can create disproportionate burdens for smaller firms. Effective dates should therefore be scalable and provide adequate time for firms of all sizes to implement changes without adversely affecting audit quality. The PCAOB should consider a phased implementation approach for particularly significant standards.

   The timing of implementation relative to firms' annual audit cycles is equally important. In addition, when multiple significant standards are issued within a relatively short period, the PCAOB should consider the cumulative implementation burden and sequence effective dates to allow firms to successfully implement one major initiative before another becomes effective.

Additionally, early publication of implementation guidance, illustrative examples, staff FAQs, and other educational resources well in advance of the effective date would promote more consistent implementation and allow firms to focus their efforts on improving audit quality rather than resolving avoidable implementation questions. This approach would better achieve investor protection objectives while minimizing unnecessary costs and operational disruption.

In general, we believe that incremental amendments, technical clarifications, or standards that primarily codify existing practice can often be implemented within 6 to 12 months. By contrast, comprehensive standards that require substantial changes to audit methodologies, quality management systems, technology, documentation, governance, or firm operations generally require 18 to 24 months, particularly when firms must evaluate third-party technology solutions, revise practice aids, develop training programs, and validate implementation before the standard becomes effective. In some circumstances, particularly where implementation depends on external technology providers or related regulatory actions, additional time may be warranted.

7. *When prioritizing potential standard-setting or research projects, including those outlined above, how and to what degree should the PCAOB consider economic benefits, costs, competitive effects, and unintended consequences? Should such analyses involve an assessment of how any regulatory action may affect smaller firms, including potential barriers to entry or scalability concerns?*

The PCAOB should explicitly consider economic benefits, implementation costs, competitive effects, and potential unintended consequences when determining whether to undertake a standard-setting project and throughout the development of any proposal. Consistent with the Sarbanes-Oxley Act, the Board should ensure that the expected benefits of a proposal justify its costs and that the proposed requirements effectively address an identified need. This analysis should extend beyond individual firms to consider the broader impact on audit market participation, competition, audit quality, and investor choice, particularly given the continuing decline in the number of firms participating in the public company audit market.

The level of economic analysis should be commensurate with the scope and expected impact of the proposal. For incremental amendments, technical corrections, or projects primarily intended to align PCAOB standards with those of the IAASB or address discrete implementation issues, we do not believe an extensive quantitative economic analysis is necessary unless commenters identify significant implementation costs or unintended consequences. In these cases, a qualitative assessment supported by stakeholder outreach and implementation experience is generally sufficient.

By contrast, proposals that would fundamentally change audit responsibilities, firm governance, audit methodologies, technology, or quality management systems should be supported by a much more rigorous economic analysis. For example, proposals such as the 2023 Noncompliance with Laws and Regulations (NOCLAR) proposal would have imposed significant operational, legal, training, and technology costs on firms while fundamentally altering the auditor's role. Projects of this magnitude require robust analysis of implementation costs, expected benefits, effects on audit quality, competitive impacts, and the potential for unintended consequences.

We do not believe the PCAOB's economic analyses consistently provide stakeholders with meaningful information to evaluate these tradeoffs. In several recent rulemaking projects, the economic discussion relied heavily on anecdotal observations or broad qualitative statements rather than empirical data or a transparent evaluation of costs, alternatives, and expected outcomes. When a comprehensive economic analysis is warranted, it should be conducted with a level of rigor comparable to that expected of the SEC in its rulemaking process, including a clear assessment of reasonable alternatives, implementation costs, market effects, and anticipated benefits.

At the same time, we believe the PCAOB has an opportunity to improve both its standard-setting process and its economic analyses by adopting a more iterative and evidence-based approach to developing standards. Earlier stakeholder engagement, pilot testing, field testing, implementation studies, and outreach to firms of varying sizes, technology providers, methodology developers, and audit committees would generate practical information about implementation challenges and costs before a proposal is finalized. This information could

provide a reliable basis for assessing the reasonableness of expected costs and benefits and, for many projects, could serve as an efficient alternative to a more formal economic study. As discussed at question #12, having a strong conceptual framework could help ensure that appropriate parameters are contemplated before a project is undertaken.

Finally, any economic analysis should explicitly evaluate the impact of proposed standards on smaller firms and potential new entrants to the public company audit market. Requirements that are manageable for the largest global networks can impose disproportionately greater costs on smaller firms with limited technical, legal, and technology resources. The PCAOB should therefore evaluate whether proposed standards create unnecessary barriers to entry, reduce competition, discourage firms from accepting or retaining public company audit clients, or otherwise diminish audit market capacity. Incorporating scalability and market participation into the Board's economic analysis will help ensure that future standards enhance audit quality while preserving a competitive and resilient audit profession.

8. *In your view, should the PCAOB pursue standard setting and research to address the matters previously identified by commenters (e.g., addressing the impact of the use of AI on identifying and assessing the risk of material misstatement, auditing internal controls, determining what constitutes sufficient appropriate audit evidence, documentation, supervision, and governance of AI-enabled tools)? Alternatively, are these matters best addressed through the issuance of staff guidance?*

<u>AI audit tools and QC 1000, Quality Control considerations</u> – We believe that staff guidance would be helpful on the topic of due diligence on AI audit tools to comply with QC 1000, Quality Control. Specifically, as auditors increasingly rely on software and technology developed by external providers, guidance is needed to address third-party technology platforms, cloud-based audit applications, externally developed AI models, auditing algorithms, evaluating data sets, and shared data environments. Such guidance should address governance, vendor oversight, cybersecurity considerations, data integrity, system changes, and documentation. It would help firms consistently manage these risks while continuing to encourage innovation.

Auditing a company's client's use of AI in financial reporting and internal controls – We believe staff implementation guidance would help address the key risks and recommended responses for addressing a companies' use of AI in financial reporting. Auditors need practical guidance on evaluating AI-generated information, assessing the risk of material misstatement, understanding relevant controls, and determining the extent to which AI outputs can be relied upon as audit evidence.

Applying emerging technologies on an audit – We believe that many firms have held back on implementing these tools on public company audits out of concern for what the inspectors will require during the inspection. Clearer staff guidance should be provided to ensure that firms understand the expectations from an inspection perspective. At the same time, while staff implementation guidance is helpful, it should not be elevated to the level of the standards during inspection. In the past, PCAOB inspectors have held firms accountable for compliance with staff guidance, which we do not believe is appropriate.

Further standard setting may be needed once gaps are identified during implementation of new technology tools. We have heard from firms implementing technology tools who have raised questions that standard setting is needed to clarify what constitutes audit evidence, what needs to be documented when data is verified 100% for certain criteria, who is noted as the preparer of AI-generated work, and appropriate supervision and governance of AI-enabled tools. Individual firm outreach via voluntary pilot testing could facilitate a greater understanding between what is expected and what is possible. We also question the recent decision to emphasis bank confirmations in lieu of data from APIs, which may provide quicker, higher-quality evidence than bank confirmations for certain audit assertions. We note that both the AICPA Audit Standards Board and the IAASB have ongoing projects to evaluate emerging technologies and believe that it would be helpful for the PCAOB to further participate and align with those standard-setting activities, as further discussed at question #19.

9. *In light of rapid advancements in data and technology, including AI, are there additional matters the PCAOB should consider addressing?*

No comment.

10. *Are there specific areas of the PCAOB's current standards that you believe are not fit for purpose in an AI environment? If so, what are those areas and what changes may be necessary to address the impact of AI on auditing?*

    See response to question #8.

11. *Do you believe there is a need for the PCAOB to address this topic? If so, should the PCAOB pursue standard setting and research to address matters related to auditing digital assets (e.g., access, ownership, control, and existence when held by a third party)? Alternatively, are these matters best addressed through the issuance of staff guidance? In addition to matters discussed in comments provided on the Strategic Priorities RFC, what questions should be specifically addressed through either guidance or standard setting?*

    In the absence of clear standard-setting direction from the PCAOB, the AICPA's Digital Assets Working Group has developed a practice aid, Accounting for and Auditing of Digital Assets, that has been continuously updated based on the evolving regulatory environment, including changes made by FASB and SEC guidance. We believe that this guidance is adequate to address the important audit and accounting issues. However, as the PCAOB has not addressed this topic, there is an outstanding question as to whether the guidance is sufficient for use on a public company audit. We do not support guidance that diverges significantly from this practice aid, and do not believe that a standard-setting project is needed if this guidance is deemed fit for purpose on a PCAOB audit.

    A separate digital asset issue is related to the Federal Genius Act, which requires firms performing examinations of in-scope stablecoins are required to be registered with the PCAOB. We are currently lobbying in Pennsylvania to clarify that related legislation should clearly specify the professional standards governing these examinations. More specifically, they should require examinations to be performed in accordance with the AICPA's Statements on Standards for Attestation Engagements (SSAEs), specifically AT-C Section 205, *Assertion-Based Examination Engagements*, rather than PCAOB standards due to the fact that the

PCAOB standards have not changed since it initially adopted the AICPA's attestation standards in 2003. By contrast, the AICPA's standards have been refined and modernized through extensive due process and are now the most commonly used standards by practitioners performing attestation engagements. We recommend the PCAOB consider whether other standards should be updated in light of the changes in the assurance market due to the evolving digital asset ecosystem (e.g., SOC 1, SOC 2, and SOC 3 examinations are attestation engagements performed under the AICPA SSAEs).

12. *Should we develop and adopt a conceptual framework for PCAOB standard setting? What would be the advantages and disadvantages of establishing such a framework?*

We support the PCAOB's development of a conceptual framework for standard setting. Beyond improving transparency and consistency, the framework should establish clear principles that define the appropriate scope and objectives of the Board's standard-setting activities. A well-defined framework would provide reasonable boundaries around future projects, helping ensure that new standards remain focused on enhancing audit quality and investor protection within the scope of the auditor's role. By clearly articulating the objective of each project and the principles governing the Board's decision-making, the framework could also reduce the potential for standard setting to become influenced by broader policy objectives or stakeholder expectations that extend beyond the purpose of an independent financial statement audit.

The framework should also identify the core qualitative characteristics that every PCAOB standard should possess. At a minimum, standards should be internationally aligned where appropriate, clear, operable, scalable, technology-neutral, principles-based, and reviewable (inspectable). Standards should establish clear objectives while allowing auditors to exercise sound professional judgment in determining how best to achieve those objectives. They should be capable of consistent implementation by firms of all sizes, sufficiently flexible to accommodate evolving business practices and technologies, and written in a manner that allows for consistent inspection and enforcement. These characteristics would provide an objective benchmark against which proposed standards could be evaluated before issuance.

As part of the framework's emphasis on enforceability, the PCAOB should establish principles for the documentation and evaluation of professional judgment. Over time, the profession has experienced a shift toward checklist-oriented audits, driven in part by concerns that inspection and enforcement activities place greater emphasis on procedural compliance than on the reasonableness of an auditor's judgment. This dynamic can discourage critical thinking and professional skepticism — the very qualities that high-quality audits require. A professional judgment framework would provide a common foundation for audit teams and inspectors, promoting consistent evaluation of whether significant judgments were reasonable, well-supported, and aligned with the objectives of the standards, rather than simply whether every procedural step was documented.

Finally, the framework should require the PCAOB to clearly articulate the problem a proposed standard is intended to solve, the evidence supporting the need for regulatory action, and why standard setting — as opposed to staff guidance, implementation support, or enhanced inspection focus — is the appropriate response. Establishing these guardrails would help ensure that future projects remain appropriately scoped, evidence-based, and focused on matters that are reasonably within the responsibilities of the independent auditor. This disciplined approach would improve the quality of standards, provide greater predictability for stakeholders, and strengthen confidence in the PCAOB's standard-setting process.

Here are our additional comments on the potential guiding principles:

Investor Protection and Audit Quality

The primary objective of every standard should be to enhance audit quality and protect investors by improving the reliability of the auditor's work and report. New requirements should address clearly identified risks or deficiencies that are supported by evidence obtained through inspections, research, or stakeholder outreach. Projects should not be undertaken to expand the nature of an audit beyond the scope of the current reasonable assurance model. For example, the scope of an audit should not include providing a legal opinion, opining on the sustainability of the business model, predicting the future, ensuring against cyberattacks, communicating all possible instances of fraud, etc. While the scope of an audit may seem obvious to auditors, we note that recent proposals have attempted to fundamentally extend auditors' responsibilities when providing reasonable

assurance. We therefore believe that the conceptual framework should be foundational and that deviations from that foundation should be clearly stated.

Principles-Based Standards

Standards should establish clear objectives and required outcomes while allowing auditors to exercise professional judgment in determining how best to achieve those objectives. Overly prescriptive requirements should be avoided unless necessary to address demonstrated audit failures or significant investor protection concerns. A principles-based approach promotes innovation, accommodates evolving business models and technologies, and results in standards that remain relevant over time.

Professional Judgment Framework

The framework should expressly recognize that professional judgment is fundamental to performing high-quality audits. Rather than attempting to eliminate judgment through increasingly prescriptive requirements, standards should:

- Establish clear objectives.
- Identify the factors auditors should consider when making significant judgments.
- Require appropriate documentation supporting those judgments.
- Recognize that multiple reasonable approaches may satisfy a standard.

The PCAOB should evaluate judgments based on whether they were reasonable given the facts and circumstances known at the time — not through hindsight or solely because inspectors might have reached a different conclusion.

Harmonization with International Standards

The framework should adopt a formal policy of "harmonize where possible, diverge only where necessary." The PCAOB should begin each project by evaluating existing IAASB standards and determining whether they adequately address the identified issue. Divergence should occur only when necessary to achieve the following:

- Satisfy U.S. securities laws.
- Address unique risks identified through PCAOB inspections or oversight.
- Respond to differences in the U.S. regulatory environment.

- Provide demonstrably greater investor protection.

Whenever the PCAOB departs from internationally accepted standards, it should clearly explain the reasons for the divergence and the expected benefits.

Scalability

Every standard should be capable of being effectively applied by firms of different sizes, structures, and practice models while achieving the same audit objectives. Firms should have flexibility to implement requirements in a manner proportionate to the nature, size, and complexity of their practice and engagements.

Technology Neutrality

Standards should focus on audit objectives rather than prescribing specific methodologies or technologies. Requirements should remain applicable regardless of whether auditors use traditional audit procedures, data analytics, artificial intelligence, automation, or future technologies not yet developed.

Practical Operability

Before issuing a standard, the PCAOB should evaluate whether it is:

- Understandable
- Capable of consistent implementation
- Inspectable
- Enforceable
- Operationally practical

Pilot testing, field testing, and outreach to firms, audit committees, technology providers, and methodology developers should be incorporated into the standard-setting process to identify implementation issues before standards become effective.

Cost-Benefit and Market Impact

The framework should require the PCAOB to evaluate:

- Expected investor benefits

- Implementation costs
- Competitive effects
- Unintended consequences
- Impacts on market participation

Particular attention should be given to whether proposed requirements create unnecessary barriers for smaller firms entering or remaining in the public company audit market. For significant projects, pilot testing would be beneficial to evaluating the actual cost of implementation from pilot testing.

Transparency

The framework should provide greater transparency regarding the following:

- Project prioritization
- Selection between guidance and standard setting
- Reasons for diverging from IAASB standards
- Consideration of stakeholder feedback
- Economic analyses supporting proposed requirements

Continuous Improvement

The PCAOB should periodically evaluate whether standards continue to achieve their intended objectives after implementation. This evaluation should include the following:

- Post-implementation reviews
- Inspection findings
- Stakeholder feedback
- Changes in technology
- International developments

Standards should be refined based on evidence rather than allowing unnecessary divergence or outdated requirements to persist.

13. *What qualitative characteristics should be considered when developing PCAOB standards that could be included in a new framework?*

See answer to question #12.

14. *How should a conceptual framework be integrated with the PCAOB standard-setting process and what improvements, if any, could be made to the standard-setting process?*

We believe the conceptual framework should serve as the foundation for evaluating every significant standard-setting project throughout its development. Rather than being a high-level statement of principles, the framework should function as a practical decision-making tool that guides the PCAOB in determining whether a project is necessary, appropriately scoped, and consistent with its statutory mission of protecting investors and enhancing audit quality.

The explanatory materials accompanying each proposal should explicitly describe how the Board applied the conceptual framework in developing the proposed standard. For example, the release should explain how the proposal addresses the identified audit quality issue, why standard setting is preferable to staff guidance or other regulatory actions, how the proposal satisfies the framework's qualitative characteristics – such as clarity, operability, scalability, technology neutrality, inspectability, and enforceability – and how the PCAOB considered economic impacts, international alignment, and stakeholder feedback. Requiring this analysis would improve transparency, provide stakeholders with a more meaningful basis for evaluating proposals, and promote greater consistency across future standard-setting projects.

In addition, the explanatory materials should identify where and why the proposed standard diverges from the IAASB or other internationally recognized standards. If divergence is necessary, the Board should clearly articulate the U.S. legal, regulatory, or investor protection considerations supporting that decision, as well as the expected benefits relative to the additional implementation costs. This would reinforce a policy of harmonizing standards where appropriate while ensuring that departures are deliberate, transparent, and evidence-based.

Finally, the conceptual framework should not only guide the Board's evaluation of proposed standards but also provide a benchmark for post-implementation review. Assessing whether a

final standard achieved the objectives established in the framework would promote continuous improvement and help ensure that future standard-setting remains focused, effective, and responsive to the needs of investors and the profession.

15. *The PCAOB conducts economic analysis and gathers stakeholder input, both before and after our standards take effect. Should a conceptual framework include criteria or factors for evaluating economic benefits, costs, competitive effects, and unintended consequences? If so, what criteria or factors should be considered for inclusion?*

    Yes. The conceptual framework should include criteria to assess impact on practice, scalability, costs and benefits, etc. See comments to questions #7 and #12.

16. *Should a conceptual framework address alignment of PCAOB standards with those of other standard setters?*

    Yes. See comments at question #12.

17. *What topics should be the highest priority for alignment and why? Should alignment with IAASB standards be given higher priority than alignment with standards of other standard setters and why?*

    In addition to the PCAOB's standards, most smaller PCAOB-registered firms in the United States apply the standards promulgated by the AICPA's Auditing Standards Board (ASB). The ASB's Operating Policies include "a strategic objective to converge, when appropriate, with the auditing, attestation, and quality management standards of the IAASB." So, the AICPA ASB looks first to the IAASB standards.[1] As AICPA standards are mostly aligned with IAASB standards, further alignment of the PCAOB's standards with the IAASB would help minimize differences with those of the AICPA. As the ASB also evaluates the IAASB standards through U.S. legal, regulatory, and practice lenses, it may be appropriate for the PCAOB to consider minimizing differences with the ASB as well. Ultimately, maintaining a list of the differences

[1] American Institute of Certified Public Accountants, Auditing Standards Board, Operating Policies - asb-operating-policies.pdf

between PCAOB and ASB standards would greatly help smaller firms provide audit services in the public company audit space. We agree that explaining the rationale for any proposed differences would be helpful during the public comment process.

18. *Should alignment be considered prospectively, i.e., when conducting future standard-setting projects, or should the PCAOB also examine previously completed standard-setting projects to determine if additional alignment would be feasible and appropriate? Should the PCAOB prioritize aligning its standard-setting agenda with those of other standard setters (as opposed to seeking to align specific standards)?*

    We support efforts to further align existing standards with those of the IAASB. Further alignment would reduce the incremental cost of compliance and lower barriers to entry for firms having to learn a separate set of standards to serve clients requiring PCAOB registration. It would also modernize existing standards that are significantly out of date (e.g., the SSAE's as discussed in our response to question #11).

    We also support aligning the PCAOB's standard-setting agenda with those of the IAASB.

19. *Should the PCAOB establish formal means to work collaboratively with other standard setters, such as seeking to develop certain projects jointly?*

    We believe the PCAOB should establish formal mechanisms to collaborate with other standard setters, particularly the IAASB, throughout the standard-setting process. This will enable the PCAOB to remain current. This collaboration should include early coordination on emerging issues, sharing research and implementation experience, participation in advisory groups, and, where appropriate, joint outreach and field testing. While we recognize that differences will remain that address the U.S. legal and regulatory environment and the PCAOB's statutory mandate to protect investors, these differences should be intentional, evidence-based, and limited to areas where they provide a clear public interest benefit.

    For the most part, the IAASB's standards have evolved continuously over the past two decades, while many PCAOB standards remain unchanged since their original adoption as

interim standards. Rather than independently developing substantially similar standards, the PCAOB should adopt a policy of "harmonize where possible, diverge only where necessary." Leveraging the IAASB's extensive due process, research, stakeholder outreach, and implementation experience would allow the PCAOB to devote more of its resources to addressing uniquely U.S. issues, emerging risks, and inspection findings rather than recreating standards that have already been rigorously developed and tested internationally.

Greater harmonization would also produce meaningful benefits for firms and investors. Many firms – particularly global networks and firms that audit both public and private entities – must maintain separate methodologies, guidance, training programs, and quality management processes to comply with unnecessarily divergent standards. Aligning standards where appropriate would improve consistency in audit execution, reduce implementation costs, facilitate staff training, and lower barriers to entry for firms considering entering the PCAOB audit market. This is particularly important for smaller and midsize firms, which often have limited technical resources and face disproportionately higher costs in maintaining separate methodologies. We believe greater alignment with internationally recognized standards could meaningfully reduce barriers to entry for smaller firms that are considering expanding into the public company audit market. Rather than investing significant time and resources to learn and implement a substantially different set of PCAOB requirements, firms could build upon methodologies and expertise already developed under IAASB standards, making participation in the issuer audit market more practical and economically feasible.

In addition, greater alignment would benefit third-party practice aid providers, audit methodology developers, and technology platforms. Software developers and methodology providers currently must devote significant resources to accommodating differences that often do not enhance audit quality. Greater consistency among standards would encourage more efficient development of audit technologies, AI-enabled tools, digital workpapers, and training resources, allowing innovation to occur more rapidly while reducing implementation costs across the profession.

Finally, formal collaboration among standard setters would help promote greater global consistency in audit quality while allowing the PCAOB to remain responsive to U.S.-specific

risks. A coordinated approach would reduce unnecessary regulatory fragmentation, improve the operability and scalability of standards, and ultimately strengthen investor protection by allowing firms to focus their resources on performing higher-quality audits rather than navigating avoidable differences in professional requirements.

20. *In addition to potential differences between PCAOB standards and those of other standard setters that are mentioned above, are there any other reasons for potential divergence between PCAOB standards and those of other standard setters that may be necessary to consider?*

    No comment.

21. *Would alignment with international standards create any unique challenges or have disproportionate impact on smaller firms (e.g., costs to change guidance, policies and procedures, training)?*

    See comments at question #19.

22. *Under AS 6101, auditors may provide negative assurance regarding subsequent changes in specified financial statement line items as of a date less than 135 days from the end of the most recent period for which an audit or review has been performed. In light of the SEC's proposed revisions to the rules regarding the age of financial statements, should AS 6101 provisions related to negative assurance be amended?*

    No comment.

23. *If narrow, conforming amendments related to the negative assurance provisions of AS 6101 were to be considered, should we, for example, permit the auditor to provide such negative assurance as of a date subsequent to the end of the most recent audited or reviewed period and prior to the next date that the issuer is required to file periodic financial statements? Would establishing a permissible period for providing negative assurance that is based on the issuer's next required financial statement reporting date, rather than the existing 135-day*

threshold, give rise to unintended consequences? Is a longer period during which negative assurance is permitted appropriate for a semi-annual filer vs. a quarterly filer? Should there be different limitations on the period during which negative assurance is available depending on whether the next period is subject to an audit or a review? What alternative approaches, if any, should the PCAOB consider?

No comment.

24. *Under AS 6101, auditors are limited to reporting procedures performed and findings obtained – and may not provide negative assurance – as to subsequent changes in specified financial statement items as of a date 135 days or more subsequent to the end of the most recent period for which an audit or review has been performed. If AS 6101 is amended to permit the auditor to provide negative assurance as of a date up to the issuer's next required financial statement reporting date (as described in Question #23), the existing limitation will no longer apply. Are there circumstances that should limit the auditor's ability to provide negative assurance as to subsequent changes in specified financial statement items? Should those circumstances be addressed in the standard? If so, how?*

No comment.

This concludes our remarks on the proposed standards. Please contact Allison Henry for elaboration on any points made herein.

pwc

August 5, 2026

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

RE: PCAOB request for public comment on PCAOB standard setting

Madam Secretary:

We appreciate the opportunity to comment on potential enhancements to the PCAOB's approach to standard setting and the board's future priorities. This letter builds on the recommendations in our **response** to the PCAOB's May 2026 consultation and considers feedback from different stakeholder groups to that consultation. It also notes where our positions align with the board's **draft 2026–2030 strategic plan goals and objectives**.

Efforts to enhance the effectiveness of the standard setting process will promote the PCAOB's ability to achieve its mission for the foreseeable future.

We support the board establishing a framework for high-quality standard setting. Such a framework will help it advance and maintain high-quality auditing standards and serve as a transparent and consistent way to communicate with stakeholders to build greater understanding and consensus. Any framework guiding PCAOB standard setting should itself go through public consultation and have a level of authority.[1]

The PCAOB's existing **Staff Guidance on Economic Analysis in PCAOB Standard-Setting** (the economic analysis guidance) provides a sound foundation on which the board should build. Many of our recommendations align with specific elements in that guidance. Economic analysis can bring the greatest value if begun early in the process, since it can play a crucial role in defining critical policy questions and in developing and evaluating different approaches to addressing identified problems.

[1] The board can consider how it and the SEC would formally endorse the framework, including whether it should be included in appropriate PCAOB rules.

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Other US and international accounting and auditing standard setters have established due processes and working procedures,[2] which importantly remain intact through changes in leadership and board composition. These processes and procedures provide a consistent way to articulate to stakeholders the key judgments made in setting agenda priorities and the nature and scope of particular projects. A formal framework could support both the PCAOB and SEC's determination of whether PCAOB final standards are consistent with the Sarbanes-Oxley Act of 2002 (SOX) and are necessary or appropriate in the public interest or for the protection of investors.

The objective of PCAOB standard setting

We agree in principle with the PCAOB's proposed objective of its standard setting as "enhancing audit quality and the reliability of audit reports by establishing clear, enforceable, and risk-focused elements for auditor performance, while also setting out core qualitative characteristics of effective standards (e.g., clarity, operability, scalability, and inspectability)." We support the specific emphasis on auditor performance, as this directly affects audit quality. While enforceability is relevant given the PCAOB's statutory mandate, it is important for the standards to remain principles-based so that they continue to be fit for purpose as the environment in which audits are performed continues to evolve.

Research and outreach to identify topics and projects to be prioritized

We fully support the board's goal of ensuring that its standards meaningfully improve audit quality. The board's ongoing efforts to consult on its strategic priorities and related agenda are positive steps forward to inform the need for any future standard setting activities. These efforts will also facilitate the commencement of effective economic analysis considering the economic impacts (i.e., benefits, costs, unintended consequences) and competitive effects at all stages of a project—including when setting its scope.

The scope of any standard setting project could reasonably range from (1) narrow or targeted amendments to address certain key issues, to (2) interpretative guidance on a pertinent practice issue or to clarify how a standard is intended to be applied in a specific situation, to (3) more fulsome updates to one or more existing standards. The ongoing use of a research agenda will assist the board in evaluating whether standard setting is necessary and in developing the discussion in any proposing release about how it has considered reasonable alternatives (e.g., in relation to data and technology). Specific and ongoing outreach with firms of all sizes to understand where they have made significant investments in methodology to address emerging issues or other matters related to quality can also help identify where changes to standards or guidance may be appropriate.

[2] Certain practices within the FASB **Rules of Procedure**, the AICPA's Auditing Standards Board (ASB) **Operating Policies**, and the International Auditing and Assurance Standards Board (IAASB) **Framework for Activities** are likely to be relevant for the PCAOB to consider in establishing its approach to standard setting.

Development stage

Greater transparency about the scope and priority of individual projects would support the board's intent to clarify expectations and its bases for decisions; this could be achieved at the development stage using the following areas of focus:

- **Articulation of the significant issues to be addressed and the priority of individual projects**: With input from its stakeholders, the board and staff should articulate the need or benefit in pursuing standard setting or other actions on a particular topic, how the topic maintains or enhances audit quality, and the urgency for the issue to be addressed.
- **Outreach and engagement needed for each project**: Timely and frequent stakeholder engagement is necessary within the standard setting process. For each specific project, the board and staff also should consider what input and expertise, including from firms and auditors (e.g., to understand practical challenges and scalability considerations), is needed to move a project forward. More consistency in discussions with the board's advisory groups throughout a project, as well as early consideration of the need for requests for comment, concept releases, surveys, and roundtables, would be welcome. In some areas (e.g., AI and technology), forming a specific multi-stakeholder task force or expert working group may be a way to bring expertise to the discussions and complement existing staff resources.
- **Transparency about potential inputs that could be leveraged in a project**: We support the PCAOB's intent to foster alignment with International Standards on Auditing (ISAs) and recommend the board adopt an approach of treating the work of the International Auditing and Assurance Standards Board (IAASB) as a core input to work on new topics. The board should also consider the work of the AICPA (e.g., the Auditing Standards Board (ASB) and the Assurance Services Executive Committee (ASEC)) and other auditing standard setters as well as global regulators and policymakers.
- **Consideration of complementary actions and interdependencies**: Often, there are implications for preparers and audit committees as a result of PCAOB actions or a need for a more holistic approach to resolving issues affecting the financial reporting ecosystem. An overall understanding of the potential impact on issuer audits is needed to consider whether the benefits outweigh the costs. PCAOB actions are most effective in supporting audit quality and protecting investors when they consider the respective responsibilities of preparers, audit committees, and auditors, resulting in actions that appropriately complement other rules, regulations, and policies across the financial reporting ecosystem. Accordingly, the board may find it necessary to work with the SEC, FASB, and others to achieve its intended outcomes in a reasonable manner.

Other process-related considerations

- **Technical review process**: We support the recommendation made by a board member at

the May 2026 Standards and Emerging Issues Advisory Group (SEIAG) meeting for a small stakeholder working group to work with standard setting staff in the Office of the Chief Auditor to review and discuss draft text to advise whether the draft standards: (1) are workable; (2) would improve audit quality and thereby protect investors; or (3) require revisions either to be workable or to improve audit quality. Similar to the Inspections Modernization Task Force, a working group would not be intended to replace or undermine broader public consultation but rather would potentially enhance the efficiency of the standard setting process. Appropriate transparency about these efforts would help to assuage concerns about undue influence. This type of involvement may be particularly relevant when the staff is finalizing text in proposed standards as a result of feedback received.

- **Comment periods on public consultations and effective dates**: We appreciate the PCAOB recognizing stakeholder concerns about the accelerated pace of standard setting. Generally, a minimum comment period of 60 days on any standard setting proposal is desirable, with longer comment periods needed for more complex topics, completely new standards, or matters that have not been previously discussed in public meetings to enable fulsome consideration of draft text. When standards are finalized, having sufficient time for implementation (including for resolution of questions from firms and issuance of timely additional guidance as necessary) is essential to achieving the board's objectives. Ordinarily, a minimum period of 12–18 months after SEC approval would be necessary. But factors such as nature and extent of the changes, whether multiple new standards are proposed close in time, and the time of year when the standard is approved are relevant.[3]

The use of AI by companies and auditors should be the board's foremost priority.

We strongly support the PCAOB's stated intent to address the use of AI, in particular Generative AI (GenAI), and other emerging technologies in financial reporting and the audit process. In the short term, we recommend the PCAOB issue guidance to raise awareness and provide clarity in the application of the PCAOB's professional standards given the broad, varied, and rapidly evolving use of advanced technology, including AI, impacting the audit. Over the longer term, the board may find it appropriate to propose changes to its auditing and quality control standards or explore other mechanisms to integrate guidance explaining how those standards are expected to be applied as technology advances. We recommend the PCAOB form an AI task force, seek deeper engagement with firms of all sizes, and coordinate with its inspections personnel to inform its longer-term efforts.

Timely guidance to promote awareness and consistency

In fulfilling existing responsibilities under the auditing standards, auditors consider factors that may affect the nature, timing, and extent of the auditor's procedures. Among those factors are whether and how management is using AI in financial reporting, the type of AI being used

[3] Effective dates are best on a calendar-year basis (e.g., for audits of financial statements for periods beginning on or after December 15, 20XX) to align with firms' methodology and training cycles.

across a broad range of capabilities and sources, the nature of human involvement, and whether and how such use affects internal control over financial reporting (ICFR). SEC officials have publicly stated that the SEC may pursue communications in relation to management's responsibilities and accountabilities under existing requirements (e.g., books and records, internal control, management certifications) when implementing AI. The PCAOB should work with the SEC to leverage these actions, consider other relevant publications (e.g., COSO and Financial Executives International), and evaluate how best to provide guidance for auditors in relation to risk assessment and the effect on both financial statement audits and integrated audits.

In addition, as the nature and extent of auditors' use of AI continues to grow, it is becoming more important for the PCAOB to bring attention to certain matters and make clear expectations that promote consistency across the profession and support audit quality. As a firm, we have taken actions to promote responsible use of AI in performing audit work. While we do not expect the board to be able to answer all the questions that will arise as practice is evolving, guidance in the relatively near term could be informed by previous discussions at the board's advisory groups, outreach undertaken to date with firms, and observations from the board's inspection program (including related to changes to firms' methodologies).

In particular, the accelerating adoption of AI-enabled technologies in the audit highlights the need for guidance addressing the potential risks and appropriate governance, including, for example:

- Tool development, deployment, and monitoring - considering the unique and broad concepts related to GenAI such as data bias, explainability, and automation bias and the engagement team's or audit firm's responsibility to practically address those concepts when GenAI is used in the audit (e.g., assessing model training, traceability, reconstructability, as well as reliability of client data and other inputs)

- The use of broadly available GenAI technologies and tools (e.g., ChatGPT) to perform audit work

Further, the significantly varied and continuously evolving use of GenAI in the audit has created a need for an audit firm to address matters including:

- Providing appropriate direction and responsibilities related to the use of GenAI in the performance of audit procedures, including promoting discussion among the engagement team, assessing relevance and reliability of information source(s), and aligning prompts to the audit procedures to be performed and inputs used

- Assessing relevance and reliability of audit evidence, including sufficient human involvement and exercising professional skepticism, even if the output from GenAI appears plausible

- Communicating with audit committees and management to understand how GenAI and other technologies made available by the audit firm may be used in conducting the audit

- Evaluating whether AI-enabled and agentic workflows have adequate human oversight and opportunity to intervene

Importantly, any such guidance should allow for the application of judgment by the auditor or audit firm, as it is unlikely that prescriptive guidelines would stand the test of time. Rather, the guidance should serve as a foundation upon which the PCAOB may build as the technology and its application continues to evolve.

Research and outreach to inform future efforts

While it is difficult to predict what GenAI will be capable of in the future, particularly with rapid advancements like agentic AI, automated monitoring, and recursive self-correction, it is important for the PCAOB to undertake robust dialogue with its stakeholders to explore how best to continue to address the fundamental responsibilities and accountability of auditors.

The concepts in AS 1000[4] are foundational to our view that, regardless of how extensively an auditor may use AI in an audit now and in the future, similar to management's responsibilities and accountability, appropriate human involvement will likely always be necessary. Even in highly automated environments, humans must remain responsible for matters such as judgments underpinning the auditor's risk assessment and response, the sufficiency and appropriateness of the evidence obtained, the evaluation of any exceptions identified, the treatment of contradictory information, and the final conclusion reflected in the auditor's report. Concepts such as professional skepticism and professional judgment will remain relevant, and potentially become increasingly so, as the use of AI in an audit increases.

We do not believe it will be appropriate or feasible for the PCAOB to provide a level of specificity as to the nature, extent, and intensity of human involvement that will be necessary given the variety of ways AI is being used today and may be used in the future. Yet, evaluating language in the current standards and grounding in their principles would provide a framework to help promote greater consistency and quality as the AI journey continues and firms develop, experiment, learn, and advance appropriate approaches.

For example, many of the PCAOB's standards include requirements and phrases that suggest the need for execution by a human professional—though these range from phrases that suggest human participation (e.g., "discuss" and "observe") and human interaction (e.g., "communicate"), to human supervision (e.g., aspects of review and oversight), human judgment (e.g., "determine," "conclude," "evaluate," and "assess"), and human accountability ("approve"), with some seemingly only able to be ultimately performed by a human, even if those efforts are informed or assisted by technology (e.g., "exercise professional skepticism,"

[4] AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*.

"be responsible for," and "express an opinion"). Considering whether simply discussing the relevance of these concepts in guidance or whether, over time, the standards need to be amended or interpreted as the auditor's use of technology continues to evolve will be a critical component of the board's longer-term efforts.

Similarly, further guidance to expand on the foundations related to technological resources in QC 1000[5] may be helpful. As the IAASB is undertaking a similar initiative, it may be possible for the PCAOB to leverage the materials generated by that initiative. Finally, as the use of GenAI increases, further clarity may be needed about expectations for complying with the requirements in AS 1215, in particular the expectations related to the nature and extent of audit documentation.[6] The use of AI in the audit is one of the most important areas for the board to consider in the coming years and we would welcome the opportunity for further engagement as the board's work on AI progresses.

Work on other topics related to auditor performance should be considered in a measured way.

Digital assets and other blockchain technologies

As noted in our previous **comment letter**, the use and holding of digital assets and other blockchain technology solutions is increasing across the broader marketplace. While not as widespread as the use of AI, the topic is highly relevant to a subset of public companies and involves unique risks. Accordingly, timely action is appropriate to promote consistent application, accountability, and execution by auditors when auditing digital assets (e.g., in relation to the nature and extent of evidence over safeguarding of assets, sole ownership, and custodial agreements). Transparency about the auditor's responsibilities would support the public interest and help avoid both expectations and performance gaps. We recommend the PCAOB develop an authoritative interpretation to illustrate how key requirements of certain foundational PCAOB standards are expected to be applied to digital assets.[7]

We recommend that the PCAOB leverage ASEC's *Digital Assets Practice Aid*[8] to make progress in this area in the near term. The PCAOB should consider relevant outreach by the PCAOB and insights from inspection activities. The PCAOB could also convene firm subject matter experts to understand how their methodologies have evolved and areas where regulatory clarity would be beneficial as well as engage with companies operating in the digital assets ecosystem, the SEC, and FASB.

These efforts can help to identify and build consensus on which topics warrant an authoritative

[5] QC 1000, *A Firm's System of Quality Control*.
[6] See, for example, paragraph .06A of AS 1215, *Audit Documentation*, related to the concept of an experienced auditor.
[7] For example, AS 1105, *Audit Evidence*, and AS 2110, *Identifying and Assessing Risks of Material Misstatement*.
[8] ASEC's **Digital Assets Practice Aid** is a nonauthoritative resource that sets out guidance on pertinent accounting and auditing issues and is periodically updated to reflect FASB Accounting Standards Updates (ASU), other regulatory developments, and practical questions from auditors.

response, as well as whether other guidance may be helpful to inform auditor judgments tailored for the specific facts and circumstances of an audit. Public consultation on the topic (including any draft interpretation) would also promote transparency about the board's process and be an effective way to gather deeper input from a wider group of stakeholders.

Going concern

Financial reporting standards[9] were updated in 2014 to (1) require management to evaluate whether there is substantial doubt about the company's ability to continue as a going concern over a defined time frame that differs from what is included in PCAOB standards, (2) define the concept of "substantial doubt" with a specific probability threshold, and (3) clarify what management is expected to disclose, including when substantial doubt has been mitigated by management's plans. The GAAP requirements were intended to reduce diversity in the timing and content of footnote disclosures. AS 2415, *Consideration of an Entity's Ability to Continue as a Going Concern*, however, has not been updated since initially adopted as an interim auditing standard, though the PCAOB staff issued **guidance** in 2014 related to FASB developments. We recommend the board pursue narrow amendments to AS 2415 to enhance its interoperability with financial reporting standards and Section 10A of the Securities Exchange Act of 1934 (Section 10A) requirements for auditors for their own separately required evaluations. In particular, the board's efforts should focus on aligning the definition and period of evaluation of "substantial doubt" between auditing and financial reporting standards in a manner that is consistent with Section 10A. The FASB's standard was developed with that objective in mind.

There may also be opportunities to provide clarity about the audit work on going concern disclosures and obtaining evidence about significant management judgments. The ASB's work to align its equivalent standard with the updated financial reporting requirements could be leveraged. Engagement with firms to understand how their methodologies relating to going concern have evolved in response to FASB and ASB standard setting, including how they have promoted scalability where necessary, would be beneficial.

Noncompliance with laws and regulations (NOCLAR)

We agree the board should consider undertaking further research and engagement on NOCLAR, including to obtain preliminary views on economic considerations, before moving forward with a draft standard setting proposal.

If the PCAOB ultimately decides to pursue standard setting, any potential changes to the auditor's responsibilities should not expand the scope of a financial statement audit. The auditor's focus should be on considering how risks of noncompliance may affect risks of material misstatement and whether effects are appropriately recognized and disclosed in the

[9] ASU No. 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40), Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*.

financial statements. AS 2405[10] should continue to be grounded in the auditor's expected competencies in an audit (i.e., what can reasonably be expected of auditors given that they are not trained as lawyers or compliance monitors).

The PCAOB should consider the feasibility of the recommendations on the 2023 NOCLAR proposal, specifically those following the March 2024 roundtable, which were significantly different from, and more modest than, the proposal. This would include suggestions related to enhanced focus on the auditor's consideration of how identified or suspected noncompliance affects the audit (e.g., evaluation of management's risk assessment and overall control environment, tone at the top, effect on other aspects of the audit).

Fraud

In its request for public comment, the board listed fraud as an area for potential standard setting. The current PCAOB requirements in relation to risk assessment in AS 2110, together with the further specificity in AS 2401[11] and obligations for auditors in Section 10A, serve as an appropriate basis for the auditor's procedures with respect to fraud, resulting in an effective approach to this important topic. As a result, a standard setting project on fraud does not appear necessary at this time.

Notwithstanding this view, we would not oppose staff analyzing recent work of both the IAASB and the ASB and engaging directly with those boards and staff to evaluate whether there are any incremental areas not addressed in PCAOB standards or SEC requirements or matters arising from developments in the use of technology within the current structure. Further discussion with the board's advisory groups—including briefings on factors driving the IAASB and ASB updates and the staff's research—could inform the board's future consideration of whether to commence a narrow standard setting project or consider if guidance to reinforce existing requirements may enhance audit quality.

Service organizations

The use of service organizations continues to grow, as does those organizations' use of AI. This emerging development warrants PCAOB consideration of how auditors evaluate service auditor's reports in both a financial statement audit and an audit of ICFR. We recommend the board undertake further research and outreach on this topic to form a view as to whether the requirements in AS 2601[12] should be revised. Wider stakeholder discussion about the nature, scope, and oversight of those attestation engagements (i.e., SOC reports) would also be relevant given their use by public companies and their auditors. SOC reports are generally issued in accordance with AICPA standards and may be issued by firms not otherwise subject to PCAOB inspection or oversight (who may or may not also perform financial statement audits

[10] AS 2405, *Illegal Acts by Clients.*
[11] AS 2401, *Consideration of Fraud in a Financial Statement Audit.*
[12] AS 2601, *Consideration of an Entity's Use of a Service Organization.*

or audits of ICFR). Accordingly, we encourage the board to liaise with the AICPA and its Peer Review Board to understand (1) quality risks with such reports and plans for how they will be addressed (including any planned updates to standards or guidance), and (2) any relevant feedback from users of SOC reports about their utility.

We offer suggestions regarding the impact on PCAOB standards of the SEC's proposal related to semiannual reporting.

Auditor involvement in interim financial reporting enhances the reliability and consistency of financial information provided to investors and supports confidence in the overall reporting framework. As noted in our **response** to the SEC's proposal*, Semiannual Reporting*, one practical implication relates to the potential emergence of differing forms of quarterly reporting and varying levels of auditor involvement.[13] We have observed that certain stakeholders, including audit committees, have inquired whether the auditor would be able to perform and report on review procedures on interim financial information that is in a form other than a complete set of financial statements including footnote disclosures. If the SEC's proposal is to move forward, we recommend the SEC work with the PCAOB, and possibly the FASB, to establish a path forward on how auditors can be voluntarily engaged to conduct a review on interim financial information that is less than a complete set of financial statements.

It is an opportune time to revisit the PCAOB interim ethics and independence standards in coordination with the SEC.

In accordance with QC 1000, auditors conducting PCAOB engagements are required to comply with applicable professional and legal requirements, which include not only PCAOB ethics and independence rules, but also SEC independence requirements, the AICPA Code of Professional Conduct, and other statutory requirements related to independence and ethics. Application of at least three sets of standards that overlap or provide greater specificity about the same matters creates unnecessary complexity and potential confusion. We therefore agree with the board's intent to consider whether to retain or rescind the interim ethics and independence standards in their current form. Transparent analysis of the various requirements would support stakeholder engagement and help the board identify where it may be possible to simplify the auditor independence requirements without compromising them. In addition, we suggest evaluating whether there are opportunities to rationalize required audit committee communications related to independence, and more broadly, to focus on those matters that truly merit the involvement or attention of the audit committee. We also recommend the PCAOB and SEC jointly consider other matters such as whether:

- Rules issued by the PCAOB need to be updated to align with or otherwise complement SEC requirements and ongoing developments, and how to avoid creating further

[13] Under AS 4105, *Reviews of Interim Financial Information*, a review engagement applies to a complete set of interim financial statements prepared in accordance with the applicable financial reporting framework (e.g., US GAAP), including the related footnote disclosures. At a minimum, narrow amendments to AS 4105 will be needed to refer to any revised SEC requirements.

divergence in the future given how PCAOB standards incorporate SEC definitions and other references

- There are opportunities for the SEC, PCAOB, and AICPA Professional Ethics Executive Committee to work collaboratively to address emerging issues that may impact independence

Further PCAOB efforts on topics that do not directly relate to auditor performance are not warranted at this time.

Critical audit matters (CAMs)

The PCAOB undertook significant stakeholder outreach during the extensive process to develop the CAM requirements. Subsequent PCAOB outreach, including to investors who conduct fundamental or governance analysis of companies, continued to explore how CAMs were used. The results of the PCAOB's stakeholder outreach in the December 2022 **Staff White Paper** are generally consistent with the PCAOB's intent in requiring CAMs and discussion of economic considerations in the adopting release. The nature and scope of the PCAOB requirements—and the outcomes in applying them—achieve the Board's stated purpose. Feedback from inspections also does not suggest changes to the requirements are warranted, as we are not aware of any auditor's reports that have needed to be amended to include new CAMs or redrafted CAMs as a result of inspections (i.e., there is no evidence auditors are regularly inappropriately applying the requirements or underreporting CAMs).

While a few investor groups called for a broader scope and more content within CAMs during the proposal process (and continue to do so), the PCAOB's decisions in finalizing the standard adequately considered this feedback and were also informed by an economic analysis of the board's own proposal as well as an evaluation of the IAASB's standard addressing key audit matters (which intentionally takes a different approach in some regards). For example, the current approach of linking CAMs to the audit and matters that are disclosed in the financial statements and allowing for auditor judgment in describing how the CAM was addressed in the audit provides necessary safeguards to the risk that auditors might provide original information about the company or that the discussion of a CAM could be read as a piecemeal opinion on a particular matter or undermine the concept of reasonable assurance on the financial statements as a whole. Changes proposed by certain investor groups with the intent of increasing the number of matters identified and reported as CAMs (e.g., deleting the reference to a matter requiring "especially" challenging, subjective, or complex auditor judgment) may undermine the relative importance of a CAM, resulting in a proliferation of less useful information. Accordingly, we would not support the board moving ahead on amendments to standards addressing CAMs.

Firm and engagement metrics

While we understand that transparency regarding the quality of our audits and our system of quality management is valued by stakeholders,[14] we remain of the view expressed in our **response** to the board's initial proposal on firm and engagement metrics that it is, and should be, the role of the audit committee, not the investor, to directly oversee the auditor. The existing balance between required audit committee communications and public disclosure is therefore appropriate in this context. Accordingly, we do not believe it is relevant to the PCAOB's investor protection mission to compel auditors to publicly report specific firm- or engagement-level metrics, including on Form AP. We raised significant concerns to both the PCAOB and the **SEC** about the underlying economic analysis, specifically that it overstates the expected benefits, particularly the usefulness of the information in decision making by investors, audit committees, and other stakeholders, and understates the cost to gather and prepare the metrics as required.

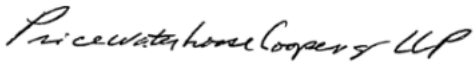
If any further activity is undertaken in this area, it should be research-focused on understanding what audit committees consider relevant to evaluating audit quality and if there are any areas where they routinely request information beyond what is required to be provided under the PCAOB's standards. For example, engaging in a dialogue with audit committees about how they use firms' audit quality/transparency reports and PCAOB inspections reports as well as what other information might be relevant could inform the board's consideration of whether enhancements to AS 1301[15] are necessary to provide more transparency. This would have greater benefits to audit quality than the board attempting to develop a regulatory response to a very nuanced topic.

* * * * *

In closing, we support the board's continued transparent and inclusive approach and believe that ongoing stakeholder engagement is essential as the board moves forward in commencing priority projects. This investment in multi-stakeholder engagement will support the board's achievement of its strategic objectives and highlight its continued relevance and important role in overseeing public company auditors.

We would be pleased to discuss our observations and recommendations with the board or its staff. Please contact Brian Croteau (**brian.t.croteau@pwc.com**) regarding our submission.

Sincerely,



PricewaterhouseCoopers LLP

[14] In the US, we publicly issue a voluntary annual Audit Quality Report, which includes data used to manage our audit practice (referred to as transparency data points). In addition, we issue an annual Transparency Report to comply with Article 45 (5)(e) of the European Union's Directive on Statutory Audit 2006/43/EC.
[15] AS 1301, *Communications with Audit Committees*.

Exhibit 2(a)(D)

Alphabetical List of Commenters on Possible Amendments to QC 1000 (Comments on PCAOB Release No. 2026-006)	
1	Council of Institutional Investors

Council of Institutional Investors®
The voice of corporate governance

Via Email

August 26, 2026

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

Reference: PCAOB Release No. 2026-006, Request for Public Comment Draft 2026-2030 Strategic Plan Goals and Objectives

Dear Secretary Brown and Members of the Public Company Accounting Oversight Board (PCAOB or Board):

The Council of Institutional Investors (CII)[1] appreciates the opportunity to share our views regarding the PCAOB's request "seeking input regarding PCAOB's Draft 2026-2030 Strategic Plan Goals and Objectives" (Plan).[2] We offer the following responses to select topic contained in the Plan. Those responses are derived from our existing membership-approved policies and related prior public positions.

Goal 1: Modernize Standard Setting and Implementation[3]

Objective 1.1: Establish a Framework for High-Quality Standard Setting[4]

CII generally supports the objective. However, as explained in our August 2026 letter in response to ***PCAOB Release No. 2026-005, Request for Public Comment on PCAOB Standard***

[1] The Council of Institutional Investors (CII) is a nonprofit, nonpartisan association of U.S. public, corporate and union employee benefit funds, other employee benefit plans, state, and local entities charged with investing public assets, and foundations and endowments with combined assets under management of approximately $5.6 trillion. Our members include major long-term shareowners with a duty to protect the retirement savings of millions of workers and their families, including public pension funds with more than 15 million participants – true "Main Street" investors through their pension funds. Our associate members include non-U.S. asset owners and a range of asset managers. CII is a leading voice for effective corporate governance, strong shareowner rights, and sensible financial regulations that foster fair, vibrant capital markets. CII promotes policies that enhance long-term value for U.S. institutional asset owners and their beneficiaries.
[2] Request for Public Comment, *Draft 2026-2023 Strategic Plan Goals and Objectives,* PCAOB Release No. 2026-006 at 1 (July 20, 2026), https://assets.pcaobus.org/pcaob-dev/docs/default-source/about/administration/documents/strategic_plans/2026-006-rfc-sp.pdf.
[3] *Id*. at 4.
[4] *Id.*

Setting[5] (August Letter), we have concerns about the development of a *conceptual framework* for PCAOB auditing standards:

> It . . . is unclear to us whether the benefits of a *conceptual framework* for PCAOB standard setting would exceed the costs in terms of time and resources that would likely be necessary to develop, adopt, and maintain a high-quality conceptual framework. In addition, we would oppose a *conceptual framework* that included concepts that conflicted with our membership[-]approved policies. As one example, our policies [**Independence of Accounting and Auditing Standard Setters**[6]] would indicate that a *conceptual framework* for PCAOB standard setting should provide "clear recognition that investors are the key customer" of PCAOB standard setting.[7]

Objective 1.3: Foster Alignment with International Standards[8]

CII, as stated in our policy on **Independence of Accounting and Auditing Standard Setters**, supports "maintaining a high degree of on-going communication [with] . . . international standard setters to produce standards that first and foremost [are of] . . . high quality . . . ."[9] CII, however, does not support the objective of *alignment* of PCAOB standard setting with those of the International Auditing and Assurance Standards Board (IAASB). We believe such alignment *would not,* as described in the objective, "preserve[] the PCAOB's independent standard-setting authority"[10] for at least two reasons set forth in our policy.

More specifically, our policy on **Independence of Accounting and Auditing Standard Setters** indicates that critical attributes of an effective independent standard setter include: (1) "[a] full-time standard-setting board . . . that are independent from prior employers or similar conflicts";[11] and (2) "[r]esources sufficient to support the standard[-]setting process, including a secure, stable, source of funding that is not dependent on voluntary contributions of those subject to the standards."[12] It appears to us that at most only six of 16 IAASB members could be considered

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[5] *See* Request for Public Comment, PCAOB Release No. 2026-005 (June 23, 2026), https://assets.pcaobus.org/pcaob-dev/docs/default-source/standards/standard-setting-agenda-request-for-comment/request-for-public-comment-on-pcaob-standard-setting.pdf?sfvrsn=4cf12519_2.
[6] Independence of Accounting and Auditing Standard Setters, CII (Updated, Mar. 1, 2017), https://www.cii.org/files/committees/policies/2026/Policies%20on%20Other%20Issues.pdf.
[7] Letter from Jeffrey Mahoney, General Counsel, CII to Secretary, Public Company Accounting Oversight Board, ***Reference: PCAOB Release No. 2026-005, Request for Public Comment on PCAOB Standard Setting*** 4 (Aug. 6, 2026) (emphasis added & footnote omitted), https://www.cii.org/files/August%206%202026%20CII%20Letter%20to%20PCAOB%20652%20(final).pdf.
[8] PCAOB Release No. 2026-006 at 4.
[9] Independence of Accounting and Auditing Standard Setters, CII.
[10] PCAOB Release No. 2026-006 at 4.
[11] Independence of Accounting and Auditing Standard Setters, CII; *cf.* C. Christina Ho, Regulation, Reforming the PCAOB, Cato Inst. (Summer 2026), https://www.cato.org/regulation/summer-2026/reforming-pcaob (acknowledging that "under Sarbanes-Oxley [the use of] . . . a professional group of accountants to formulate . . . standards for board consideration . . . requires the . . . group to be free from conflicts of interest . . . .").
[12] Independence of Accounting and Auditing Standard Setters, CII.

independent under our policy.[13] In addition, and as indicated in recent remarks from the U.S. Securities and Exchange Commission Chief Accountant, the IAASB currently does not appear to have a secure, stable source of funding.[14]

Objective 1.4: Advance Responsive, Risk-Based Standard-Setting Priorities[15]

CII generally supports the objective of a risk-based approach to setting priorities that "draw[s] on . . . insights . . . and focus[es] PCAOB standard-setting priorities on the areas where new or amended standards would be of great interest."[16] As most recently discussed in the August Letter, we have long requested, and have provided a detailed basis for two PCAOB standard-setting priorities that are consistent with CII's policies, and, therefore, would be of great interest to many institutional investors:

> [W]e would prioritize two areas that are directly aligned with CII's existing membership-approved policies: (1) Critical Audit Matters; and (2) Firm and Engagement Performance Metrics [[17]].
>
> We note that our letter of May 2026 in response to the "Request for Public Comment, PCAOB Strategic Priorities" (May Letter) describes in detail how both areas can and should be promptly addressed through standard setting.[18]

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[13] *See* About the IAASB, Member (last visited Aug. 21, 2026), https://www.iaasb.org/about-iaasb (the six members that could potentially be full-time, independent board members include: Tom Seidenstein, Edo Kienhuis, William Edge, Robert Koethner, Greg Schollum, and Wendy Stevens).

[14] *See* Douglas R. Carmichael, A Conversation with SEC Chief Accountant Kurt Hohl: Highlights from the 20th Annual Baruch College Audit Conference, CPA J. (Apr. 2026), https://www.cpajournal.com/2026/04/17/a-conversation-with-sec-chief-accountant-kurt-hohl ("There's great interest for my office in the development of international standards of auditing [and] [t]here are some problems in terms of funding and challenges in terms of governance that we will try to address.").

[15] PCAOB Release No. 2026-006 at 4.

[16] *Id.*

[17] *See* CII Policies on Corporate Governance, 2.13a Audit Committee Responsibilities Regarding Independent Auditors (last updated Mar. 12, 2026), https://www.cii.org/corp_gov_policies#BOD ("the clarity, utility and insights provided in the auditor's report . . . [and] the level of transparency and robustness of the audit firm with . . . investors, including with respect to audit quality indicators, governance practices and underlying principles . . . ."); *see also* Amanda Iacone, Auditors, Investors Press US Watchdog to Fast-Track AI Guidance, Bloomberg Law (Aug. 12, 2026), https://news.bloombergtax.com/financial-accounting/auditors-investors-press-us-watchdog-to-fast-track-ai-guidance ("The board's own advisory group of investors urged it to revamp required disclosures, including so-called 'performance metrics' and mandated reports about the riskiest areas of the audit, known as critical audit matters — . . . proposed changes would [that] 'have the greatest potential to encourage audit quality competition,' the advisory group said."); *see generally* Advisory Committee on the Auditing Profession Final Report, U.S. Dept. Treasury VII-13 & VIII-14 (Oct. 6, 2008), *available at* https://elischolar.library.yale.edu/cgi/viewcontent.cgi?article=1701&context=ypfs-documents (recommending (1) "the PCAOB . . . undertake a standard-setting initiative to consider improvements to the auditor's standard reporting model" and (2) "the PCAOB . . . develop[] key indicators of audit . . . effectiveness and requiring auditing firms to publicly disclose these indicators").

[18] Letter from Jeffrey Mahoney, General Counsel, CII to Secretary, Public Company Accounting Oversight Board, ***Reference: PCAOB Release No. 2026-005, Request for Public Comment on PCAOB Standard Setting*** at 2 (footnotes omitted).

Goal 2: Modernize the Inspections and Registration Programs[19]

Objective 2.1: Focus Inspections on Firms' Systems of Quality Control[20]

CII does not support the objective of *focusing* inspections on "assess[ing] firms' quality control systems."[21] As we have discussed in detail in prior comment letters, we cannot support the quality control standard that would be the basis for the PCAOB inspection focus for at least two reasons. First, as explained in our July 2026 comment letter in response to ***PCAOB Rulemaking Docket Matter No. 057, Supplemental Request for Comment: Proposed Amendments to QC 1000, A Firm's System of Quality Control, And Related Rule and Forms***:[22]

> We note that . . . the proposed amendments actually rescind the QC 1000 requirement for having any independent QC function (EQCF). As a result, we cannot support the proposed amendments. The stated basis for the recission is the EQCF in QC 1000 is the PCAOB's concern "that the benefits of the requirement may not justify the costs, except potentially for the largest U.S. global network firms." We strongly disagree. While we recognize the concerns about potential costs, liability, and implementation, we believe some form of independent challenge is critical to an effective EQCF.[23]

Second, as explained in our January 2023 letter in response to *PCAOB Rulemaking Docket No. 046: A Firm's System of Quality Control and Other Proposed Amendments to PCAOB Standards, Rules, and Forms*:

> Unfortunately, [QC 1000] . . . rejects the view of CII and many investors by not requiring any meaningful disclosure about the system of QC to investors. As a result, investors will not know whether firms have developed a feedback loop sufficient to proactively identify deficiencies before they appear in PCAOB inspections. Nor will investors be aware of the resources devoted to the system, the persons responsible for overseeing audit quality, or the firm's own conclusion about the effectiveness of the system.

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[19] PCAOB Release No. 2026-006 at 5.
[20] *Id.*
[21] *Id*; *cf.* Claudine Classar, Analysis, How the balance of US audit oversight might be shifting, Big4News (Aug. 6, 2026), https://www.big4news.com/p/sec-pcaob-audit-oversight-timeline-2026 (observing that focusing inspections on firms' systems of quality control "would be a highly consequential move [because] [f]irm-wide controls can appear satisfactory on paper while individual audits fail in practice [and] [c]onversely, reoccurring engagement failures can expose weaknesses in the system that produced them.").
[22] Supplemental Request for Comment: Proposed Amendments to QC 1000, A Firm's System of Quality Control, And Related Rule and Forms, PCAOB Release No. 2026-002 (June 9, 2026), https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket-057/2026-002-qc-src.pdf.
[23] Letter from Jeffrey Mahoney, General Counsel, CII to Secretary, Public Company Accounting Oversight Board, ***Reference: PCAOB Rulemaking Docket Matter No. 057, Supplemental Request for Comment: Proposed Amendments to QC 1000, A Firm's System of Quality Control, And Related Rule and Forms*** 3 (July 9, 2026), https://www.cii.org/files/July%209_%202026%20CII%20Letter%20to%20PCAOB%20(final)(1).pdf.

> . . . [We acknowledge] Section 104 of SOX prohibits the PCAOB from disclosing the "portions of the inspection report" that included "criticisms of or potential defects in the quality control systems" unless not remediated within 12 months. . .
>
> . . . [However,] we believe the QC Form should, at a minimum, be made public with the PCAOB[-]identified deficiencies redacted. . .. for a number of reasons, including the following:
>
> - We believe there is plenty of information in the QC Form that would be beneficial to investors for investment or proxy voting decisions even if all information about efficiencies was omitted; . . ..
> - We believe the logic of [QC 1000's] . . . approach is circular: It creates a QC Form, includes information subject to mandatory confidentiality obligations, then uses those obligations to justify non-disclosure to investors;
> - We believe the [QC 1000] . . . approach appears inconsistent with the practice of the PCAOB in other areas, including inspection reports which specifically acknowledge the incompleteness of the information and caution against excessive reliance; and
> - We believe the overall benefits of the [QC 1000] . . . would be reduced without public issuance of the QC Form to investors because, in part, the PCAOB would already be aware of deficiencies in the firm's QC systems and of related firm remediation efforts prior to the release of the Form QC.[24]

Objective 2.2: Improve Inspection Report Clarity and Timeliness[25]

As indicated in response to Objective 2.1, CII strongly supports the objective of "improv[ing] the relevance, transparency, and timeliness of inspection reporting" to investors.[26] We generally agree with Board Member Mark A. Calabria that "investors . . . should be able to understand what our oversight findings mean . . . [and] improving inspection report clarity and timeliness is critical [and] . . . an important step toward making our oversight more useful to investors . . . ."[27] In addition, and perhaps more fundamentally, investors need more information about the inspection findings. As discussed in the May Letter:

> We continue to believe that the Board has opportunities to enhance the amount of publicly available relevant and reliable information that may be useful to investors by increasing the transparency of inspection reports. As one example, we generally agree with the suggestions of Ken Goldman, former Yahoo CFO, former president

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[24] Letter Jeffrey P. Mahoney, General Counsel, CII to Ms. Phoebe W. Brown, Office of Secretary. Public Company Accounting Oversight Board, *Re: PCAOB Rulemaking Docket No. 046: A Firm's System of Quality Control and Other Proposed Amendments to PCAOB Standards, Rules, and Forms* 13-14 (Jan. 19, 2023) (footnotes omitted), https://www.cii.org/files/Attachment%20January%2019%202023%20CII%20letter%20to%20PCAOB.pdf.
[25] PCAOB Release No. 2026-006 at 5.
[26] *Id.*
[27] Remarks of Mark A. Calabria, Board Member, **Strengthening Oversight Through Clarity, Discipline, and Data** (July 20, 2026), https://pcaobus.org/news-events/speeches/speech-detail/strengthening-oversight-through-clarity--discipline--and-data.

> of family office management company Hillspire, and current Member of the Investor Advisory Group of the PCAOB (IAG), that the transparency in reporting inspection results could be improved by having inspection reports that '"summarize your key findings so that we have lessons learned' and differentiate between genuine errors and 'paperwork issues.'"
>
> As indicated by our policy on **Audit Committee Responsibilities Regarding Independent Auditors,** many of our members view inspection results as an important factor for audit committees to consider in exercising their authority to hire, terminate, compensate, and oversee the company's independent auditor. The transparency of inspection results, particularly when the results focus on issues relevant to audit quality or auditor independence, could also be an important public source of information for shareholders when voting on the election of a chair and members of the audit committee and on the ratification of the external auditor. As one example, the voting guidelines of a major asset manager state: "We may vote against the audit committee members where the board has not facilitated quality, independent auditing [and] [w]e look to public disclosures for insight . . . ."[28]

Goal 3: Sharpen Enforcement Focus on Conduct Harmful to Investors[29]

CII supports the goal of "sharpen[ing] the focus of [the PCAOB's] . . . enforcement program on matters where accountability is needed to protect investors, support audit integrity, and reinforce confidence in U.S. capital markets."[30] As explained in the May Letter:

> As indicated by our policy on **Audit Committee Responsibilities Regarding Independent Auditors**, many of our members view enforcement actions as an important factor for audit committees to consider in exercising their authority to hire, terminate, compensate, and oversee the company's independent auditor. The transparency of enforcement actions, particularly when the actions focus on issues relevant to audit quality or auditor independence, could also be relevant for shareholders when voting for the election of a chair and members of the audit committee and on the ratification of the external auditor. As one example, the voting guidelines of a major asset manager state: "[T]o the extent that . . . the audit firm has violated standards of practice, we may also not support ratification."[31]

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[28] *See* Letter from Jeffrey Mahoney, General Counsel, CII to Phoebe W. Brown, Secretary, Public Company Accounting Oversight Board, ***Reference: PCAOB No. 2026-001, Request for Public Comment – PCAOB Strategic Priorities*** at 5-6 (May 15, 2026) (footnotes omitted), https://www.cii.org/files/issues_and_advocacy/correspondence/2026/May%2015,%202026%20CII%20Letter%20to%20PCAOB%20re%20Strategic%20Priorities%20(final).pdf.

[29] PCAOB Release No. 2026-006 at 6.

[30] *Id.*

[31] Letter from Jeffrey Mahoney, General Counsel, CII to Phoebe W. Brown, Secretary, Public Company Accounting Oversight Board, ***Reference: PCAOB No. 2026-001, Request for Public Comment – PCAOB Strategic Priorities*** at 6-7 (footnote omitted).

Goal 4: Deepen Stakeholder Engagement and Communications[32]

Objective 4.1 Strengthen Stakeholder Engagement to Inform Oversight Priorities and Communications[33]

CII generally supports the objective to "deepen engagement with investors . . . and other stakeholders to strengthen oversight effectiveness."[34] Moreover, we agree with PCAOB Chairman Demetrios Logothetis that the Board "must remain responsive to investors . . . and foster trust though meaningful two-way communication[s] and feedback."[35] That said, we believe the objective should be revised to prioritize PCAOB engagement with investors. As we have previously explained:

> CII believes the PCAOB's mission "to protect investors[,]" combined with the general underrepresentation of investors on the PCAOB's board and staff, and in connection with the PCAOB's comment letter process, suggests the need for more, rather than less, input from investors. Our membership[-]approved policies reflect the view that as the "key customer of audited financial reports," investor input is essential to the PCAOB in fulfilling its mission . . .. —"the key customer of [the PCAOB] . . . and, therefore, the primary role of [the PCAOB] . . . should be to satisfy in a timely manner investors' . . . needs."[36]

Objective 4.2: Improve Organizational Transparency and Accountability[37]

CII generally supports the objective of greater PCAOB "transparency and accountability."[38]We, however, would revise the objective to explicitly include the recommendation discussed in the May Letter:

> [W]e want to express our strong support for the PCAOB adopting as a strategic objective the identification and implementation of public due process procedures for public meetings that are responsive to the recent comments of Dennis R.

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[32] PCAOB Release No. 2026-006 at 6.
[33] *Id.*
[34] *Id.*
[35] Remarks of Demetrios Logothetis, Chairman, **Chairman Logothetis Statement on the PCAOB's Draft Strategic Goals and Objectives for Public Comment** (July 20, 2026), https://pcaobus.org/news-events/speeches/speech-detail/chairman-logothetis-statement-on-the-pcaob-s-draft-strategic-goals-and-objectives-for-public-comment.
[36] Letter from Jeffrey P. Mahoney, General Counsel, CII, PCAOB, ***Re: PCAOB No. 2022-001*** at 2-3 (Feb. 10, 2022), https://assets.pcaobus.org/pcaob-dev/docs/default-source/about/advisory/documents/comments/2_cii.pdf?sfvrsn=1696b39c_4; *cf.* Remarks of Mark A. Calabria, Board Member, **Strengthening Oversight Through Clarity, Discipline, and Data** ("A strategic plan should . . . advanc[e] the mission Congress gave us: protecting investors . . . ."); Final Report of the Advisory Committee on Improvements to Financial Reporting to the United States Securities and Exchange Commission 58 n.7 (Aug. 1, 2008), https://www.sec.gov/about/offices/oca/acifr/acifr-finalreport.pdf ("[I]n cases where constituent views cannot be reconciled, we believe that the investor perspective should be afforded greater weight.").
[37] PCAOB Release No. 2026-006 at 7.
[38] *Id.*

Beresford, CPA, drawing from his experience as Chair of the Financial Accounting Standards Board:

> I was encouraged by the Board's stated commitment to openness but remain concerned that public meetings typically do not include substantive discussion or debate. My experience at the FASB demonstrated that open deliberations – where staff recommendations are actively discussed and challenged – lead to better outcomes and a more informed constituency. I urge the Board to consider increasing the transparency and interactivity of its meetings and to move away from what may appear to observers as an overly legalistic process with Board members mainly reading from prepared scripts. Greater openness, combined with enhanced external engagement, should improve both the quality and credibility of PCAOB standards.[39]

Measuring Strategic Plan Progress[40]

CII supports the Board's "use . . . [of] governance, budgeting, and performance planning processes to assess progress toward these strategic objectives, align resources with priorities, and adapt to emerging risks and opportunities."[41] We, however, believe this aspect of the Plan should be revised to provide more specifics, including measurable performance indicators or success measures. In addition, the section of the Plan should explicitly incorporate Chairman Logothetis' statement that the "Board will report quarterly progress against the final strategic plan."[42]

We appreciate the opportunity to provide CII's investor-focused perspective in response to the Plan. Please contact me (jeff@cii.org) if you have any questions about the content of this letter.

Sincerely,

Jeffrey Mahoney
General Counsel

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[39] Letter from Jeffrey Mahoney, General Counsel, CII to Phoebe W. Brown, Secretary, Public Company Accounting Oversight Board, ***Reference: PCAOB No. 2026-001, Request for Public Comment – PCAOB Strategic Priorities*** at 18-19 (footnote omitted).
[40] PCAOB Release No. 2026-006 at 8.
[41] *Id.*
[42] Remarks of Demetrios Logothetis, Chairman, **Chairman Logothetis Statement on the PCAOB's Draft Strategic Goals and Objectives for Public Comment**.

PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

AMENDMENTS TO QC 1000, A FIRM'S SYSTEM OF QUALITY CONTROL, AND RELATED RULE AND FORMS

PCAOB Release No. 2026-007
September 9, 2026

PCAOB Rulemaking
Docket Matter No. 057

Summary: The Public Company Accounting Oversight Board ("PCAOB" or the "Board") is adopting amendments to certain provisions of QC 1000 and related amendments to the QC reporting rule and PCAOB forms. The Board is also adopting technical amendments to AS 2101, *Audit Planning*, to delete references to a rescinded standard.

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I. EXECUTIVE SUMMARY

We adopted QC 1000, *A Firm's System of Quality Control* ("QC 1000"), on May 13, 2024,[1] to lead registered public accounting firms ("firms") to significantly improve their quality control ("QC") systems. We believe that, as firms prepare for the effective date of QC 1000, many such improvements have been and will continue to be implemented as firms develop more rigorous QC systems. Our experience during the implementation period led us, however, to consider whether the new standard imposes costs that may not be necessary for us to achieve our regulatory goals and, relatedly, whether there were certain aspects of QC 1000 that could be brought into closer alignment with other audit firm quality management standards.[2]

We are adopting amendments to QC 1000 that we believe address concerns regarding the implementation challenges identified by firms and better align certain provisions with other quality management standards. These amendments are designed to reduce compliance costs while maintaining the investor protection benefits of QC 1000.

The principal amendments we are adopting today will:

- Rescind the "design-only" requirement so that QC 1000 imposes requirements only on firms that are required to comply with applicable professional and legal requirements with respect to any "engagement" as defined in QC 1000 (QC 1000.06 and .07d);
- Provide increased flexibility in filling certain specified roles in the QC system by permitting roles to be assigned to non-firm personnel and divided among multiple individuals (QC 1000.12);
- Rescind the requirement to have an External QC Function ("EQCF") (QC 1000.28);
- Narrow and simplify communication requirements relating to metrics that the firm communicates to external parties about its audit practice, firm personnel, or engagements (QC 1000.53e);

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[1] *A Firm's System of Quality Control and Other Amendments to PCAOB Standards, Rules, and Forms*, PCAOB Rel. No. 2024-005 (May 13, 2024) ("QC 1000 2024 adopting release").

[2] *See* International Standard on Quality Management ("ISQM") 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* ("ISQM 1"), issued by the International Auditing and Assurance Standards Board; Statement on Quality Management Standards ("SQMS") No. 1*, A Firm's System of Quality Management* ("SQMS 1"), issued by the Auditing Standards Board of the American Institute of CPAs.

- With respect to identified engagement deficiencies, require evaluation of whether similar engagement deficiencies exist on other engagements only if the identified deficiency resulted or could result in (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 (QC 1000.68d);

- Revise the definition of QC deficiency to make clear that, when firms have implemented more than one quality response to address the same quality risk, they can take those other quality responses (e.g., compensating responses) into account when determining whether a QC deficiency exists (QC 1000.A8);

- Allow firms to select the date as of which they annually evaluate the effectiveness of their QC system, rather than requiring firms to evaluate as of September 30 (QC 1000.77);

- Revise the QC system evaluation conclusions to align more closely with the conclusions in other quality management standards, while retaining a structured process, including specified factors for consideration, to guide the evaluation (QC 1000.77 and .78); and

- Simplify the requirements for retention of QC system documentation and abbreviate the retention period from seven to five years (QC 1000.84 and .86).

Additional amendments we are adopting, including conforming amendments, are discussed below.

Several of the amendments we are adopting bring QC 1000 into closer alignment with other quality management standards, both internationally and in the United States. However, differences remain in areas where we continue to believe that alternative or incremental provisions of QC 1000 better address our legal and regulatory environment, the needs and priorities of our stakeholders, and our statutory mandate of protecting investors and the public interest.

QC 1000 and the related amendments to PCAOB standards, rules, and forms adopted in 2024 will take effect on December 15, 2026. If approved by the U.S. Securities and Exchange Commission ("SEC"), the amendments to QC 1000 that we are adopting today and the related amendments to a PCAOB rule and PCAOB forms (*see* Appendices 1, 2, and 3) will also take effect on December 15, 2026.

Appendix 4 provides technical amendments to AS 2101, *Audit Planning*, to remove references to an auditing standard that was rescinded by another rulemaking.[3] We are adopting these amendments to AS 2101 as final due to their technical nature, and we are not seeking public comment on them. These amendments will be effective upon approval by the SEC.

II. BACKGROUND

This section presents background information on this rulemaking, including recent rulemaking history and staff implementation support efforts since the SEC approved QC 1000 in September 2024.

A. Recent Rulemaking History

On May 13, 2024, we adopted QC 1000 and related amendments. They were approved by the SEC on September 9, 2024, with an effective date of December 15, 2025.[4]

On August 28, 2025, to provide firms with additional time for implementation, we proposed to delay the effective date of QC 1000 and the related amendments to December 15, 2026, and that postponement became immediately effective.[5] The SEC received 15 comment letters in response to its notice regarding the postponement.[6] Commenters generally supported providing additional implementation time but raised concerns regarding certain provisions of QC 1000 that they viewed as more prescriptive than other quality management standards and as creating unnecessary operational complexity and cost.

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[3] *See General Responsibilities of the Auditor in Conducting an Audit and Amendments to PCAOB Standards*, PCAOB Rel. No. 2024-004 (May 13, 2024) (rescinding AS 1015, *Due Professional Care in the Performance of Work*).

[4] For more details regarding the rulemaking history of QC 1000, *see* Rulemaking Docket No. 046 on the Board's website, *available at* https://pcaobus.org/about/rules-rulemaking/rulemaking-dockets/docket-046-quality-control; *see also Public Company Accounting Oversight Board; Order Granting Approval of QC 1000, A Firm's System of Quality Control and Related Amendments to PCAOB Standards, Rules, and Forms*, SEC Rel. No. 34-100968 (Sept. 9, 2024).

[5] *See 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*, SEC Rel. No. 34-103803 (Aug. 28, 2025).

[6] The comment letters received are available on the SEC's webpage, *available at* https://www.sec.gov/comments/pcaob-2025-01/pcaob202501.htm.

On July 23, 2025, and March 20, 2026, the PCAOB received letters from a firm-related group regarding implementation of QC 1000 and related implementation challenges.[7]

On March 31, 2026, the Board issued a request for public comment on the PCAOB's strategic priorities, including future standard-setting activity.[8] Several commenters provided observations regarding QC 1000.[9] The comments relating to QC 1000 were generally consistent with themes raised in comment letters submitted to the PCAOB and SEC in connection with the extension of the effective date of QC 1000. Most commenters urged the Board to adopt or align more closely with ISQM 1, suggesting it may better support global implementation, while emphasizing that differences in structure, terminology, and prescriptive requirements in QC 1000 create operational challenges, limit firm judgment, and increase complexity for global firms.

After considering feedback and information obtained through implementation support efforts,[10] on June 9, 2026, we issued a supplemental request for comment on potential targeted amendments to certain provisions of QC 1000 and related amendments to the QC reporting rule and PCAOB forms.[11] We received 26 comment letters.[12] Commenters included firms and

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[7] *See* letter from the Center for Audit Quality dated July 23, 2025, *available at* https://www.thecaq.org/comment-letter-pcaob-requesting-deferral-qc-1000; and letter from the Center for Audit Quality dated March 20, 2026, *available at* https://www.thecaq.org/letter-to-the-pcaob-on-qc1000-implementation-experience-and-costs.

[8] *See Request for Public Comment, PCAOB Strategic Priorities*, PCAOB Rel. No. 2026-001 (Mar. 31, 2026).

[9] The comment letters received are on the Board's website, *available at* https://pcaobus.org/about/strategic-plan-budget/public-comments-on-pcaob-strategic-priorities.

[10] *See* discussion below regarding PCAOB staff's implementation support efforts, including implementation guidance, workshops, stakeholder outreach, and feedback received from firms and other stakeholders regarding QC 1000 implementation.

[11] *See Supplemental Request for Comment: Proposed Amendments to QC 1000, A Firm's System of Quality Control, and Related Rule and Forms*, PCAOB Rel. No. 2026-002 (June 9, 2026) (proposing amendments to QC 1000, PCAOB Rule 2203A, and PCAOB Forms 1, 2, and QC).

[12] *See* comment letters on the *Supplemental Request for Comment* from the Auditing Standards Committee, Auditing Section - American Accounting Association (July 3, 2026) ("AAA"); Baker Tilly US, LLP (July 9, 2026) ("Baker Tilly"); BDO USA, P.C. (July 9, 2026) ("BDO"); CBIZ CPAs P.C. (July 9, 2026) ("CBIZ"); Center for Audit Quality (July 9, 2026) ("CAQ"); CFA Institute (Aug. 31, 2026) ("CFA"); Council of Institutional Investors (July 9, 2026) ("CII"); Crowe LLP (July 9, 2026) ("Crowe"); Deloitte & Touche LLP (July 9, 2026) ("Deloitte"); Ernst & Young LLP (July 9, 2026) ("EY"); Forvis Mazars, LLP (July 9, 2026) ("Forvis"); George R. Kramer (July 6, 2026) ("Kramer"); Grant Thornton LLP (July 9, 2026) ("GT");

firm-related groups, investor-related groups, and others. Firms, firm-related groups, and most other commenters generally supported the Board's objective of making targeted amendments to QC 1000 and most of the proposed amendments, particularly those intended to increase flexibility, improve operability, reduce unnecessary compliance burdens, and better align QC 1000 with other quality management standards.[13] One investor-related group did not support the proposed amendments overall because of the proposed rescission of the EQCF requirement.[14] Other investor-related groups generally supported the proposed amendments that reduce compliance costs without reducing audit quality, but opposed the removal of the EQCF requirement, emphasizing the importance of independent oversight and investor protection, and other amendments they viewed as weakening investor-protection-focused provisions of QC 1000.[15] Many commenters, particularly firms and firm-related groups, also requested implementation guidance and clarification in certain areas discussed below.[16]

We have considered all comments received on the supplemental request for comment. As discussed below, we are adopting the proposed amendments to QC 1000, with certain modifications.

B. Implementation Support Efforts

Since SEC approval of QC 1000, PCAOB staff have supported implementation through guidance, workshops, outreach activities, and engagement with stakeholders, which provided insight into implementation progress, challenges, and questions and informed the Board's

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International Corporate Governance Network (July 9, 2026) ("ICGN"); James Grosvenor (July 9, 2026) ("Grosvenor"); KPMG LLP (July 9, 2026) ("KPMG"); MaloneBailey, LLP (June 26, 2026) ("Malone Bailey"); Members of the Investor Advisory Group (July 9, 2026) ("MIAG"); Pennsylvania Institute of CPAs (July 9, 2026) ("PICPA"); Plante & Moran, PLLC (July 10, 2026) ("Plante & Moran"); PricewaterhouseCoopers LLP (July 9, 2026) ("PwC"); RSM US LLP (July 9, 2026) ("RSM"); St. Charles Consulting Group (June 12, 2026) ("SCCG"); Thomas H. Spitters (July 6, 2026) ("Spitters"); and Virginia Society of CPAs (July 9, 2026) ("VSCPA"). One additional comment letter was withdrawn.

[13] *See, e.g.,* comment letters from AAA, Baker Tilly, BDO, CAQ, CBIZ, Crowe, Deloitte, EY, Forvis, Grosvenor, GT, KPMG, Kramer, Malone Bailey, PICPA, Plante & Moran, PwC, RSM, SCCG, Spitters, and VSCPA.

[14] *See* comment letter from CII.

[15] *See* comment letters from CFA, ICGN, and MIAG.

[16] *See, e.g.,* comment letters from Baker Tilly, BDO, CAQ, CBIZ, Crowe, Deloitte, EY, Forvis, GT, KPMG, Kramer, Plante & Moran, RSM, SCCG, and VSCPA.

consideration of the proposed amendments.[17] Additionally, as part of our inspection outreach activities, we obtained feedback on the progress made by firms in implementing QC 1000 in their QC systems.[18]

As part of staff implementation support efforts, the PCAOB staff released *QC 1000 Questions and Answers* ("QC 1000 Q&As") in August 2026.[19] The QC 1000 Q&As provide technical guidance on various aspects of QC 1000, including roles and responsibilities, evaluation and reporting, documentation, and other areas of designing, implementing, operating, and evaluating a firm's QC system. The QC 1000 Q&As were developed in response to questions and requests for clarification received from firms through staff implementation support efforts and are intended to reduce uncertainty and support firms' implementation of the standard.

The QC 1000 Q&As do not address the specific topics that are the subject of the amendments to QC 1000 that we are adopting, but they do address some questions and clarification requests on other topics that were included in comment letters submitted in response to the supplemental request for comment. As implementation continues, additional guidance, including updates to the QC 1000 Q&As, may be issued to help address other areas identified by commenters or through staff implementation support efforts.

III. AMENDMENTS TO QC 1000, PCAOB RULE 2203A, AND PCAOB FORM QC

This section describes the requirements of QC 1000, Rule 2203A, and Form QC that we are amending. Where we believe it would advance readers' understanding, the text of QC 1000, as amended, is presented in text boxes, with deleted text ~~struck through~~ and new text <u>underscored</u> when compared to the standard adopted in 2024. The full text of the amendments to QC 1000 appears in Appendix 1. The full text of the amendments to PCAOB Rule 2203A, which is being retitled *Reporting on the Evaluation of the Firm's System of Quality Control*, and

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[17] *See* PCAOB, *Quality Control—Implementation Resources*, *available at* https://pcaobus.org/oversight/standards/implementation-resources-PCAOB-standards-rules/quality-control, which includes staff guidance and other materials issued to support implementation of QC 1000 and the related amendments.

[18] *See* Section V.B for additional information on data received through these inspection outreach activities.

[19] *See QC 1000 Questions and Answers*, *available at* https://pcaobus.org/oversight/standards/standard-setting-research-projects/quality-control/qc-1000-questions-and-answers.

Form QC appears in Appendix 2. Terms defined in Appendix A, *Definitions,* to QC 1000, are italicized in the text boxes throughout this section.

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

.05 A properly conducted *engagement* and the related report enhance the confidence of investors and other market participants in the company's information to which the firm's report relates. The objective of the firm is to design~~ and, if applicable~~, implement, and operate an effective QC system. An effective QC system protects investors by facilitating the consistent preparation and issuance of informative, accurate, and independent *engagement* reports in accordance with *applicable professional and legal requirements*. To accomplish this, an effective QC system consistently provides a firm with reasonable assurance that:

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.06 A firm must design, implement, and operate an effective QC system in compliance with this standard at all times when the firm is required to comply with *applicable professional and legal requirements* with respect to any of the firm's *engagements*,[3] and thereafter through the following *evaluation date*.[4]~~ a QC system that complies with this standard. To design such a QC system, the firm must:~~

~~a. Assign QC-related roles and responsibilities (*see* paragraphs .10–.17);~~

~~b. Establish *quality objectives*, annually identify and assess *quality risks* to the achievement of those objectives, and design *quality responses* to address those risks (*see* paragraphs .18–.57);~~

~~c. Design a monitoring and remediation process (*see* paragraphs .58–.76); and~~

~~d. Document the design of the QC system (*see* paragraphs .81–.86).~~

[3] With respect to firm responsibilities subsequent to the issuance of an audit report, *see*, for example, AS 2901, *Responding to Engagement Deficiencies After Issuance of the Auditor's Report*; AS 2905, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*; AS 4101, *Responsibilities Regarding Filings Under Federal Securities Statutes*.

[4] *See* paragraph .77 (requiring evaluation of the effectiveness of the QC system as of~~ September 30~~the *evaluation date*).

.07 The requirement to design, implement, and operate the QC system applies as follows:

~~a. A firm must implement and operate an effective QC system at all times when the firm is required to comply with *applicable professional and legal requirements* with~~

~~respect to any of the firm's *engagements*,[3] and thereafter through the following September 30.~~

a~~b~~. During the time the firm's QC system is required to be operating effectively, the firm's QC system must operate over any audit, attestation, review, or other work performed under PCAOB standards by the firm, regardless of the level of the firm's participation in such work (i.e., even if the firm plays less than a substantial role).[5]

b~~c~~. A firm that is required to design, implement, and operate its QC system is also required to annually evaluate its QC system as of ~~September 30~~the *evaluation date* and report on that evaluation (*see* paragraphs .77-.80).

~~d. For any time that a firm is not required to implement and operate an effective QC system, this standard will apply to the firm only in regard to the design of the QC system (based on the *quality risks* the firm likely would face if it were to perform *engagements*) as provided in paragraph .06.~~

Note: Any obligations under QC 1000 that exist at the time a firm is no longer required to design, implement, and operate the QC system, such as obligations to evaluate and report on the QC system for previous periods, will continue.

[5] *See* PCAOB Rule 1001(p)(ii).

As originally adopted, QC 1000.06 requires all firms to design a QC system that complies with the standard, regardless of whether the firm is subject to applicable professional and legal requirements with respect to an engagement as defined in QC 1000. As explained in the supplemental request for comment, we understand that this "design-only" requirement would impose costs on firms that do not perform engagements requiring registration under the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley")[20] or PCAOB rules[21] without commensurate benefits for investors and the public. Therefore, we proposed to eliminate the requirement and sought comment on potential alternatives, as well as any circumstances that potentially could trigger a design requirement. As proposed in the supplemental request for comment, paragraphs .05 through .07 of QC 1000 would be revised to eliminate the separate obligation to design a QC system and would maintain unchanged the obligation to design, implement, and operate a QC system in compliance with QC 1000 when a firm is subject to applicable professional and legal requirements with respect to any of the firm's engagements.

[20] *See* Section 102(a) of Sarbanes-Oxley, 15 U.S.C. § 7212(a).

[21] *See* PCAOB Rule 2100, *Registration Requirements for Public Accounting Firms.*

Many commenters supported the proposal to rescind the design-only requirement.[22] One commenter stated that they did not object to rescinding the design-only requirement when a firm neither performs nor intends to perform PCAOB engagements.[23] One of the commenters supporting rescission stated that it did not believe registered firms should be required to comply with PCAOB standards until the firm undertakes an engagement requiring compliance with those standards and that the design-only requirement was inconsistent with the text of Sarbanes-Oxley.[24] Commenters that addressed the question of whether the Board should adopt an alternative design-only requirement generally did not support such a requirement.[25]

However, one commenter stated support for a QC design requirement that included effective operation of a system of quality management under relevant standards for the jurisdiction in which the firm operates, such as ISQM 1 or SQMS 1.[26] This commenter noted that, in practice, registered firms would already maintain some form of a system of quality management to support their PCAOB registration.[27] We do not believe QC 1000 should explicitly require compliance with rules of local jurisdictions, as PCAOB standards generally do not impose such requirements. Another commenter noted that, although some registered firms do not conduct audits, that fact does not necessarily signify the need for an exemption from standard best practices or audit quality requirements; such firms should be subject to QC 1000 on the level of preparedness or some QC regime that parallels QC 1000 in its design, implementation, and operation.[28] We do not believe that the suggestion to base a design-only requirement on a level of preparedness or a system paralleling QC 1000 is workable because it is too vague as to the requirements that would apply to firms not performing PCAOB engagements.

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[22] *See* comment letters from AAA, Baker Tilly, BDO, CAQ, Crowe, Deloitte, GT, KPMG, Kramer, MIAG, PICPA, PwC, and RSM. *But see* comment letters from ICGN and Spitters. One commenter expressed support for eliminating the "design-only reporting requirement," described as the "requirement for firms to report once a quality control system has merely been designed." *See* comment letter from VSCPA.

[23] *See* comment letter from CFA.

[24] *See* comment letter from RSM.

[25] *See* comment letters from AAA, BDO, GT, KPMG, Kramer, and PICPA.

[26] *See* comment letter from RSM.

[27] *See id*.

[28] *See* comment letter from Spitters.

Commenters raised concerns over the costs of the design-only requirement in relation to the benefits.[29] One commenter stated that the requirement would have resulted in unnecessary costs of compliance without commensurate benefits.[30] Another commenter similarly stated that requiring firms not performing PCAOB engagements to comply with the design-only requirement did not provide a commensurate benefit to investor protection, as such firms do not present risk to U.S. capital markets.[31] Another commenter stated that requiring firms to build compliance infrastructure for work they may never undertake imposes cost without a corresponding investor benefit.[32] Another commenter observed that, because firms performing engagements would be fully subject to the requirement to design, implement, and operate a QC 1000-compliant system, rescinding the requirement for firms not performing such work would preserve the Board's objective of promoting high-quality audits, while reducing unnecessary burdens for those firms.[33] Another commenter stated that, while the value to the public of the design-only requirement was unclear, the costs would be real in the form of training costs, consulting costs, and professional time.[34] Other commenters noted the limited benefits of the requirement for investors, stating that rescission would not diminish investor protection[35] or introduce any risk to investors,[36] or that retaining the requirement would not help ensure improved audit quality.[37]

Two commenters also raised concerns about requiring firms to address hypothetical situations. One of these commenters stated that it would be difficult for a firm not subject to applicable professional and legal requirements with respect to any engagement to design a QC system based on hypothetical circumstances.[38] The second commenter stated that such a firm's QC system "would be hypothetical at best and would likely become obsolete over time as

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29 *See, e.g.,* comment letters from KPMG, PICPA, and PwC.

30 *See* comment letter from PwC.

31 *See* comment letter from KPMG.

32 *See* comment letter from CFA.

33 *See* comment letter from GT.

34 *See* comment letter from PICPA.

35 *See* comment letter from GT.

36 *See* comment letter from Baker Tilly.

37 *See* comment letter from PICPA.

38 *See* comment letter from AAA.

practice conditions change, leading to the false pretense that [the firm is] in a position to immediately implement these standards."[39]

We are rescinding the design-only requirement and adopting paragraphs .05 through .07 as proposed.[40] We believe rescinding the design-only requirement will reduce costs for firms without any significant detriment to audit quality.

As confirmed by commenter feedback, implementing the design-only requirement has proven more difficult and costly than originally anticipated. The requirement may compel some firms that have no intention of performing PCAOB engagements in the foreseeable future to design a QC 1000-compliant system, perhaps based on hypothetical circumstances. As described in the supplemental request for comment, we believe that the design-only requirement may have contributed to an increase in withdrawals from registration by firms that are not performing engagements. Although the impact of such activity on the marketplace (discussed below in Section V.C.1.) may be limited, we believe investors and the public interest are better served by incentivizing firms to register and consider seeking PCAOB engagements, thereby promoting competition.[41]

In our view, rescission of the design-only requirement would entail foregoing the benefits associated with greater preparedness of firms to take on a PCAOB engagement for the first time. We believe this benefit to be modest, as any firm that actually takes on such an engagement will have become subject to the requirement to design, implement, and operate a QC 1000 system.[42] In any event, and as noted by one commenter, registered firms that do not

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[39] *See* comment letter from PICPA.

[40] As we noted in the supplemental request for comment, we do not believe that this action would violate the mandate in Section 103(a)(2)(B) of Sarbanes-Oxley, 15 U.S.C. § 7213(a)(2)(B), to adopt requirements "for every registered public accounting firm" that address certain enumerated areas in "the quality control standards that [the PCAOB] adopts with respect to the issuance of audit reports." Under our approach, QC 1000 will apply to every firm with respect to the issuance of "audit reports" (which are limited under Sarbanes-Oxley to those relating to audits of issuers and broker-dealers).

[41] As noted in the supplemental request for comment, some firms may register with the Board to perform activities not subject to the PCAOB's jurisdiction. *See, e.g.*, Guiding and Establishing National Innovation for U.S. Stablecoins Act, Pub. L. No. 119–27 (July 18, 2025), § 4(a)(3)(A), 12 U.S.C. § 5903(a)(3)(A) (requiring month-end reports of permitted payment stablecoin issuers to be examined by a PCAOB-registered firm).

[42] Firms could still choose to design (and for that matter, implement and operate) a QC system that complies with QC 1000. Firms may choose to do so if, for example, they are planning to bid for a PCAOB engagement, are taking on work on other firms' engagements that could potentially constitute a

perform PCAOB engagements are generally well-positioned to implement QC 1000 if or when required to do so.[43] This is so because most such firms, as some commenters observed, are generally either non-U.S. firms subject to international auditing standards or U.S.-based firms that conduct private company audits under the standards of the Auditing Standards Board of the American Institute of CPAs ("AICPA"); as such, those firms would be subject to ISQM 1 or SQMS 1, which both share a common basic structure with QC 1000.[44] Finally, as stated in the supplemental request for comment, the investor protection concerns encompassed by our statutory mandate are reduced where a firm is not performing PCAOB engagements.

Based on the above considerations, we decided not to adopt any of the design-only alternatives discussed in the supplemental request for comment.

We also considered whether to include provisions in QC 1000 specifying an earlier trigger for the requirement to design, implement, and operate a QC 1000-compliant system under QC 1000.06-.07. In this regard, one commenter encouraged us to consider whether compliance with QC 1000 after its December 15, 2026 effective date could be tied to an established evaluation period and measurement date rather than a specific triggering event.[45] The same commenter suggested that under such an approach, a firm would determine at the beginning of its selected evaluation cycle whether it is required to comply with QC 1000 during that period.[46] Another commenter stated that a firm must have "an appropriately designed and operational QC system before accepting or commencing PCAOB audit work."[47] Another commenter suggested that "a QC system must be in place prior to a firm tendering an offer for a public company audit and/or getting registered."[48] Another commenter requested that the Board specify an earlier trigger—for example, when a firm bids for or is appointed to issuer or

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substantial role, or otherwise want to put themselves in a position to implement and operate a QC 1000-compliant system on short notice.

43 *See* comment letter from KPMG.

44 *See* comment letters from AAA, CAQ, KPMG, and PwC.

45 *See* comment letter from BDO.

46 *See id*.

47 *See* comment letter from MIAG.

48 *See* comment letter from ICGN.

broker-dealer work—by which time a compliant QC system must be designed and operating, well in advance of the firm commencing that work.[49]

While an earlier trigger may promote readiness by firms to commence PCAOB engagements, we expect that the effort required to design, implement, and operate a QC 1000-compliant system may vary significantly across firms. That variation could arise from several different factors, including the status of their existing QC systems, the nature of their assurance practice (if any), the experience of their personnel, and the nature of their governance systems, operating processes, and technology, among other things. We also understand that some firms may pursue engagements for issuers and broker-dealers months, or even years, before these firms are awarded and commence such work. In light of these considerations, it may not be necessary in all circumstances for a firm to have a QC system that fully complies with QC 1000 before it pursues an issuer or broker-dealer engagement that might not be awarded to it or that might not commence for a significant period of time. Therefore, we believe that requiring firms to design, implement, and operate a QC 1000-compliant system when a firm becomes subject to applicable professional and legal requirements with respect to any engagement is appropriate, and an earlier trigger is not warranted.

B. Roles and Responsibilities

1. Assignment of roles and responsibilities

.12 The firm must assign other roles and responsibilities with respect to the QC system to ~~*firm personnel*~~individual(s)[5A] who understand and are accountable for their roles and responsibilities and who have the experience, competence, authority, and time needed to enable them to carry out their assigned responsibilities.[6] Such roles should include the following:

a. Operational responsibility and accountability for the QC system as a whole;

b. Operational responsibility for the firm's compliance with ethics and independence requirements;

c. Operational responsibility for the monitoring and remediation process; and

d. If appropriate based on the nature and circumstances of the firm, operational responsibility for other components of the QC system.

Note: ~~Each of the roles identified in subparagraphs a.-c. above cannot be shared, but rather must be assigned to only one individual. However,~~

[49] *See* comment letter from CFA.

~~d~~Depending on the nature and circumstances of the firm (including its size and structure) and its *engagements*, the firm (i) may assign one individual to more than one of the roles identified in paragraphs .11 and .12 and (ii) may divide responsibilities of a role identified in paragraph .12 among multiple individuals.

5A Such individuals are "associated persons" of the firm. *See* PCAOB Rule 1001(p)(i).

6 *See* Note in paragraph .44a. of this standard for a description of competence.

As originally adopted, QC 1000 requires that the operational roles and responsibilities specified in paragraph .12 be assigned only to "firm personnel."[50] The note to paragraph .12 provides that responsibility for the roles in subparagraphs a-c cannot be shared and is required to be assigned to only one individual, to reinforce that the individual assigned to a specified role would be responsible and accountable for the role.

We proposed amendments to paragraph .12 to allow flexibility in assigning the specified roles and responsibilities to any individual (whether firm personnel or an "other participant"[51]), rather than limiting those roles and responsibilities to firm personnel. In connection with that change, we proposed a new footnote 5A to paragraph .12 to clarify that such individuals would be "associated persons" of the firm. As we explained in the supplemental request for comment, any individual who was not already an associated person would become an associated person by virtue of that assignment.[52] The proposed amendments would align with ISQM 1 and SQMS 1 by permitting any qualified individual to fill the specified QC system roles.

To preserve the accountability and responsibility objectives of paragraph .12, we also proposed an amendment to emphasize that the individuals assigned specific roles understand and be accountable for their roles and responsibilities. We also proposed an amendment to the note to paragraph .12 to allow firms to divide the responsibilities of a role specified in paragraph .12 among multiple individuals. The proposed amendments align with ISQM 1 and SQMS 1.

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50 *See* QC 1000.A5.

51 *See* QC 1000.A7.

52 *See* PCAOB Rule 1001(p)(i).

Commenters generally supported allowing the specified roles to be assigned to other participants and divided among multiple individuals.[53] Many commenters indicated the amendments would promote audit quality, for example, by enabling the firm to place the most experienced and qualified individuals in those roles.[54] Several commenters also supported allowing firms the flexibility to assign roles and responsibilities to multiple individuals based on their specialized expertise and capacity, including within their existing structures, while maintaining accountability.[55] Several commenters stated that the proposed amendments to paragraph .12 were sufficiently clear and appropriate.[56]

A commenter stated that the proposed amendments would be especially helpful to firms that issued audit reports with respect to less than 100 issuers.[57] Another commenter supported the addition of footnote 5A, which clarifies that an individual assigned operational responsibility for any of the roles in paragraph .12 would become an associated person of the firm by virtue of that assignment.[58] One commenter recommended retaining clear firm-level accountability and documentation requirements to avoid diffusion of responsibility.[59] Another commenter recommended the final standard require clear identification of those ultimately responsible for the QC system and key QC areas; this commenter further suggested that the PCAOB encourage firms to consider the firms' retirees for QC system roles, as such individuals would provide valuable experience.[60]

One commenter did not support assigning roles to individuals outside the firm because individuals outside the firm may have conflicting interests, and they cannot provide the day-to-day ownership the roles require.[61] The same commenter stated that there remains a need for an ultimate point of accountability and there needs to be assurance that accountability is not

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53 *See* comment letters from AAA, Baker Tilly, BDO, CAQ, CBIZ, Crowe, Deloitte, EY, Forvis, GT, ICGN, KPMG, Kramer, MIAG, PICPA, PwC, RSM, SCCG, and Spitters.

54 *See* comment letters from CAQ, Deloitte, GT, KPMG, MIAG, PICPA, RSM, SCCG, and Spitters.

55 *See* comment letters from AAA, Baker Tilly, CAQ, CFA, EY, GT, KPMG, and SCCG.

56 *See* comment letters from GT, KPMG, MIAG, RSM, and Spitters.

57 *See* comment letter from Kramer.

58 *See* comment letter from PICPA.

59 *See* comment letter from SCCG.

60 *See* comment letter from MIAG.

61 *See* comment letter from CFA.

diffused when responsibilities are divided.[62] Further, the commenter requested that whenever a QC role is divided among multiple individuals, the firm's reporting to the PCAOB identify (1) who holds ultimate responsibility and accountability for the QC system as a whole; (2) who is accountable for each function, such as ethics, independence, monitoring, and remediation; and (3) the scope of each individual's assigned responsibilities, so that no part of any role is left unassigned.[63]

As to the question of whether the flexibility afforded by the proposed amendments should be available only on a scaled basis to certain firms, many commenters generally favored applying the amendments to all firms.[64] Several of these commenters emphasized that the flexibility the proposed amendments would offer is important for firms of all sizes, although for reasons that may differ between larger and smaller firms.[65] One commenter said such flexibility appears appropriate regardless of firm size, while noting that larger firms may be better equipped to operate under a more restrictive and specialized set of requirements.[66] Another commenter stated they would not be opposed to a limited degree of scaling these requirements to address cost considerations for small and large firms.[67]

After consideration of the comments received, we are adopting these amendments as proposed. We believe the flexibility afforded by the amendments should be available to all firms rather than on a scaled basis, because audit quality is enhanced when firms can assign the specified roles and responsibilities to the most qualified individuals, whether or not they are firm personnel. In our view, the amendments will expand the pool of individuals with the requisite experience, competence, authority, and time to serve in specified roles. For example, a firm may improve its QC system and overall audit quality by assigning to one individual operational responsibility for ethics and to another individual operational responsibility for independence, where each individual has specific expertise in their respective area.

In response to commenters that recommended clear firm-level accountability and documentation when roles are divided, paragraph .27 requires a firm to establish and maintain clear lines of responsibility and supervision within the QC system, including defining authorities, responsibilities, accountabilities, and supervisory and reporting lines for roles within the firm up

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62 *See id*.

63 *See id*.

64 *See* comment letters from AAA, BDO, CAQ, CBIZ, GT, KPMG, PICPA, PwC, RSM, and Spitters.

65 *See* comment letters from AAA, BDO, CAQ, CBIZ, GT, KPMG, PwC, and RSM.

66 *See* comment letter from Kramer.

67 *See* comment letter from ICGN.

to and including the principal executive officer(s). Additionally, paragraph .82a requires the firm to document the lines of responsibility and supervision required by paragraph .27. In response to a commenter's call for specific reporting to the PCAOB about divided roles, we note that Item 3.1 of Form QC requires firms to disclose (1) who holds ultimate responsibility and accountability for the QC system as a whole and (2) which individual or individuals have operational responsibility for ethics and independence and for monitoring and remediation. Although the specific scope of each individual's assigned responsibilities would not be reported, that information must be documented under paragraph .82a and would be available to the PCAOB in connection with its oversight activities, including inspections.[68]

2. Responsibilities for roles with operational responsibility

.15 The individual(s) assigned operational responsibility and accountability for the QC system as a whole should:

a. Supervise, within the scope of their assigned responsibilities, the design, implementation, and operation of the firm's QC system in accordance with *applicable professional and legal requirements* and the firm's policies and procedures; and

b. Certify the firm's report to the PCAOB on its annual evaluation of the QC system (*see* paragraph .79).

.16 The individual(s) assigned operational responsibility for the firm's compliance with ethics and independence requirements should, within the scope of their assigned responsibilities:

a. Supervise the design, implementation, and operation of the firm's ethics and independence component (*see* paragraphs .30-.36); and

b. Communicate, on a timely basis, violations of ethics or independence requirements, including personal independence violations, to the individuals assigned (1) operational responsibility for the firm's monitoring and remediation process and (2) operational responsibility and accountability for the QC system as a whole.

.17 The individual(s) assigned operational responsibility for the monitoring and remediation process should, within the scope of their assigned responsibilities:

[68] *See* PCAOB Rule 4000(b), *General*.

a. Supervise the design, implementation, and operation of the firm's monitoring and remediation process (*see* paragraphs .58-.76) and the annual evaluation of the QC system (*see* paragraphs .77-.78), including:

(1) The evaluation of the results of the monitoring activities;

(2) The evaluation of whether remedial actions are implemented as designed and operate effectively to remediate *QC deficiencies* and, if not, the taking of timely action until such *QC deficiencies* are remediated; and

(3) The firm's other policies and procedures with regard to monitoring and remediation.

b. Communicate, on a timely basis, to the individuals assigned (1) ultimate responsibility and accountability for the QC system as a whole and (2) operational responsibility and accountability for the QC system as a whole, a description of:

(1) Monitoring activities performed and the results of such activities, including, if applicable, monitoring activities performed by a network;

(2) Identified *engagement deficiencies*~~,~~ and *QC deficiencies*~~, and *major QC deficiencies*~~, including the nature, severity, and pervasiveness of such deficiencies; and

(3) Actions taken to address *engagement deficiencies*~~,~~ and *QC deficiencies*~~, and *major QC deficiencies*~~.

To align with the amendments to QC 1000.12, we proposed conforming amendments to paragraphs .15-.17 that would acknowledge the possibility that multiple individuals could share the specified roles and clarify that such individuals' obligations would be limited to the scope of their assigned responsibilities.

In addition, we proposed amendments to paragraph .17b(2)-(3) to delete the communication requirements related to major QC deficiencies to align with the amendments to the evaluation requirement in paragraph .77 discussed in Section III.F.1.d. below.

Commenters who addressed these amendments supported the proposed changes to paragraphs .15-.17 and stated they are sufficiently clear.[69] Two commenters acknowledged that

[69] *See* comment letters from CAQ, GT, KPMG, PICPA, RSM, and Spitters.

the conforming amendments are appropriately aligned with the revisions to paragraph .12.[70] One commenter stated the conforming amendments reinforce a more principles-based approach[71] and another commenter stated the conforming amendments increase flexibility.[72] After consideration of the comments received, we are adopting these conforming amendments as proposed.

C. External QC Function

As originally adopted, paragraph .28 of QC 1000 includes a specified quality response that requires firms with a larger PCAOB audit practice[73] to incorporate into their governance structure an EQCF for the QC system composed of one or more persons 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.

The EQCF's responsibilities include, at a minimum, evaluating the significant judgments made and the related conclusions reached by the firm when evaluating and reporting on the effectiveness of its QC system.

We proposed rescinding the EQCF requirement based on information obtained in connection with staff implementation support efforts and outreach discussions, which revealed that implementing this requirement had proven more difficult and more costly than originally anticipated. We were concerned that the potential benefits may not justify the potential costs of the EQCF requirement, except potentially for the largest U.S. global network firms.

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[70] *See* comment letters from GT and RSM.

[71] *See* comment letter from GT.

[72] *See* comment letter from KPMG.

[73] Firms with a larger PCAOB audit practice are considered those firms that issued audit reports for more than 100 issuers in the prior calendar year.

Many commenters expressed support for rescinding the EQCF requirement.[74] Some of these commenters said rescission would allow firms the flexibility to utilize existing external governance structures to promote audit quality in a manner tailored to their specific circumstances.[75] Some commenters stated that removing the EQCF requirement would not diminish the focus on quality because QC 1000 advances the objectives of strengthening trust in governance, reinforcing accountability, and supporting a commitment to quality through other provisions in the standard.[76] Other commenters offered support for the proposed rescission by asserting that existing governance structures, leadership accountability, monitoring activities, reporting processes, and PCAOB inspections already provide meaningful oversight or help promote the effective operation of the QC system.[77]

In addition, many commenters observed that the costs associated with the EQCF requirement, as well as any incremental benefits to audit quality, remain uncertain.[78] Some commenters who supported removing the requirement cited significant implementation challenges and costs associated with identifying, recruiting, and onboarding individuals with the necessary expertise, independence, and availability to serve in the role.[79] Other commenters pointed to additional costs, including obtaining liability insurance and making governance-related structural changes, as further reasons to support the proposed rescission.[80] One commenter cautioned that rescission of the EQCF requirement would remove a level of assurance with respect to internal processes and audit quality in firms but described the requirement as expensive, redundant, overreaching, and unnecessary.[81] Two commenters acknowledged the narrow responsibilities of an individual serving in an EQCF role, but asserted that we may have overstated the potential costs of the EQCF requirement by using particular benchmarks involving compensation of non-employee company directors to estimate potential

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[74] *See* comment letters from AAA (majority of AAA committee members), Baker Tilly, BDO, CAQ, CBIZ, Crowe, Deloitte, EY, Forvis, GT, KPMG, PICPA, Plante & Moran, PwC, RSM, and VSCPA.

[75] *See* comment letters from BDO, CBIZ, Deloitte, EY, GT, KPMG, Plante & Moran, PwC, RSM, and VSCPA.

[76] *See* comment letters from BDO, CBIZ, Crowe, KPMG, and PwC.

[77] *See* comment letters from CAQ, EY, PICPA, and VSCPA.

[78] *See* comment letters from CAQ, Deloitte, GT, KPMG, PICPA, Plante & Moran, and RSM.

[79] *See* comment letters from BDO, CAQ, Crowe, EY, GT, PICPA, and VSCPA.

[80] *See* comment letters from BDO, Deloitte, KPMG, PICPA, and RSM.

[81] *See* comment letter from Spitters.

costs.[82] These commenters also suggested that we may have understated the potential benefits of the EQCF requirement by failing to consider the ongoing trend of private equity investing in accounting firms.[83] Another commenter stated that many of the firms most likely to be affected already use external advisers and that the incremental burden of establishing the mandated function may be less substantial than the proposal implies.[84] This commenter also stated that the Board did not have direct evidence on the cost of the EQCF to firms.[85]

One commenter raised concerns that the size and complexity of a large firm's QC system would create practical constraints on the depth of engagement individuals serving in the EQCF role can achieve, thereby limiting the EQCF's overall effectiveness and value beyond the oversight already available through existing channels.[86] Another commenter supported rescission of the EQCF requirement because its current form is not scalable for firms only moderately above the 100-issuer threshold.[87]

Some commenters opposed the proposed rescission of the EQCF requirement.[88] Two commenters disagreed with the PCAOB's reasoning "that the benefits of the requirement may not justify the costs, except potentially for the largest U.S. global network firms."[89] The same commenters, while acknowledging concerns related to potential costs, liability, and implementation, stated that some form of independent challenge remains a critical component of an effective QC system.[90] Another commenter viewed the EQCF as essential to audit quality.[91] One commenter expressed concern that rescinding the EQCF requirement would

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82 *See* comment letters from CII and MIAG.

83 *See id*.

84 *See* comment letter from CFA.

85 *See id*.

86 *See* comment letter from Deloitte.

87 *See* comment letter from Baker Tilly.

88 *See* comment letters from AAA (minority of AAA committee members), CFA, CII, ICGN, and MIAG.

89 *See* comment letters from CII and MIAG.

90 *See id*.

91 *See* comment letter from ICGN.

leave judgments about the firms' QC systems entirely to the firms themselves.[92] This commenter stated the EQCF is the clearest structural safeguard against the commercial and network pressures and interests that can affect a firm's judgments regarding its QC system.[93] This commenter further asserted that, as the PCAOB moves the focus of its audit inspections to the firm rather than the engagement level, and as private-equity ownership and other commercial pressures within the auditing profession continue to grow, retaining such a safeguard is particularly important.[94]

Two commenters also asserted that the requirement for larger PCAOB audit practices to have an EQCF would be applicable to only five firms.[95] However, absent rescission of the EQCF requirement, 13 firms, based on 2025 data, would become subject to that requirement.[96]

In responding to the question regarding an alternative threshold for the EQCF requirement, many commenters stated it was not necessary to impose the EQCF requirement on any firm, regardless of size or number of issuers audited.[97] Some commenters did not support an alternative threshold (e.g., restricting the requirement only to firms auditing more than 500 issuers) because retaining the requirement in any form would not resolve the underlying concerns about operability, costs, availability of qualified individuals, and uncertain incremental benefit.[98] Some commenters said that firms should have the flexibility to create governance structures that align with the nature and extent of their existing structure and risks of the firm.[99]

One commenter stated that if the Board concludes that some relief is necessary, it is better to retain the EQCF requirement as adopted for firms auditing more than 500 issuers because it would apply to the five firms where nearly all U.S. public market capitalization sits.[100] One commenter stated that if the current 100-issuer threshold were not retained, they would

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92 *See* comment letter from CFA.

93 *See id*.

94 *See id*.

95 *See* comment letters from CII and MIAG.

96 *See* footnote 401 for a list of the 13 firms.

97 *See* comment letters from Baker Tilly, BDO, Crowe, GT, PICPA, PwC, and RSM.

98 *See* comment letters from BDO, CAQ, GT, KPMG, PICPA, and RSM.

99 *See* comment letters from BDO, CAQ, Crowe, and KPMG.

100 *See* comment letter from CFA.

not oppose amending the threshold to firms that issued audit reports for more than 200 issuers during the prior calendar year, because they believe that the large revenue base received from those firms' issuer audit clients could support the incremental costs associated with the EQCF requirement.[101] One commenter suggested 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.[102] In addition, one commenter who opposed removing the EQCF requirement expressed the view that smaller firms (under 100 audits per year) should not be exempted from robust and functioning alternative EQCF requirements if the PCAOB were to scale the provisions.[103] Another commenter noted that, given the unchanged effective date of QC 1000, adopting alternative oversight frameworks could present implementation challenges and leave firms with limited time to thoughtfully design and integrate new requirements into their governance structures.[104]

In the supplemental request for comment, we sought input on the alternative of reverting the requirement for an independent oversight function to that contained in the 2022 proposal. Several commenters did not support such an alternative.[105] One commenter stated that the 2022 proposed requirement lacked sufficient clarity and could create uncertainty regarding whether existing firm governance and oversight arrangements would satisfy such a requirement.[106] Another commenter indicated that the effect or impact of adopting the requirement as initially proposed in 2022 could not be determined.[107] One commenter did not support reverting back to the 2022 proposed requirement because it carried no defined duty to evaluate the firm's QC conclusions—the very check the EQCF was adopted to provide.[108]

After consideration of the comments received, we are rescinding the EQCF requirement. Based on staff implementation support efforts, we understand that implementation of this requirement may have proven more difficult and costly than originally anticipated. We also acknowledge the concerns raised by commenters about the costs, operability, and potential

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101 *See* comment letter from MIAG.

102 *See* comment letter from AAA.

103 *See* comment letter from ICGN.

104 *See* comment letter from KPMG.

105 *See* comment letters from CAQ, CFA, GT, KPMG, PICPA, PwC, and RSM.

106 *See* comment letter from KPMG.

107 *See* comment letter from Spitters.

108 *See* comment letter from CFA.

limited benefit of the EQCF requirement, including the availability of qualified individuals to serve in an EQCF role, for firms of any size. In our view, rescinding the EQCF requirement means giving up the benefits of an external second look. That external second look would have focused on the significant judgments made and related conclusions reached when evaluating and reporting on the effectiveness of firms' QC systems. We believe those incremental benefits are difficult to quantify and potentially limited. They would come from the fresh perspectives of an individual serving in an EQCF role, beyond the benefits already provided by other aspects of QC 1000. See Section V.C.3. for further discussion on economic impacts.

We believe that the implementation concerns apply equally to all firms, including those operating under alternative practice structures or accepting private equity investments, regardless of the number of issuers they audit.

One commenter opposed the rescission, asserting that firm leadership should be held accountable through independent oversight.[109] Further, the commenter suggested that firms might lack the ability to "convince investors they can do the right thing when left to their own judgment."[110] As designed, though, the EQCF lacks a mechanism or the authority to hold firm leadership accountable; the EQCF is not required to provide concurring approval of the firm's evaluation or reporting.[111] Nor would the EQCF supplant the firm's judgment.

Furthermore, we note that the QC 1000 quality objectives for the governance and leadership component continue to call for (i) firm leadership to communicate and promote the firm's commitment to quality; (ii) the firm to clearly define leadership's responsibility for quality and hold them accountable; (iii) firm leadership to demonstrate a commitment to quality through actions and behaviors; (iv) the firm's strategic decisions and actions to be consistent with and support the firm's commitment to quality; and (v) resources to be obtained, developed, allocated, and assigned in a manner that enables an effective QC system and the performance of engagements in accordance with applicable professional and legal requirements.[112] To achieve these quality objectives, firms are required to design and implement quality responses that are based on the related quality risks and on the reasons for the assessments given to the quality risks and to reduce to an appropriately low level the risk that quality objectives will not be achieved. We have also observed that several firms already incorporate external advisors into their organizational and governance structures and they may continue to do so as part of their response to the quality risks associated with these quality

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109 *See id*.

110 *See id*.

111 *See* PCAOB Rel. No. 2024-005, at 121.

112 *See* QC 1000.25.

objectives. We have long considered firm governance and leadership to be an important aspect of firms' QC systems that will continue to be subject to oversight by the PCAOB, including as part of PCAOB inspections.

D. Information and Communication

.53 The *quality objectives* established by the firm with respect to information and communication should include the following:

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e. If a firm communicates firm-level or *engagement*-level information with respect to the firm's audit practice, *firm personnel*, or *engagements*, such as firm or *engagement* metrics, to external parties:~~,~~

(1) S~~s~~uch information is accurate and not misleading; and~~,~~

(2) W~~w~~ith respect to any such metrics that are communicated in writing and made publicly available by the firm, the communication provides an explanation~~explains~~ in reasonable detail of how the metrics were determined and, if applicable, how the method of determining them changed since the metrics were last communicated.

Note: The communication may provide an explanation either within the communication itself or by referring to a publicly available explanation presented elsewhere, such as the firm's website.

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QC 1000 requires a firm to establish a quality objective that, if the firm communicates firm-level or engagement-level information with respect to the firm's audit practice, firm personnel, or engagements, such as firm or engagement metrics, to external parties, such information is accurate and not misleading and, with respect to any such metrics that are communicated in writing, the communication explains in reasonable detail how the metrics were determined and, if applicable, how the method of determining them changed since the metrics were last communicated.

As discussed in the QC 1000 2024 adopting release, the information that this requirement applies to includes public communications about firm-level or engagement-level information, such as firm metrics and financial data.[113] For example, some firms publish

[113] *See* PCAOB Rel. No. 2024-005, at 186.

transparency or audit quality reports, either voluntarily or in response to the requirements of other jurisdictions, that contain data such as:

- Revenue breakdown by service line, by year, or by geographic segment;
- Professional staff ratios;
- Staff turnover ratios;
- Average training hours per professional; and
- Partner workload.

Firms may also communicate such data via webpages or other media, such as promotional publications, social media, interviews, or presentations via webcast or video.[114]

In the supplemental request for comment, we proposed to narrow the requirements of QC 1000.53e regarding the need for an explanation of written metrics to those metrics that the firm makes publicly available. This was consistent with the initial focus of the requirement on public communications.[115] We believe that recipients of nonpublic communications regarding metrics, such as regulators, company management, and audit committees, are generally in a position to request additional information about the metrics if they desire it. Further, some nonpublic metrics may already be calculated in accordance with a method prescribed by the recipient (for example, in response to a regulatory requirement or an audit committee request for proposal). In contrast, where metrics are publicly available, such as in firm transparency reports or promotional publications, these are usually one-way communications in which the external parties do not have the ability to ask questions or request clarification from the firm.

Several commenters supported the proposed amendments to paragraph .53e.[116] One commenter said they did not object to confining the explanation requirement to metrics the firm makes publicly available.[117] One of these commenters stated that the proposed amendments were generally clear and seem appropriate but suggested that the term "metric"

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[114] *See* PCAOB Rel. No. 2024-005, at 186-187.

[115] *See id*.

[116] *See* comment letters from AAA, BDO, CAQ, Deloitte, EY, GT, KPMG, Kramer, MIAG, PICPA, RSM, SCCG, and Spitters.

[117] *See* comment letter from CFA.

be defined or explained in the rule text.[118] Another commenter stated that the PCAOB must clearly communicate to firms that the intent of the provision is that firms ensure that the explanation remains accurate and publicly available.[119] Another commenter encouraged the Board to make explicit that simplification of communication requirements does not alter the firm's monitoring obligations.[120] One commenter stated that it would be helpful to further clarify whether the requirement applies only to those communications required under applicable professional and legal requirements or to all such metrics publicly disclosed.[121] The commenter further requested clarification of whether all changes to the calculation of disclosed metrics to which this requirement applies must be explained or whether this requirement applies only to material changes in the calculation of the disclosed metrics.[122]

One commenter stated that the operability of the requirement could be further enhanced by restructuring the requirement into two distinct quality objectives—one that addresses whether the information is accurate and not misleading, and a second, conditional objective requiring an explanation for publicly communicated metrics.[123]

We are adopting the proposed amendments to QC 1000.53e with modifications. Specifically, we are revising paragraph .53e by adding subparagraphs .e(1) and .e(2) to more clearly distinguish firm responsibilities when communicating firm-level or engagement-level information to external parties and in written public communications. We agree with the commenter that this change will improve the operability of paragraph .53e without changing a firm's responsibilities. In addition, we believe that the change will help to address a commenter's concern regarding the clarity of the provision's intent with respect to metrics communicated in writing and made publicly available by the firm.

The requirement in paragraph .53e(2) applies to any metrics that are communicated in writing and made publicly available by the firm—it is not limited in application to metrics that are required to be communicated under applicable professional and legal requirements. Paragraph .53e(2) also requires a firm to communicate how the method of determining any metrics changed since previously communicated, if applicable, and that requirement applies to any such change in methodology, without regard to the firm's assessment of its materiality. We

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118 *See* comment letter from Kramer.

119 *See* comment letter from MIAG.

120 *See* comment letter from SCCG.

121 *See* comment letter from RSM.

122 *See id*.

123 *See* comment letter from KPMG.

do not believe that it is necessary to define the term "metric" for purposes of applying paragraph .53e(2). We believe the term is reasonably understood in practice, and we previously clarified, in the supplemental request for comment, that we intend for the requirement to apply only to calculated measures, not to underlying data.[124] As illustrated in the supplemental request for comment, if a firm publicly discloses its auditor-employee headcount for a region or office, the firm will not need to describe how it counted the employees.[125] The requirement will apply, however, to any calculated figures derived using that data, such as the average years of experience for audit personnel (i.e., total years of audit experience divided by auditor-employee headcount).

We also do not believe it is necessary to clarify that the proposed amendment would not alter a firm's monitoring obligations. As stated by the commenter who suggested doing so, the amendments simplify communication requirements but do not affect QC 1000 monitoring obligations.

We believe that the amendments will carry out our initial intent for public communications and avoid unnecessary costs associated with making additional disclosures to recipients who can request more information if they need it, while still ensuring that recipients of written public communications have access to an explanation of any metric provided.

In addition, we proposed adding a note to paragraph .53e stating that the explanation of the method for determining metrics can be provided either within the public written communication that includes the metrics or by referring in the communication to a publicly available explanation presented elsewhere, such as the firm's website.

Several commenters supported allowing firms to provide explanations of metrics in a publicly available location, such as the firm's website.[126] One commenter stated that they supported the proposed amendment provided that those explanations are clear, balanced, accessible, and sufficiently specific to help users of the metrics.[127] Another commenter stated that they favored public disclosures in one place for ease of use and that placement on the relevant website seems appropriate as long as there are clear instructions on how to access the explanation.[128] The commenter further stated that, while disclosures on websites are useful, investors would want to make sure that any restatements, changes in definitions, or metrics are

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124 *See* PCAOB Rel. No. 2026-002, at 25-26.

125 *See id*.

126 *See* comment letters from BDO, CFA, GT, KPMG, MIAG, PICPA, and RSM.

127 *See* comment letter from CAQ.

128 *See* comment letter from ICGN.

clearly noted, communicated in writing, and updated on a timely basis.[129] While one commenter agreed that publishing an explanation of metrics on a website would not adversely affect the utility of metrics made public, this commenter questioned whether public information about firm metrics should be subject to certification or verification before publication.[130] Another commenter said that an explanation that was accurate on the day it was published is of little use to an investor comparing metrics two or three years later, and that simplification of the requirement should not come at the expense of transparency or comparability over time within a single firm.[131] This commenter requested that the Board require that any report containing a publicly disclosed metric include, in the report itself, a hyperlink to the explanation of how that metric is calculated, maintained on the firm's own website, and stated that the hyperlink must remain stable, archived, and year specific.[132] This commenter also said that when a metric or its methodology changes from one year to the next, the change must be prominently identified in the base report itself—not only in the linked explanation—together with a description of the change and a presentation of the comparable prior year metric.[133]

After consideration of the comments received,[134] we are adopting the note to paragraph .53e as proposed but relocating it under new paragraph .53e(2).

We believe that allowing firms to explain metrics either in the same communication as the metric itself or by reference to another publicly available explanation would streamline firms' communications about their audit practices without adversely affecting the quality of information received by external parties. We do not believe that permitting firms this flexibility will create confusion for stakeholders. Given the volume of information that a firm might communicate about itself, and the possibility that the same information may be repeated through various communication platforms, we believe that permitting a firm to make reference to a single publicly available explanation could reduce unnecessary duplication of disclosures and provide additional clarity to stakeholders. Also for this reason, we believe it is not

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129 *See id*.

130 *See* comment letter from Spitters.

131 *See* comment letter from CFA.

132 *See id*.

133 *See id*.

134 One commenter stated that the PCAOB should use existing artificial intelligence technology to aggregate metrics and related information from firms' websites or other public sources and make that information available in a centralized location on the PCAOB's website. *See* comment letter from MIAG. This suggestion is beyond the scope of this rulemaking.

necessary to require a change made to a metric or its methodology be identified in the written communication. We are not requiring firms to provide hyperlinks for the metrics because we seek to preserve the principles-based nature of the requirement and avoid prescribing a specific method that may become less effective as technology changes over time.

To satisfy paragraph .53e(2), any publicly available explanation, including one provided through a website, would need to be clear, accessible, and sufficiently specific to explain how the metric was determined and any changes in the method used to determine the metric since it was last communicated. In addition, we do not believe that requiring certification or verification of such explanations is necessary to achieve the objectives of paragraph .53e(2). Firms would need to ensure that their explanations remained specific as to the public metric to which they relate and are publicly available for as long as they continue to make available the written public communication that refers to the location of the metrics. Firms may update the publicly available explanation as necessary to maintain its accuracy; however, such updates do not require the issuance of a new written public communication identifying or describing those updates.

E. Monitoring and Remediation Process

1. Responding to engagement deficiencies

.68 When an *engagement deficiency* exists, the firm should:

a. For *engagement deficiencies* relating to in-process *engagements*, take action to address the deficiency in accordance with *applicable professional and legal requirements* (to the extent necessary, before the issuance of the related *engagement* report(s)), such that the *engagement* ~~report(s) are~~ is free of significant engagement deficiencies~~appropriate in the circumstances~~;[40A]

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d. For *engagement deficiencies* that resulted or could result in (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*, ~~E~~evaluate whether similar *engagement deficiencies* exist on:

(1) Other in-process *engagements*, or would arise if remedial action is not taken;

(2) Other completed *engagements*, unless it is probable that the *engagement* report(s) are not being relied upon; and

(3) Work performed by the firm on other firms' *engagements*;

and if so, take actions described in paragraphs .68a.-c. above, as applicable.

Note: Understanding the circumstances that led to the *engagement deficiency* may assist the firm in identifying other *engagements* or work performed by the firm on other firms' *engagements* to evaluate for similar *engagement deficiencies*.

[40A] A significant engagement deficiency exists when (1) the engagement team failed to obtain sufficient appropriate evidence or failed to perform interim review or attestation procedures necessary in the circumstances in accordance with the standards of the PCAOB, (2) the engagement team reached an inappropriate overall conclusion on the subject matter of the *engagement*, (3) the *engagement* report is not appropriate in the circumstances, or (4) the firm is not independent of its client. This concept aligns with "significant engagement deficiency" in AS 1220, *Engagement Quality Review* (*see* Notes to AS 1220.12, .17, .18B), but applies to all *engagements* as defined in this standard.

Engagement monitoring activities are designed to provide information on whether engagement or QC system-level areas may require additional attention. These activities may identify pervasive issues where a number of engagements have similar problems, possibly highlighting the need to revise methodologies, provide additional training, or take other actions at the QC system-level. QC 1000 requires monitoring activities to include determining, on a timely basis, whether engagement deficiencies exist and, if so, taking certain actions in response to the identified engagement deficiencies.

QC 1000 defines an engagement deficiency as an instance of noncompliance with applicable professional and legal requirements by the firm, firm personnel, or other participants with respect to an engagement of the firm, or by the firm or firm personnel with respect to an engagement of another firm. Under QC 1000.68, a firm is required to take certain action when an engagement deficiency exists, with the required action depending on circumstances such as whether the engagement is completed or still in-process or is related to work performed on other firms' engagements.

a. Engagement deficiency related to an in-process engagement (QC 1000.68a)

As originally adopted, QC 1000 requires firms, for engagement deficiencies relating to in-process engagements, to take action to address the deficiency in accordance with applicable professional and legal requirements (to the extent necessary, before the issuance of the engagement report(s)), such that the engagement report(s) are appropriate in the circumstances.

We proposed to amend paragraph .68a to (i) replace the language "the engagement report(s) are appropriate in the circumstances" with "the engagement is free of significant

engagement deficiencies" and (ii) add a footnote describing what significant engagement deficiencies are. The concept of a significant engagement deficiency is derived from AS 1220, and the description used in the proposed footnote in paragraph .68a aligns with that in AS 1220. The footnote to QC 1000.68a also clarifies that the concept applies to all engagements as that term is defined in QC 1000 (which includes, for example, engagements performed pursuant to PCAOB interim attestation standards), not only those engagements described in AS 1220.

Many commenters supported the proposed amendments to paragraph .68a.[135] However, one commenter stated that the proposed threshold for a "significant engagement deficiency" remained overly broad and 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.[136] This commenter suggested that the definition should incorporate the concepts of materiality, relevant assertions, and the significance of the deficiency to the overall audit.[137]

The proposed description for when a significant engagement deficiency exists is consistent with concepts in AS 1220. Under AS 1220, an engagement quality reviewer ("EQR") may provide concurring approval of issuance only if, after performing with due professional care the review required by the standard, the EQR is not aware of a significant engagement deficiency.[138] The description of significant engagement deficiency in the proposed amendments to paragraph .68a appropriately focuses firms on matters that must be corrected before an audit report is issued or before an engagement conclusion is communicated to the company.[139] Therefore, we do not agree that the description is overly broad; a significant engagement deficiency would not be any instance in which an engagement team failed to perform a procedure required by PCAOB standards but rather is specifically related to the circumstances described in footnote 40A. Further, we believe the concept is well understood by the profession and does not require any revision.

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135 *See* comment letters from Baker Tilly, CAQ, Deloitte, GT, KPMG, Plante & Moran, and Spitters.

136 *See* comment letter from PICPA.

137 *See id*.

138 *See* Notes to AS 1220.12, .17, .18B.

139 *See Proposed Auditing Standard—Engagement Quality Review and Conforming Amendment to the Board's Interim Quality Control Standards*, PCAOB Rel. No. 2008-002 (Feb. 26, 2008), at 16 (describing significant engagement deficiencies).

We are adopting the amendments to paragraph .68a as proposed.

b. Evaluating whether similar engagement deficiencies exist on other engagements (QC 1000.68d)

As originally adopted, QC 1000 requires that, when the firm determines that an engagement deficiency exists, the firm should evaluate whether similar engagement deficiencies exist in other in-process engagements, completed engagements (unless it is probable that the engagement report is not being relied upon), and work performed on other firms' engagements, and if so, take actions as required by paragraphs .68a-c, as applicable.

We proposed to limit the requirement to evaluate whether similar engagement deficiencies exist so it would apply only with respect to a subset of engagement deficiencies, specifically those that resulted or could result in (i) a failure to obtain sufficient appropriate evidence to support the conclusion reached on an engagement[140] or (ii) an inappropriate overall conclusion on the subject matter of an engagement.

Most commenters generally supported the proposed amendments to paragraph .68d.[141] We are adopting the amendments to paragraph .68d as proposed, along with a new note discussed below in Section III.E.1.b.ii.

The discussion below addresses specific commenter feedback related to the proposed amendments.

i. "Resulted or could result in"

Several commenters raised concern regarding the proposed language "resulted or could result in."[142] Commenters stated that the language would introduce new complexity[143] and interpretation challenges,[144] or would involve substantial implementation effort with limited

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[140] Because QC 1000 covers not only audit engagements but also review engagements and attestation engagements, reference to "sufficient appropriate evidence" is necessary as this concept aligns with the audit, review, and attestation standards.

[141] *See* comment letters from Baker Tilly, BDO, CAQ, CBIZ, Deloitte, EY, GT, ICGN, KPMG, PICPA, Plante & Moran, RSM, SCCG, and Spitters.

[142] *See* comment letters from BDO, GT, KPMG, PICPA, and RSM.

[143] *See* comment letter from KPMG.

[144] *See* comment letters from GT and KPMG.

incremental investor protection.[145] One commenter stated 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.[146] This commenter suggested that the Board consider revising the language to specify that the requirement applies "where there is a reasonable possibility" that an engagement deficiency could result in either a failure to obtain sufficient appropriate audit evidence or an inappropriate overall conclusion, to distinguish from those that represent more remote possibilities.[147] Another commenter recommended changing the proposed language to "reasonably could result."[148] Another commenter stated that it was not clear whether "could" should be assessed at the individual engagement level or at a broader thematic level, such as when a theme or trend of similar engagement deficiencies emerges.[149] Another commenter stated that a deficiency that appears immaterial on the engagement where it was first identified can still be a symptom of a firm-wide QC weakness and a narrower trigger reduces the number of opportunities a firm has to find that pattern before it results in an audit failure.[150] One commenter highlighted that the intended benefits of the proposed amendment could be offset by concerns regarding specific provisions (i.e., the "could result in" language).[151] Another commenter stated that it was difficult to determine whether the proposed amendment will meaningfully reduce complexity, subjectivity, or implementation costs.[152] We are concerned that some commenters may have misinterpreted the intent of the phrase "could result in." As adopted, QC 1000 requires the firm to evaluate all engagement deficiencies under paragraph .68d. The goal of the amendment is to narrow the types of engagement deficiencies subject to the evaluation to only those that relate to obtaining sufficient appropriate evidence or the overall conclusion of an engagement.[153]

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145 *See* comment letter from PICPA.

146 *See* comment letter from KPMG.

147 *See id*.

148 *See* comment letter from BDO.

149 *See* comment letter from RSM.

150 *See* comment letter from CFA.

151 *See* comment letter from KPMG.

152 *See* comment letter from GT.

153 With respect to examples of the type of engagement deficiencies that relate to reaching an inappropriate overall conclusion on the subject matter of an engagement, *see* PCAOB Rel. No. 2008-002, at 16 n.29, which states that "[i]nappropriate conclusions on the subject matter of the engagement would include, for example, a failure to appropriately modify the engagement conclusion in response to:

Other engagement deficiencies would not need to be evaluated under paragraph .68d, as amended. Such other engagement deficiencies include, for example, engagement deficiencies related to communications to the audit committee; the filing of Form AP, *Auditor Reporting of Certain Audit Participants*; or the registration status of an other auditor that performed substantial role work.[154] In other words, this "could result in" language is not intended to introduce an assessment of the likelihood that the engagement deficiency could result in, for example, a failure to obtain sufficient appropriate evidence to support the conclusion on another engagement. This language is instead intended to help firms assess whether a particular engagement deficiency falls within either of the two types of engagement deficiencies subject to the evaluation under the revised paragraph .68d.

For example, if the engagement deficiency related to not making a required communication to the audit committee, this type of engagement deficiency does not affect the auditor's ability to obtain sufficient appropriate audit evidence or reach the appropriate overall conclusion of the engagement and, therefore, would not be within the scope of the revised paragraph .68d. In contrast, if the engagement deficiency related to the auditor not making or observing a physical inventory count in accordance with AS 2510, *Auditing Inventories*, this type of an engagement deficiency would be within the scope of paragraph .68d, because it relates to obtaining sufficient appropriate evidence.

Some commenters requested clarification of an example we provided in the supplemental request for comment.[155] To clarify and illustrate the application of the "resulted or could result in" language in paragraph .68d, consider the following scenario: During internal monitoring activities for the current year, a firm selected one of its completed engagements for inspection and identified that the engagement team failed to evaluate cash confirmation exceptions pursuant to AS 2310.20. As a result, the engagement team violated PCAOB requirements (i.e., applicable professional and legal requirements) and the firm determined that an engagement deficiency exists. Because noncompliance with the requirement of AS 2310.20 (that is, the failure to evaluate confirmation exceptions) relates to obtaining sufficient appropriate evidence (i.e., it could result in a failure to obtain such evidence), this engagement

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(1) a material departure from generally accepted accounting principles or (2) a material weakness in internal control over financial reporting."

[154] These types of engagement deficiencies would still be required to be addressed in accordance with paragraphs .68a-c and to be evaluated to determine whether QC deficiencies exist in accordance with paragraph .72.

[155] *See* comment letters from Baker Tilly, BDO, CAQ, Deloitte, EY, GT, PICPA, and RSM.

deficiency meets the requirement for evaluation under the revised language of paragraph .68d.[156]

We believe that the amendment appropriately focuses a firm's attention and efforts on the types of engagement deficiencies that represent the greatest risk to audit quality. It also reduces compliance costs by narrowing the population of engagement deficiencies that a firm is required to evaluate.

ii. "Evaluate whether similar engagement deficiencies exist"

A commenter stated that the nature and extent of the procedures required to evaluate whether similar engagement deficiencies exist should be more explicitly grounded in the root cause of the engagement deficiency identified and an assessment of whether that root cause suggests a potential QC deficiency.[157] This commenter suggested that an evaluation anchored to root cause would provide a more meaningful and risk-based framework for determining the scope of further procedures.[158] As it relates to the evaluation required under paragraph .68d, another commenter requested scenarios to help firms distinguish between engagement deficiencies and identified root causes that are (i) indicative of systemic issues and (ii) isolated incidents.[159]

As described in the QC 1000 2024 adopting release, understanding the nature of the engagement deficiency will assist the firm in determining the extent of the necessary evaluation.[160] The intent of the requirement to evaluate whether similar engagement deficiencies exist was not to require an unbounded look at every engagement the firm has. We believe understanding the circumstances that led to the engagement deficiency (e.g., the underlying cause) would help the firm identify other engagements to evaluate for similar engagement deficiencies. We acknowledge, as commenters suggested, that this was not clear in the proposed amendments. Therefore, we are adding a new note to paragraph .68d to indicate that understanding the circumstances that led to the engagement deficiency may assist the firm in identifying other engagements (or work performed by the firm on other firms' engagements) to evaluate for similar engagement deficiencies.

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156 We have provided a continuation of this example below in Section III.E.1.b.ii.

157 *See* comment letter from Deloitte.

158 *See id*.

159 *See* comment letter from GT.

160 *See* PCAOB Rel. No. 2024-005, at 225.

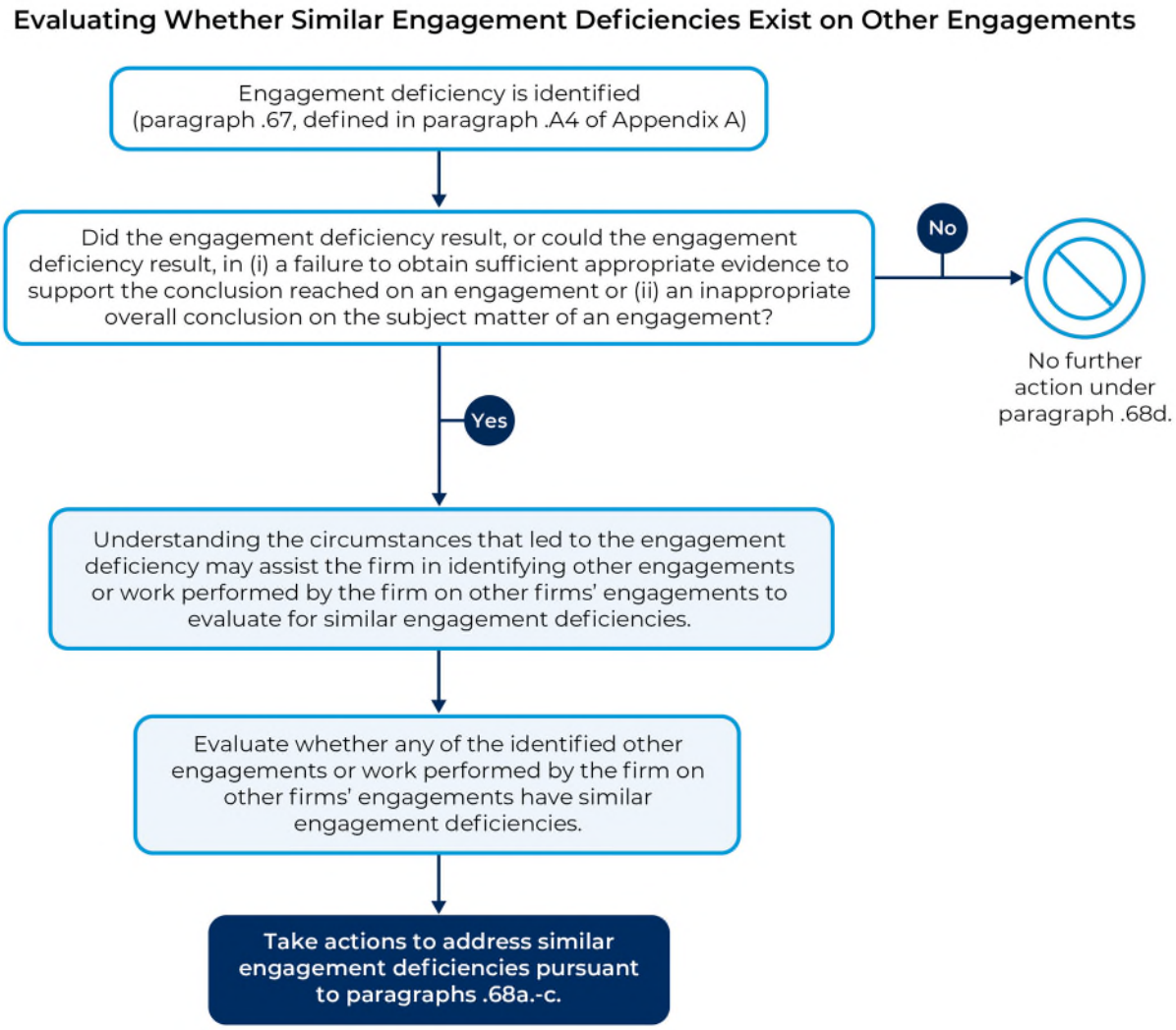
The procedures performed can be scalable and practical in the circumstances and may be developed based on the nature of the engagement deficiency. However, it would not be appropriate for a firm's evaluation to be based on narrower criteria than those underlying the cause(s) for the engagement deficiency, nor would it be appropriate to include only a subset of the engagements that are identified based on the understanding of the circumstances that led to the engagement deficiency.

To continue with the example provided above regarding cash confirmations (in Section III.E.1.b.i), the firm then gained an understanding of the circumstances that led to the engagement deficiency (e.g., the underlying cause) to identify which other engagements to evaluate for similar engagement deficiencies. In this example, the firm might determine that the engagement deficiency was caused by an error in the firm's cash confirmations methodology, which is required to be used on all engagements that use cash confirmations. To identify whether other engagements used the same methodology (or, in the case of in-process engagements, are currently using the same methodology), the firm sends an inquiry email to each engagement partner. Based on the responses received to the emails and any follow-up with non-respondents, the firm identifies the engagements (and work performed on other firms' engagements) that followed the same methodology. It is these engagements and work performed on another firm's engagements that followed the same methodology that the firm will evaluate for similar engagement deficiencies.

If the firm identifies, for example, twenty engagements that followed the same cash confirmations methodology, the firm evaluates whether a similar engagement deficiency exists on each of the twenty engagements, i.e., a failure to evaluate confirmation exceptions pursuant to AS 2310.20. Out of the twenty engagements, if the firm identifies four engagements in which the engagement team did not perform procedures to evaluate confirmation exceptions pursuant to AS 2310.20, then the firm would need to take appropriate actions pursuant to subparagraphs a-c of paragraph .68 on each of those four engagements.

Importantly, paragraph .68d does not prescribe the manner in which the firm would identify engagements to evaluate. In the above example, the firm decided to send an email to each engagement partner to identify engagements that followed the same methodology. However, the firm could use other approaches, such as a data analysis tool or performing a search of engagement files, to identify engagements that followed the same methodology. The evaluation approach a firm takes may differ depending on the nature of the engagement deficiency, the circumstances that led to the engagement deficiency, and a firm's specific facts and circumstances. As discussed above, once the firm identifies the population of engagements subject to the evaluation of whether similar engagement deficiencies exist, it would not be appropriate for a firm's evaluation to be based on narrower criteria nor would it be appropriate to evaluate only a subset of the engagements that were identified.

The following graphic illustrates the process for evaluating whether similar engagement deficiencies exist:



iii. Response to other commenter feedback

One commenter did not support a requirement that would require the firm, after finding an engagement deficiency in one engagement, to evaluate whether similar deficiencies exist in all other completed engagements.[161] This commenter stated that the cost of the requirement could be extremely high and it is unclear whether the benefit would outweigh the

[161] *See* comment letter from AAA.

cost.[162] This commenter suggested that the Board instead change the requirement so that examining a completed engagement would be required only when, based on the information available at the time, the firm believed that it was probable the financial statements were materially misstated and the likelihood was more than remote that the audit report was still being relied upon.[163] We do not agree with the commenter who stated that the amendment would require that the firm evaluate whether similar deficiencies exist in all other completed engagements, as the note to paragraph .68d indicates understanding the circumstances that led to the engagement deficiency may assist the firm in identifying other engagements to evaluate for similar engagement deficiencies.

A commenter stated that a deficiency found in one engagement should prompt the firm to ask whether the same problem exists in other engagements and why it occurred, with the answers feeding back into the firm's risk assessment.[164] We agree that an engagement deficiency identified in one engagement may provide information that is relevant to the firm's broader monitoring and remediation and risk assessment processes. All engagement deficiencies are subject to action as required under paragraph .68a-c (in that particular engagement), and certain engagement deficiencies will require evaluation under paragraph .68d. Furthermore, all engagement deficiencies are treated as QC observations under paragraph .72 and must be evaluated to determine whether they are QC deficiencies. Additionally, under paragraph .20a(3), the firm obtains an understanding of information from the firm's monitoring and remediation activities, including its identification of engagement deficiencies, in identifying and assessing quality risks. In this way, the evaluation of engagement deficiencies represents one part of the broader monitoring and remediation feedback loop: information identified through that process informs the firm's evaluation of QC observations and feeds back into the firm's identification and assessment of quality risks.

This commenter also stated that deficiency rates are not materially better than in the early years of the inspection program more than twenty years ago and suggested this is not the moment to narrow the lens through which firms look for systemic problems.[165] We believe that the amendments to paragraph .68d appropriately focus firms' evaluations on engagement deficiencies related to obtaining sufficient appropriate evidence to support the conclusion reached on an engagement or the overall conclusion on the subject matter of an engagement that may indicate systemic issues on the firm's engagements.

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162 *See id*.

163 *See id*.

164 *See* comment letter from CFA.

165 *See id*.

A commenter suggested that the Board could further enhance the proposed amendment by aligning more closely with ISQM 1, which permits firms to use their judgment to determine the nature and extent of any investigation of identified engagement deficiencies and whether those deficiencies might indicate a deficiency in the system of quality management.[166] We believe the requirement in paragraph .68d is fundamental to achieving the objective of the QC system that each engagement report issued by the firm is in accordance with applicable professional and legal requirements.[167]

A commenter questioned why only items (1) and (2) from footnote 40A to proposed paragraph .68a were included in proposed paragraph .68d, while items (3) and (4) (the engagement report is not appropriate in the circumstances and the firm is not independent of its client, respectively) were not.[168] With regard to paragraph .68d, the amendment focuses on those types of engagement deficiencies that most directly affect the sufficiency and appropriateness of procedures performed on the engagement as well as the ultimate opinion expressed by the firm.

2. Definition of QC deficiency

.A8 QC deficiency – A *QC observation* that, based on the evaluation under paragraph .72, individually, or in combination with one or more other *QC observations*, evidences:

(1) That the likelihood of the firm not achieving the reasonable assurance objective or one or more *quality objectives* has not been reduced to an acceptably low level;

Note: The likelihood of not achieving the reasonable assurance objective or one or more *quality objectives* would be above an acceptably low level if, for example, a *quality objective* is not established, a *quality risk* is not properly identified or assessed, or a *quality response* is not properly designed or implemented or is not operating effectively <u>and other *quality responses* do not achieve the relevant objective(s)</u>.

(2) Noncompliance with requirements of this standard, other than those under "Documentation"; or

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166 *See* comment letter from PICPA.

167 *See* QC 1000.05.

168 *See* comment letter from Grosvenor.

(3) Noncompliance with requirements of this standard under "Documentation" that adversely affects the firm's ability to comply with any of the other requirements of this standard.

As originally adopted, the note to paragraph .A8(1) of the definition of QC deficiency states that the likelihood of not achieving the reasonable assurance objective or one or more quality objectives would be above an acceptably low level if, for example, a quality objective is not established, a quality risk is not properly identified or assessed, or a quality response is not properly designed or implemented or is not operating effectively.

We proposed to amend this note to clarify that a failure of a quality response would be regarded as evidencing a QC deficiency only if other quality responses do not achieve the relevant objective(s). As stated in the QC 1000 2024 adopting release, the relationship across quality objectives, quality risks, and quality responses is generally not one-to-one.[169] Most quality objectives are likely to have multiple quality risks. Some quality risks may affect one or more quality objectives, either within a single component or across several components, and may require multiple quality responses. Some quality responses may address multiple quality risks.

Many commenters supported the proposed amendment to the definition of QC deficiency,[170] noting, for example, that allowing firms to take compensating quality responses into account when determining whether a QC deficiency exists better reflects how a risk-based system of quality control operates in practice and also aligns more closely with the principles-based framework of other quality management standards, such as ISQM 1.

Two commenters suggested revisions to the proposed amendment.[171] One commenter stated that the rule text could clarify that multiple other quality responses are not necessarily required by adding the words "one or more" before "other quality responses" in the Note to paragraph .A8(1) for situations where there is just one other quality response.[172] We believe the rule text is sufficiently clear that the clause "and other quality responses do not achieve the relevant objective(s)" applies only if the firm has designed and implemented at least one other quality response relative to the objective(s). Another commenter suggested amending the definition as follows: "(other quality responses have been implemented to address the same

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169 *See* PCAOB Rel. No. 2024-005, at 42.

170 *See* comment letters from AAA, Baker Tilly, BDO, CAQ, Crowe, Deloitte, EY, GT, KPMG, Kramer, PICPA, Plante & Moran, PwC, RSM, and SCCG.

171 *See* comment letters from Kramer and Spitters.

172 *See* comment letter from Kramer.

risk, and) 'other quality responses do not achieve the relevant objectives.'"[173] We do not believe it is necessary for the rule text to specify that "other quality responses" must have been designed and implemented to address the particular quality risk. As stated in the supplemental request for comment and reiterated in this adopting release, when firms have implemented more than one quality response to address the same quality risk, they can take those other quality responses into account when determining whether a QC deficiency exists.

One commenter expressed concern that without a documented, inspectable basis for concluding that a "compensating response" actually operated effectively, this amendment risks becoming a way to explain away deficiencies rather than a genuine test of whether investors remain protected.[174] Another commenter expressed concern that the proposed amendment would give firms/networks additional temptation to identify compensating responses when the linkage is tenuous.[175] We believe the revised note makes clear that, when a quality response is not properly designed or implemented or is not operating effectively, the other quality responses would need to achieve the relevant objective(s), that is, they would need to be properly designed, implemented, tested, and found to operate effectively. And, as one commenter observed, paragraph .82 requires firms to document their evaluation of QC observations to determine whether QC deficiencies exist and the basis for each determination.[176]

Another commenter stated that it is unclear how allowing the evaluation of compensating controls will work in practice.[177] For example, where a quality risk has a single response that fails, the commenter stated it was unclear whether firms may consider other responses that mitigate other identified risks to support achievement of the overall objective.[178] This commenter suggested that there may be responses where a precision level is too high to singularly address a specific risk on their own, but when considered collectively, may reduce the risk of failing to achieve the objective to an acceptable level.[179]

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173 *See* comment letter from Spitters.

174 *See* comment letter from CFA.

175 *See* comment letter from Grosvenor.

176 *See* comment letter from CFA.

177 *See* comment letter from RSM.

178 *See id*.

179 *See id*.

As explained in the QC 1000 2024 adopting release, the purpose of this note is to provide examples of circumstances where the likelihood of the firm not achieving the reasonable assurance objective or one or more quality objectives would not be reduced to an acceptably low level.[180] The amendments to this note further emphasize that, when a quality response is not properly designed or implemented or is not operating effectively and other quality responses do not achieve the relevant objective(s), the likelihood of the firm not achieving the reasonable assurance objective or one or more quality objectives has not been reduced to an acceptably low level. Under QC 1000, quality risks are defined as "[r]isks (whether or not related to intentional acts by *firm personnel* or *other participants* to deceive or to violate *applicable professional and legal requirements*) that, individually or in combination with other risks, have a reasonable possibility of occurring and, if they were to occur, a reasonable possibility of adversely affecting the firm's achievement of one or more *quality objectives."* The amendment clarifies that, when firms have implemented more than one quality response to address the same quality risk, they can take those other quality responses into account when determining whether a QC deficiency exists; if the other quality responses were effective in achieving the relevant objective(s), no QC deficiency would exist.

After consideration of the comments received, we are adopting the amendment to the definition of QC deficiency as proposed.

F. Evaluation of and Reporting on the QC System

1. Annual evaluation of the QC system

.77 Once a firm has been subject to the requirement to design, implement, and operate a QC system under paragraph .06 for at least five consecutive months~~Annually~~, the firm must annually evaluate the effectiveness of its QC system, based on the results of its monitoring and remediation activities, and conclude, as of ~~September 30 (~~the ~~"~~*evaluation date*,[44]"~~),~~ that its QC system:

a. Is effective in achieving the reasonable assurance objective~~with no unremediated *QC deficiencies*~~; or

Note: The firm's QC system is effective in achieving the reasonable assurance objective under paragraph .77a if, as of the *evaluation date*, there are no unremediated *QC deficiencies* other than those that, individually or in combination, are not severe.

b. Is effective in achieving the reasonable assurance objective except for ~~one or more~~ unremediated *QC deficiencies* that have a severe but not pervasive effect on

[180] *See* PCAOB Rel. No. 2024-005, at 231.

the design, implementation, and operation of the QC system (and do not render the QC system not effective)~~are not *major QC deficiencies*~~; or

c. Is not effective in achieving the reasonable assurance objective~~(one or more *major QC deficiencies* exists)~~.

Note: An unremediated *QC deficiency* is one for which remedial actions that completely address the *QC deficiency* have not been fully implemented, tested, and found effective. For this purpose, implementation must be completed as of the *evaluation date* and testing and the determination of effectiveness must be completed no later than the date Form QC is due under paragraph .79 (or, if earlier, the date Form QC is filed).

[44] The selection of the firm's *evaluation date* may be influenced by the nature and circumstances of the firm and its *engagements*, including, for example, the firm's fiscal year-end or the timing of monitoring activities. If the firm changes its *evaluation date*, the firm is required to provide notice of such change on Form QC.

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.A4A Evaluation date – The date selected by the firm as of which to evaluate its QC system under paragraph .77.

a. Evaluation date

As originally adopted, QC 1000 requires that the firm perform an evaluation of the effectiveness of its QC system annually as of September 30.

We proposed to amend QC 1000 to permit firms to select their own annual evaluation date for their QC system by adding a new defined term, "evaluation date," defined as the date selected by the firm as of which to evaluate its QC system under paragraph .77, and making conforming changes to paragraph .77.

We also proposed to include language in a new footnote to guide the firm's selection of its evaluation date by recognizing that the firm's choice may be influenced by the nature and circumstances of the firm and its engagements, including, for example, the firm's fiscal year-end or the timing of monitoring activities.

All commenters who commented on this aspect of the proposed amendments expressed support.[181] One commenter, who did not object to this aspect of the proposed amendments, expressed concern that timing should not become a tool for managing findings and a firm should not be able to use its initial selection, or a later change of date, to defer capturing known or anticipated inspection findings within an evaluation period.[182] This commenter, however, acknowledged that under the amendments, no period of time escapes evaluation altogether and any change of evaluation date must be reported to the Board together with the firm's rationale for the change.[183] We agree with the commenter that these are useful guardrails.[184]

The choice of evaluation date is an aspect of QC system design and, as such, has to be made and documented by the time the firm becomes subject to the QC 1000.06 requirement to design, implement, and operate an effective QC system. The firm has to have the information needed to identify unremediated QC deficiencies and to reach a conclusion about the effectiveness of its QC system as of the evaluation date, and for the individuals with ultimate responsibility and accountability and operational responsibility and accountability for the QC system as a whole, acting with due professional care, to certify the firm's report to the PCAOB on its annual evaluation of the QC system. This suggests that the evaluation date and the firm's monitoring and remediation cycle ought to be coordinated so that sufficient, timely information is available when needed about the implementation and operation of the QC system (including the status of remediation efforts) and the compliance of the firm's engagements with applicable professional and legal requirements. Because of the relationship between the evaluation date and the firm's monitoring and remediation activities, we do not anticipate that firms will change their selected evaluation date without a specific reason (e.g., regulatory requirements, business combination transactions, or changes in fiscal year or business cycles).

We are adopting these amendments as proposed.

We believe allowing each firm to select its evaluation date based on the firm's particular facts and circumstances responds to the implementation challenges experienced by some firms and, in particular, could reduce the burden and costs of multiple annual evaluations that some firms could have experienced due to differences in required evaluation dates under QC 1000 versus other regulations to which they are subject. This change better aligns with the flexibility

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181 *See* comment letters from AAA, Baker Tilly, BDO, CAQ, CBIZ, Crowe, Deloitte, EY, Forvis, GT, ICGN, KPMG, MIAG, PICPA, Plante & Moran, PwC, RSM, and Spitters.

182 *See* comment letter from CFA.

183 *See id*.

184 *See id*.

provided by other quality management standards, which permit firms to choose their own evaluation date. Additionally, we do not believe that allowing firms to select their own evaluation date impairs our ability to carry out our inspection program.

b. Five-month threshold for the initial evaluation of the firm's QC system

We proposed to add language to paragraph .77 that would require a minimum period of operation before a firm is first required to evaluate its QC system. Under the proposed amendment, a firm would be required to evaluate its QC system once the firm has been subject to the requirement to design, implement, and operate a QC system under paragraph .06 for at least five consecutive months (whether due to the effectiveness of QC 1000 on December 15, 2026, or to the firm's later becoming subject to the requirements of QC 1000.06).

Most commenters who commented on this topic supported the proposed amendment.[185]

However, one commenter stated that the proposed approach may create practical challenges for firms seeking to align their QC 1000 evaluation process with evaluations performed under other quality management standards, which contemplate annual evaluation periods that generally do not exceed twelve months.[186] This commenter observed that a firm that has chosen, for example, March 31 as its evaluation date would likely be required to perform an evaluation under ISQM 1 or SQMS 1 as of March 31, 2027, while the corresponding QC 1000 evaluation would not occur until March 31, 2028, and would encompass a 15-month evaluation period.[187] This commenter suggested that the Board could permit firms to perform their initial evaluation of their QC system as of their selected evaluation date, consistent with their normal quality control processes, but require the first Form QC filing only for the first 12-month evaluation period ending after September 30, 2027.[188] This commenter believes that the Board could obtain information regarding that firm's initial evaluation, implementation progress, significant findings, and remediation activities through its oversight activities (e.g., inspections, implementation outreach, annual data requests, and other regulatory interactions) prior to the firm's first Form QC filing.[189] Another commenter stated that, combined with a free choice of evaluation date, the proposed five-month threshold could defer some firms' first

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185 *See* comment letters from Baker Tilly, CAQ, ICGN, KPMG, PICPA, RSM, and Spitters.

186 *See* comment letter from BDO.

187 *See id*.

188 *See id*.

189 *See id*.

evaluation well into 2028.[190] This commenter stated that the Board should set an outer limit so that every firm completes its first evaluation within a reasonable period of becoming subject to the standard.[191]

We acknowledge that, depending on the evaluation date chosen by the firm, the first evaluation period may encompass more than 12 months, but observe that subsequent periods would proceed on a 12-month cycle (absent a change of the evaluation date). We believe that this approach sets a reasonable outer limit for a firm's first evaluation. We also believe that the five-month minimum duration of the initial evaluation period ensures that firms have sufficient information to evaluate the effectiveness of their QC system. A firm can elect to voluntarily perform its initial evaluation covering a less-than-five-month period, but that evaluation would not be a required evaluation under QC 1000. Consequently, under General Instruction 4(a) to Form QC, the firm's first Form QC filing would be required to cover the period beginning on the date the firm first incurred an obligation to implement and operate a QC system under QC 1000.06 and ending on the firm's evaluation date.

Another commenter suggested that the five-month period should commence on the first day of the month immediately following the event that triggers the firm's obligation to design, implement, and operate its QC system, which would allow firms a full five-month operating period on which to base their evaluation.[192] This commenter also requested that the Board clarify that the 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.[193] To clarify, as noted above, a firm becomes subject to the requirements of QC 1000 on (1) December 15, 2026 (the effective date of QC 1000), or (2) the day the firm becomes subject to the requirement to design, implement, and operate a QC system under paragraph .06. Therefore, in all circumstances, a firm's QC system will have operated for a full five months or longer before the firm is required to evaluate the effectiveness of its QC system. Additionally, because the five-month threshold refers to the evaluation of the effectiveness of the firm's QC system as a whole, it does not impose any minimum time requirement for any other purpose other than for QC 1000.77.

Another commenter also suggested that the Board clarify whether engagements should be included in a firm's evaluation based on the financial statement year-end or the date the

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190 *See* comment letter from CFA.

191 *See id*.

192 *See* comment letter from KPMG.

193 *See id*.

auditor's report is issued.[194] This commenter encouraged the Board to clarify how firms should approach the initial evaluation when the completion of a firm's engagements falls outside this five-month timeframe and when the initial evaluation has little or no engagement activity within the evaluation period.[195]

QC 1000 requires that the firm design, implement, and operate a monitoring and remediation process to provide relevant, reliable, and timely information about the design, implementation, and operation of the QC system and to provide a reasonable basis for timely detection of engagement deficiencies and QC deficiencies.[196] Firms are required to monitor completed engagements.[197] A completed engagement is one for which the firm has issued an engagement report. Firms also are required, depending on the size of their PCAOB audit practice, to either perform in-process engagement monitoring[198] or consider doing so.[199] If the firm has no completed engagements during the firm's initial evaluation of its QC system, in-process monitoring could provide relevant, reliable, and timely information about the performance of the firm's engagements.

Finally, one commenter questioned the rationale behind the Board's decision to use five months as opposed to, for example, six months.[200] In developing the minimum time period for the initial QC system evaluation, we determined and continue to believe that the five-month threshold strikes the right balance such that the QC system has ample time to operate while also ensuring the PCAOB's timely receipt of information related to firms' QC systems.

Accordingly, we are adopting this amendment as proposed.

To illustrate how the five-month threshold for the initial evaluation of the firm's QC system would operate, if a firm that is subject to the requirements of QC 1000.06 when the standard becomes effective (on December 15, 2026) selects June 30 as its evaluation date, the firm would first evaluate the effectiveness of its QC system in accordance with QC 1000 as of June 30, 2027, because the firm would have been required to operate a QC 1000-compliant

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194 *See* comment letter from PICPA.

195 *See id*.

196 QC 1000.59a and b.

197 QC 1000.62a.

198 QC 1000.63a.

199 QC 1000.63b.

200 *See* comment letter from Spitters.

system for at least five months (specifically, from December 15 to June 30) as of June 30, 2027. Alternatively, if such a firm selects March 31 as its evaluation date, the firm would be required to first evaluate the effectiveness of its QC system as of March 31, 2028, because the firm would not have been required to operate a QC 1000-compliant system for at least five months as of March 31, 2027. As another example, if a firm first became subject to the requirements of QC 1000.06 on June 1, 2027 (because the firm became subject to applicable professional and legal requirements with respect to an engagement at that time), and the firm selects July 31 as its evaluation date, the firm would be required to first evaluate the effectiveness of its QC system as of July 31, 2028, because the firm would not have been required to operate a QC 1000-compliant system for at least five months as of July 31, 2027.

c. Evaluation conclusions

As originally adopted, QC 1000 requires the firm to evaluate its QC system annually and conclude that the QC system is effective, is effective except for one or more unremediated QC deficiencies that are not major QC deficiencies, or is not effective (i.e., one or more major QC deficiencies exist).

We proposed to amend the above three conclusions to align QC 1000 more closely with other quality management frameworks. Under proposed paragraph .77, the firm would be required to conclude, as of the evaluation date, that its QC system:

- Is effective in achieving the reasonable assurance objective; or
- Is effective in achieving the reasonable assurance objective except for unremediated QC deficiencies that have a severe but not pervasive effect on the design, implementation, and operation of the QC system (and do not render the QC system not effective); or
- Is not effective in achieving the reasonable assurance objective.

To clarify when a firm may conclude that its QC system is effective in achieving the reasonable assurance objective under paragraph .77a, we proposed to include a note explaining that such a conclusion would be appropriate when, as of the evaluation date, there are no unremediated QC deficiencies other than those that, individually or in combination, are not severe. This clarification was intended to emphasize that the presence of unremediated QC deficiencies did not, in all cases, preclude a conclusion under paragraph .77a that the QC system is effective. Rather, the determination would depend on the severity of those deficiencies and their effect on the firm's ability to achieve the reasonable assurance objective. Under the proposed approach, QC deficiencies that are not severe, whether considered individually or in combination, would not indicate that the QC system is failing to operate effectively, which would be consistent with the ISQM 1 evaluation framework and the reasonable assurance objective of QC 1000.

Under proposed paragraph .77b, a firm would conclude that its QC system was effective in achieving the reasonable assurance objective except for unremediated QC deficiencies that have a severe but not pervasive effect on the design, implementation, and operation of the QC system (and do not render the QC system not effective). To clarify, when evaluating the effect of unremediated QC deficiencies on the QC system, a firm would evaluate whether the QC deficiencies have a severe but not pervasive effect on each of the following: (1) the design of the QC system, (2) the implementation of the QC system, and (3) the operation of the QC system. Therefore, with respect to the conclusion under paragraph .77b, QC deficiencies may have a severe but not pervasive effect on the design, implementation, or operation of the QC system; they need not have such an effect on all three aspects of the QC system for a firm to reach the conclusion under proposed paragraph .77b. The parenthetical statement is intended to clarify that if QC deficiencies are so severe as to prevent the firm from achieving the reasonable assurance objective, the appropriate conclusion would be under proposed paragraph .77c. A firm would reach the conclusion set forth in paragraph .77c if its QC system was not effective in achieving the reasonable assurance objective.

QC 1000 specifies that an unremediated QC deficiency is one for which remedial actions that completely address the QC deficiency have not been fully implemented, tested, and found effective. We proposed to modify the existing note to paragraph .77 to explain that, while remedial actions must be fully implemented as of the evaluation date, they can be tested and found effective no later than the date Form QC is due under paragraph .79 (or, if earlier, the date Form QC is filed). The note distinguishes between the implementation of remedial actions and the demonstration of their effectiveness. For purposes of determining whether a QC deficiency is remediated, firms are expected to have fully implemented remedial actions as of the evaluation date, but the assessment of whether those actions are operating effectively may be supported by testing their operating effectiveness after the evaluation date but before the Form QC filing date.

Commenters supported the proposed amendments to the evaluation framework and evaluation conclusions, particularly the effort to align more closely with other quality management standards.[201] Several commenters noted that this alignment would reduce the complexity of managing evaluations under multiple frameworks and help avoid potential confusion among stakeholders.[202] Two commenters observed that the three-tiered conclusions framework better supports informed decision-making and meaningful communication with stakeholders, and reflects a more accurate representation of how QC systems operate in

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[201] *See* comment letters from AAA, Baker Tilly, BDO, CAQ, CBIZ, Deloitte, EY, Forvis, GT, ICGN, KPMG, PICPA, Plante & Moran, PwC, and RSM.

[202] *See* comment letters from Baker Tilly, Deloitte, EY, Forvis, and KPMG.

practice.[203] Two other commenters noted that the proposed evaluation framework would enhance transparency by allowing firms to distinguish among varying degrees of effectiveness, including through the use of the "except for" conclusion.[204] One commenter further stated that the proposed evaluation framework better aligns with the reasonable assurance objective because it clarifies that a QC system may provide reasonable assurance even when unremediated QC deficiencies exist.[205] In addition, some commenters indicated that the proposed conclusions in paragraph .77 were sufficiently clear and appropriate.[206] One commenter stated the evaluation framework in proposed paragraphs .77-.78 is generally clear but requested clarification on the latitude of firms to change their conclusions as of the evaluation date if, before the date that Form QC is filed, a firm identifies shortcomings when further testing its remedial actions.[207]

While commenters generally supported the proposed framework, one commenter recommended expanding the "except for" category to include both "severe but not pervasive" and "pervasive but not severe" unremediated QC deficiencies to minimize potential blurring among the conclusion categories.[208] This commenter expressed concern that a conclusion under paragraph .77a could be confusing because a firm may arrive at a favorable conclusion despite having experienced significant quality control issues during the evaluation period that were subsequently remediated.[209] The same commenter also noted that deficiencies may take time to become apparent and suggested requiring statements or certifications indicating that firms considered previously unidentified deficiencies relating to prior years in their evaluations.[210] Another commenter urged the Board to retain the "effective, with no unremediated QC deficiencies" conclusion as originally adopted.[211] The commenter expressed concern that allowing firms to reach an unqualified "effective" conclusion despite the existence

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203 *See* comment letters from BDO and CBIZ.

204 *See* comment letters from Baker Tilly and GT.

205 *See* comment letter from KPMG.

206 *See* comment letters from GT, KPMG, and Spitters.

207 *See* comment letter from Kramer.

208 *See* comment letter from Grosvenor.

209 *See id*.

210 *See id*.

211 *See* comment letter from CFA.

of unremediated QC deficiencies would broaden the circumstances in which firms may reach a favorable conclusion.[212]

One commenter supported the proposed modification to the existing note to paragraph .77 because it provides helpful guidance and better reflects how remediation occurs in practice.[213] Another commenter questioned whether the phrase "completely address" in the first sentence of the note, which is not part of the proposed modification, establishes an unnecessarily stringent standard and suggested replacing it with "sufficiently address."[214] Another commenter requested clarification on the description in the release for determining whether a QC deficiency is remediated, specifically whether the phrase "may be supported by evidence obtained from testing after the evaluation date" refers to testing of instances that occurred before the evaluation date or the related response activities after the evaluation date.[215] One commenter requested clarification on how firms should assess the effect of remediation efforts when frequency constraints preclude testing enough instances of the remedial actions in evaluating remaining QC deficiencies.[216]

In developing the proposed amendments to paragraph .77, we also considered an alternative evaluation framework under which a firm would be required to reach a binary conclusion (i.e., that its QC system is either effective or not effective in achieving the reasonable assurance objective).

One commenter stated that a binary conclusion may be particularly appropriate for many triennial firms and suggested that a binary framework would simplify the evaluation process.[217] Another commenter stated that whether the alternative evaluation framework with a binary conclusion is more appropriate is undefined, and it would be appropriate and constructive to retain the factors included in paragraph .78 (which are discussed further below) under this alternative framework.[218]

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212 *See id*.

213 *See* comment letter from KPMG.

214 *See* comment letter from Grosvenor.

215 *See* comment letter from RSM.

216 *See* comment letter from CBIZ.

217 *See* comment letter from Kramer.

218 *See* comment letter from Spitters.

Many commenters did not support the binary approach for the evaluation framework.[219] Some commenters were concerned that it would limit firms' ability to communicate the nature and severity of identified deficiencies and would decrease alignment with other quality management frameworks.[220] In addition, some commenters stated that a binary framework could provide insufficient information regarding significant deficiencies that are not pervasive enough to warrant a conclusion that the QC system is ineffective.[221] Two commenters noted that a binary framework would be less informative.[222] Another commenter expressed concern that the binary approach could reduce the rigor of the evaluation process.[223] Another commenter stated that the existing three-tiered conclusion structure provides more meaningful information by distinguishing QC systems with severe but not yet pervasive QC deficiencies and serves as an important early-warning mechanism.[224] This commenter also stated that the middle category allows severe but not yet pervasive unremediated QC deficiencies to be identified, escalated, and remediated before the QC system fails.[225]

After considering the comments received, we are adopting the amendments to paragraph .77 as proposed.

We believe that unremediated QC deficiencies that are pervasive but not severe may nevertheless allow the QC system to achieve its reasonable assurance objective and therefore support a conclusion under paragraph .77a. We also believe the evaluation framework appropriately focuses on the condition of the QC system as of the evaluation date and provides firms with the incentive to timely and effectively remediate identified QC deficiencies as of the evaluation date to reach a conclusion under paragraph .77a.

We note that, despite increased alignment between the evaluation conclusions under QC 1000 and other quality management standards, the possibility remains that firms may reach different conclusions regarding the effectiveness of their QC systems under QC 1000 and ISQM 1 or SQMS 1. For example, there are differences in the professional and legal

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219 *See* comment letters from AAA, Baker Tilly, BDO, CAQ, CBIZ, CFA, GT, ICGN, KPMG, MIAG, PICPA, PwC, and RSM.

220 *See* comment letters from BDO, CBIZ, and GT.

221 *See* comment letters from CAQ, KPMG, and PICPA.

222 *See* comment letters from AAA and MIAG.

223 *See* comment letter from MIAG.

224 *See* comment letter from CFA.

225 *See id*.

requirements that apply to a firm's audit practice under PCAOB standards compared to other standards, including variations between applicable auditing standards and independence requirements. The relevant populations of engagements are different. There could also be differences relating to the individuals who perform such engagements or perform activities within the QC system, including with regard to training and supervision. In addition, QC 1000 would continue to require a more structured approach to the evaluation process than other standards, including through the application of specific defined terms and factors that are required to be considered. We believe this more structured approach is important both in supporting consistent and appropriate evaluation of the QC system by firms and in providing a foundation for PCAOB oversight in the future.

We do not believe that an additional certification requirement, as suggested by one commenter, is necessary because QC 1000 already requires firms to consider the results of prior monitoring activities and remedial actions when determining the nature, timing, and extent of the firm's monitoring activities. We are also retaining the phrase "completely address" in the first sentence of the note to paragraph .77 describing the meaning of an unremediated QC deficiency. The commenter's suggested phrase "sufficiently address" could introduce subjectivity regarding whether a QC deficiency has been adequately remediated. We believe the phrase "completely address" conveys the expected level of remediation necessary before concluding that a QC deficiency is fully remediated.

With respect to requests for clarifications of (i) the phrase "may be supported by evidence obtained from testing after the evaluation date" and (ii) frequency constraints on testing remedial actions, the note to paragraph .77 distinguishes between the implementation of remedial actions and the demonstration of their effectiveness. For purposes of determining whether a QC deficiency is remediated, firms are expected to have fully implemented remedial actions as of the evaluation date, but the assessment of whether those actions are operating effectively may be supported by testing their operating effectiveness after the evaluation date but before the Form QC filing date. For example, when a remedial action has been implemented prior to the evaluation date but evidence from multiple instances of operation is needed to conclude that the remediation is effective, the firm may test one or more instances of operation of the remedial action that took place after the evaluation date but before the filing of Form QC to demonstrate effectiveness of the remedial action. However, if multiple instances of operation are needed to conclude that a remedial action is effective and, due to frequency constraints, only one instance of operation can be tested before the filing of Form QC, then the QC deficiency would be considered an unremediated QC deficiency.

Regarding the requested clarification of a firm's ability to change its conclusion on QC effectiveness between the evaluation date and the date Form QC is filed, we note that the firm's final conclusion about the effectiveness of its QC system is the conclusion reported on Form QC. When additional information related to the QC system as of the evaluation date becomes available before Form QC is filed, the firm is expected to evaluate that information

and make appropriate determinations regarding the information in a timely manner and report any relevant conclusions it reaches.

d. Evaluating the severity and pervasiveness of unremediated QC deficiencies

.78 In performing the evaluation and reaching the conclusion required by paragraph .77, the firm should evaluate the severity (i.e., the seriousness, including potential impact on the firm's ability to achieve the reasonable assurance objective) and the pervasiveness (i.e., the breadth of impact on the firm's QC system or across the firm's portfolio of *engagements*) of all unremediated *QC deficiencies*, individually and in combination, considering both quantitative and qualitative implications. In evaluating severity and pervasiveness, the firm should consider the following factors: ~~As of the *evaluation date*, the firm must evaluate unremediated *QC deficiencies* to determine whether *major QC deficiencies* exist. The firm's determination should be based on whether either of the presumptions described in paragraph .78a. arises and, when relevant, the factors listed in paragraph .78b.~~

~~a. A *major QC deficiency* would be presumed to exist if there is an unremediated *QC deficiency* or combination of unremediated *QC deficiencies* that:~~

~~(1) Relates to the firm's governance and leadership that affect the overall environment supporting the operation of the QC system; or~~

~~(2) Results in or is likely to result in one or more significant engagement deficiencies[44] in *engagements* that, taken together, are significant in relation to the firm's total portfolio of *engagements* (for example, because of the number of *engagements* or *firm personnel* affected or likely to be affected, the associated revenue or profit, the associated risks, or the relevant industry).~~

~~Note: A firm may rebut the presumption that a *major QC deficiency* exists only if the firm demonstrates, taking into account both factors listed in paragraph .78b. (including all of the listed examples in paragraph .78b.(1)), that the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* does not constitute a *major QC deficiency*.~~

~~b. The following factors are relevant (i) in rebutting a presumption under paragraph .78a., and (ii) for unremediated *QC deficiencies* that do not give rise to a presumption under paragraph .78a., in determining whether a *major QC deficiency* exists:~~

~~(1) The severity and pervasiveness of the unremediated *QC deficiency* or combination of unremediated *QC deficiencies*, which may be evidenced by, for example:~~

~~(~~a.~~)~~ The number and nature of components of the firm's QC system or *quality objectives* directly or indirectly affected;

~~(~~b.~~)~~ The extent to which the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* relates to a component, *quality objective*, or *quality response* that affects the design or operation of other aspects of the QC system;

~~(~~c.~~)~~ The number and pervasiveness of root causes;

~~(~~d.~~)~~ The persistence of the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* over time;

e. Whether the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* has resulted or could result in significant engagement deficiencies;

f. Whether the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* has resulted or could result in the need for revisions to *engagement* reports, or is or could be associated with restatements of financial statements or reissuances of company-prepared reports that are the subject of audit or attestation *engagements*;[44A]

~~(e)~~g. With respect to the factors in subparagraphs d.-f., ~~T~~the number and significance (to the firm's portfolio of *engagements*) of *engagements* that are affected by the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* or are likely to be affected in the future in the absence of remediation, and the nature of the effect ~~if the *QC deficiencies* are not remediated~~; and

~~(f) The number of *engagements* that may have unsupported opinions unless additional procedures are performed; and~~

~~(g) The number of *engagements* for which the firm revised and reissued its *engagement* report(s) because, after additional procedures were performed, the financial statements or management's report on internal control over financial reporting was restated or revised; and~~

~~Note: In evaluating each unremediated *QC deficiency* or combination of unremediated *QC deficiencies*, the firm would consider both quantitative and qualitative implications.~~

~~(2)~~h. The ~~extent~~effects of ~~to which~~any remedial actions that have been implemented, tested, and found to be effective.

~~[44] A significant engagement deficiency exists when (1) the engagement team failed to obtain sufficient appropriate evidence in accordance with the standards of the PCAOB or failed to perform interim review or attestation procedures necessary in the circumstances, (2) the engagement team reached an inappropriate overall conclusion on the subject matter of the engagement, (3) the engagement report is not appropriate in the circumstances, or (4) the firm is not independent of its client. *See, e.g.*, Notes to AS 1220.12, .17, .18B.~~

[44A] Company-prepared reports subject to audit or attestation *engagements* include the report on internal control over financial reporting and broker-dealer compliance and exemption reports.

As originally adopted, QC 1000.78 includes the concept of a "major QC deficiency" and provides presumptions and factors to determine whether a major QC deficiency exists and, therefore, the QC system is not effective. We proposed to eliminate the concept of a "major QC deficiency," including the associated presumptions. We proposed to retain, in modified form, the factors to consider in evaluating the severity and pervasiveness of unremediated QC deficiencies.

Specifically, we proposed to amend paragraph .78 to require firms to evaluate the severity and pervasiveness of unremediated QC deficiencies in reaching the evaluation conclusion under paragraph .77. Proposed paragraph .78 clarifies that the firm's evaluation would consider all unremediated QC deficiencies individually and in combination, considering both quantitative and qualitative implications. The proposed paragraph .78 also describes severity and pervasiveness for purposes of this evaluation. Severity reflects the seriousness of a QC deficiency or combination of QC deficiencies, including the potential impact on the firm's ability to achieve the reasonable assurance objective. Pervasiveness reflects the breadth of impact of the QC deficiency or combination of QC deficiencies on the QC system or across the firm's portfolio of engagements.

Commenters generally supported removing the concept of a "major QC deficiency" from QC 1000.[226] Some commenters noted that the concept constituted a fundamental departure from other quality management standards and reduced consistency across quality management frameworks.[227] One commenter stated that the removal of the major QC deficiency concept and related presumptions could reduce the information value of the evaluation conclusions and

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[226] *See* comment letters from BDO, CAQ, GT, KPMG, PICPA, RSM, and Spitters.

[227] *See* comment letters from GT, KPMG, PICPA, and RSM.

lessen the prominence with which serious QC issues are escalated and communicated.[228] The commenter urged the Board to preserve escalation presumptions in some form and clarify how serious QC issues that fall short of overall ineffectiveness will be escalated and communicated if the "major QC deficiency" concept is removed.[229]

Some commenters supported the factors used to evaluate the severity and pervasiveness of unremediated QC deficiencies, stating that the factors promote consistency and rigor in the evaluation process.[230] One commenter stated that the factors in proposed paragraph .78 appropriately address QC deficiencies individually and collectively and account for both qualitative and quantitative considerations.[231]

One commenter stated that considering deficiencies "in combination" when assessing severity may blur the distinction between the concepts of severity and pervasiveness.[232] The same commenter also indicated that this distinction may be further blurred because the same factors are used to evaluate both severity and pervasiveness.[233] Another commenter supported the objective of providing a structured framework for evaluating the severity and pervasiveness of unremediated QC deficiencies but viewed proposed paragraph .78 as overly complex and prescriptive.[234] The same commenter suggested an alternative model for paragraph .78, incorporating concepts from the AICPA Peer Review Program guidance for evaluating deficiencies, that would focus on the nature, cause, and effect of the deficiency, including: (1) whether the deficiency is an isolated event or a systemic weakness; (2) the significance of the deficiency to the firm's practice, including the likelihood to affect other engagements or components of the QC system; (3) the effect of the deficiency on the firm's ability to achieve the reasonable assurance objective; and (4) the extent to which remedial actions have been implemented and demonstrated to be effective.[235]

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228 *See* comment letter from CFA.

229 *See id*.

230 *See* comment letters from BDO, CAQ, GT, and KPMG.

231 *See* comment letter from Spitters.

232 *See* comment letter from Grosvenor.

233 *See id*.

234 *See* comment letter from PICPA.

235 *See id*.

We do not believe that removing the major QC deficiency concept removes the framework's ability to identify and appropriately distinguish particularly severe QC deficiencies. Under the amended evaluation framework, firms would still be required to evaluate the severity and pervasiveness of all unremediated QC deficiencies, individually and in combination, and report information regarding unremediated QC deficiencies in Form QC regardless of the evaluation conclusion reached. The evaluation conclusions in paragraph .77 and the factors in paragraph .78 would provide a structured framework for identifying and assessing unremediated QC deficiencies and for communicating unremediated QC deficiencies to the PCAOB. Further, the conclusion under paragraph .77b can only be selected when unremediated QC deficiencies have a severe but not pervasive effect on the QC system and also do not render the QC system not effective. As reflected in the parenthetical statement in paragraph .77b, if unremediated QC deficiencies are so severe as to prevent the firm from achieving the reasonable assurance objective, the firm would be required to conclude under paragraph .77c that its QC system is not effective in achieving the reasonable assurance objective.

We believe it is important to consider unremediated QC deficiencies both individually and in combination because doing so may reveal patterns of similar findings or indicate a broader issue that may not be evident from evaluating each deficiency in isolation. We also believe that allowing the same factors to inform assessments of both severity and pervasiveness provides firms with relevant information for their evaluations. In many cases, it may not be practicable to categorize a factor as relating exclusively to either severity or pervasiveness. Additionally, we believe the alternative factors for evaluating deficiencies, suggested by one commenter, are already reflected in paragraph .78 as proposed. The factors in paragraph .78 are intended to assist firms in performing the internal evaluation required to reach a conclusion under paragraph .77. We believe the approach in paragraph .78 provides clear direction to firms in evaluating the severity and pervasiveness of unremediated QC deficiencies.

One commenter noted that the term "component" in proposed paragraph .78a is undefined and could be unclear and recommended that the standard more explicitly link the term to the eight integrated components of a firm's QC system described in QC 1000.03, either through a cross-reference or by using consistent terminology.[236] To clarify the intended meaning of the term "component" in proposed paragraph .78a, we are revising the paragraph to refer to the "components of the firm's QC system."

Another commenter questioned if the factor of persistence in paragraph .78d affects the evaluation of severity and pervasiveness and provided an example of an issue that persists unchanged for three years.[237] We continue to believe that the persistence of a deficiency may

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236 *See* comment letter from Kramer.

237 *See* comment letter from Grosvenor.

provide useful information in assessing its severity and pervasiveness. However, persistence alone may not determine the severity or pervasiveness of a QC deficiency, and those assessments depend on the particular facts and circumstances as well as other factors in paragraph .78.

Another commenter stated that the proposed amendments to paragraphs .78e-f introduce the phrase "or could result in" and expressed concern that the use of "could" may imply an evaluation threshold approaching absolute assurance because it encompasses even remote possibilities.[238] This commenter suggested revising the language to refer instead to circumstances "where there is a reasonable possibility."[239] The factors to consider in evaluating the severity and pervasiveness of unremediated deficiencies do not relate to providing any level of assurance. They are intended to help the firm evaluate how severe or pervasive unremediated QC deficiencies are in performing the evaluation and reaching a conclusion regarding the effectiveness of the firm's QC system. The use of "could" in these factors is intended for the firm to evaluate whether the unremediated QC deficiencies remaining as of the evaluation date have the potential to cause significant engagement deficiencies or revisions of engagement reports, or to be associated with financial statement restatements or reissuances of management reports on internal control over financial reporting or broker-dealer compliance or exemption reports that are the subject of the firm's audit or attestation engagements.

One commenter expressed concern that the wording regarding the significance to the firm's portfolio of engagements in paragraph .78g could unintentionally imply that some engagements are less important than others.[240] While all unremediated QC deficiencies are required to be evaluated for severity and pervasiveness, we recognize that there may be certain engagements where unremediated QC deficiencies are more likely to affect the firm's overall practice under PCAOB standards due to the engagement's significance to the firm's portfolio. For example, if an unremediated QC deficiency is likely to result in engagement deficiencies that occur across the primary industry that represents a substantial portion of the firm's PCAOB engagements, the unremediated QC deficiency could be severe or pervasive because of its significance to the firm's engagement portfolio.

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238 *See* comment letter from KPMG.

239 *See id*.

240 *See* comment letter from PICPA.

Another commenter supported the factors if they continue to include consideration of whether remedial actions have been implemented, tested, and determined to be effective, consistent with paragraph .78h.[241]

We are adopting the factors in paragraph .78 as proposed with the revision made to paragraph .78a discussed above. We believe these factors promote consistency by identifying circumstances that are particularly relevant in assessing the severity and pervasiveness of unremediated QC deficiencies. The final factors with general descriptions are:

a. *The number and nature of components of the firm's QC system or quality objectives directly or indirectly affected*

This factor focuses on how many components of the firm's QC system or quality objectives are affected, what they are, and whether the impact is direct or spread through other components or quality objectives.

b. *The extent to which the unremediated QC deficiency or combination of unremediated QC deficiencies relates to a component, quality objective, or quality response that affects the design or operation of other aspects of the QC system*

This factor focuses on how widespread the impact of the unremediated QC deficiency or combination of unremediated QC deficiencies is throughout the QC system.

c. *The number and pervasiveness of root causes*

The factor focuses on what the firm's root cause analysis reveals about why the QC deficiency occurred and how significantly or broadly it affects the QC system.

d. *The persistence of the unremediated QC deficiency or combination of unremediated QC deficiencies over time*

This factor focuses on the existence of a QC deficiency or combination of QC deficiencies that recurs or continues unremediated year over year.

e. *Whether the unremediated QC deficiency or combination of unremediated QC deficiencies has resulted or could result in significant engagement deficiencies*

This factor focuses on whether the unremediated QC deficiency or combination of unremediated QC deficiencies is leading to or likely to lead to significant engagement deficiencies.

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[241] *See* comment letter from ICGN.

f. *Whether the unremediated QC deficiency or combination of unremediated QC deficiencies has resulted or could result in the need for revisions to engagement reports, or is or could be associated with restatements of financial statements or reissuances of company-prepared reports that are the subject of audit or attestation engagements*[242]

This factor focuses on whether the unremediated QC deficiency or combination of unremediated QC deficiencies has already led or could lead to revisions of engagement reports, or is or could be associated with financial statement restatements or reissuances of management reports on internal control over financial reporting or broker-dealer compliance or exemption reports.

g. *With respect to the factors in subparagraphs d-f, the number and significance (to the firm's portfolio of engagements) of engagements that are affected by the unremediated QC deficiency or combination of unremediated QC deficiencies or are likely to be affected in the future in the absence of remediation, and the nature of the effect*

This factor focuses on how important the affected engagements are compared to the firm's overall practice under PCAOB standards. The number and significance of affected engagements to the firm's portfolio of engagements depends on, for example, firm personnel affected or likely to be affected, the associated revenue or profit, the associated risks, and the relevant industry.

h. *The effects of any remedial actions that have been implemented, tested, and found to be effective*

Before the annual evaluation date, a firm may implement remedial actions that may reduce the severity or pervasiveness of an unremediated QC deficiency while not completely addressing it. For a firm to take credit for the effects of these remedial actions, they would need to be implemented as of the evaluation date, and they would need to be tested and found to be effective before Form QC is due and filed. For example, in response to a QC deficiency related to a problem identified with a firm's audit software, the firm designs and implements five remedial actions as of the evaluation date. Of those five remedial actions, two remedial actions have been tested and found to be effective before Form QC is due and filed. When determining the severity and pervasiveness of the unremediated QC deficiency, the firm can consider the effects of the two remedial actions that have been tested and found to be effective.

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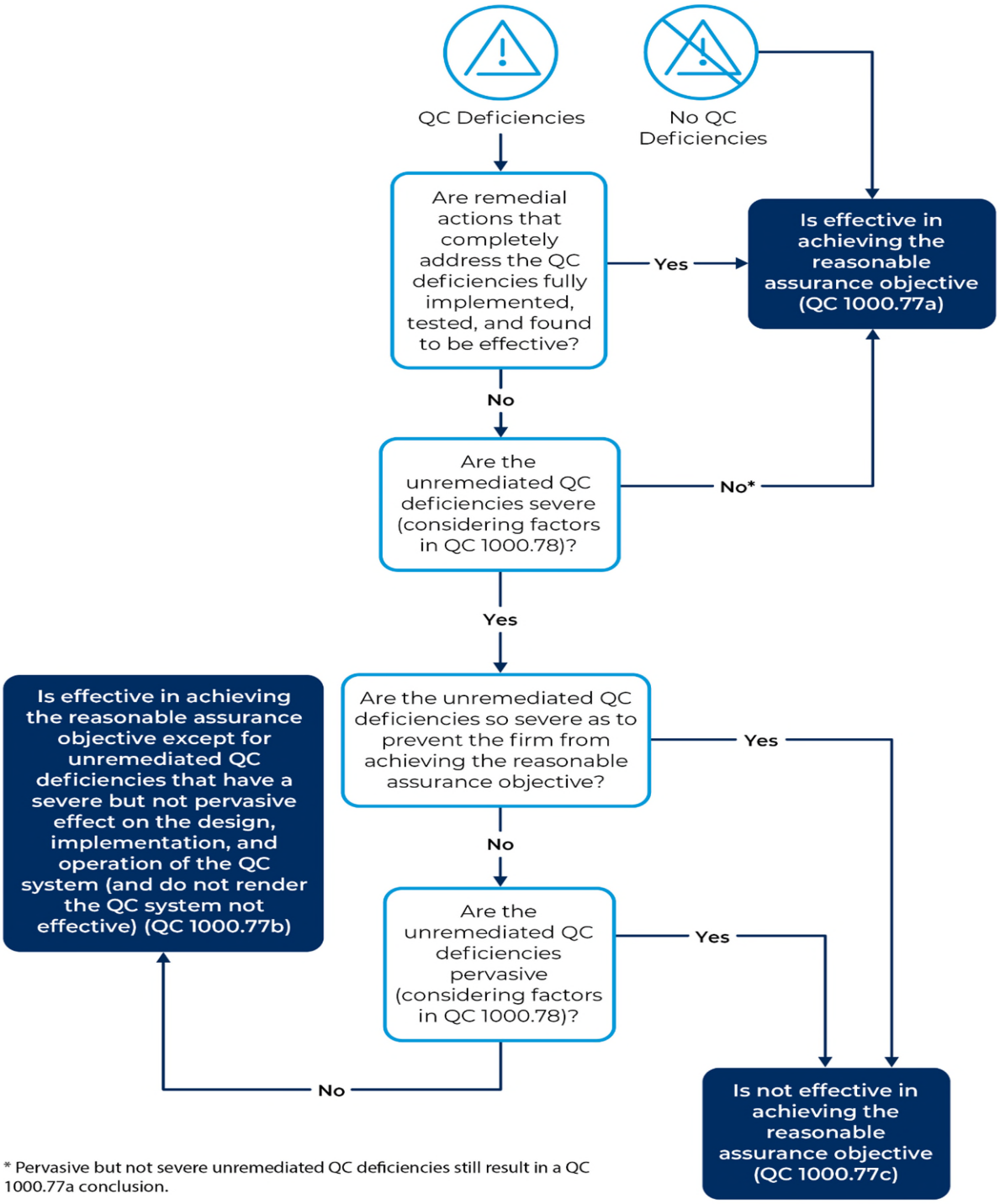
[242] Company-prepared reports subject to audit or attestation engagements include the report on internal control over financial reporting and broker-dealer compliance and exemption reports.

The process flow that follows illustrates how to apply the above considerations in reaching one of the three evaluation conclusions in paragraph .77.

Annual Evaluation of the QC System



* Pervasive but not severe unremediated QC deficiencies still result in a QC 1000.77a conclusion.

2. Reporting to the PCAOB

.79 The firm must report annually to the PCAOB on Form QC, in accordance with the instructions to that form, the results of the evaluation of its QC system no~~t~~ later than 60 days after the *evaluation date*~~ November 30~~.

.80 The contents of the firm's reporting to the PCAOB must include the following:

a. The firm's conclusion that, as of the *evaluation date*, the firm's QC system:

(1) Is effective in achieving the reasonable assurance objective~~ with no unremediated *QC deficiencies*~~;

(2) Is effective in achieving the reasonable assurance objective, except for ~~one or more~~ unremediated *QC deficiencies* that have a severe but not pervasive effect on the design, implementation, and operation of the QC system (and do not render the QC system not effective)~~ that are not *major QC deficiencies*~~; or

(3) Is not effective in achieving the reasonable assurance objective~~(one or more *major QC deficiencies* exists)~~.

b. If~~, the firm reports a conclusion under paragraph .80a.(2) or paragraph .80a.(3)~~as of the *evaluation date*, the firm has any unremediated *QC deficiencies*, a description of each unremediated *QC deficiency*~~, including each *major QC deficiency*,~~ consisting of:

(1) The requirements of this standard or the *quality objective(s)* to which it relates;

(2) The firm's basis for determining it was a *QC deficiency* as of the *evaluation date*; and

(3) A summary of the remedial actions taken and planned to be taken to address the *QC deficiency*, as well as the timing and the status of such actions, including a summary of actions taken or to be taken by the firm to address the risk that the *QC deficiency* resulted or could result in significant engagement deficiencies~~the issuance of unsupported *engagement* reports~~.

~~c. If a *major QC deficiency* is presumed to exist but the determination was made that there is no *major QC deficiency*, the basis for such determination~~.

a. Reporting on the annual evaluation of the effectiveness of the QC system

As originally adopted, QC 1000 provides that firms have until November 30 each year to report to the PCAOB on Form QC the outcomes of their QC system evaluations, based on a fixed evaluation date of September 30. This provides firms with 61 days after the evaluation date of September 30 to file Form QC. Based on the proposed amendment to permit firms to select their own evaluation dates, we proposed to amend the due date of Form QC in paragraph .79 to 60 days after the firm's chosen evaluation date. We also proposed to amend the Form QC reporting rule, PCAOB Rule 2203A, *Report on the Evaluation of the Firm's System of Quality Control*, and General Instruction 3 to Form QC to reflect this proposed amendment (see Appendix 2).

Commenters generally supported the proposed amendments to paragraph .79, Rule 2203A, and Form QC.[243]

One commenter expressed concern related to the 60-day reporting deadline for Form QC, stating that, 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.[244] This commenter recommended that the Board adopt a more scalable approach, for example, by permitting firms below an appropriate threshold to file Form QC within 180 days of their evaluation date.[245] In allowing firms to select their own evaluation date, we believe we are appropriately providing firms with the ability to select a date that works best for their business cycles; however, we also believe that timely receipt by the PCAOB of information contained in Form QC to support our oversight activities requires a shorter timeline than this commenter suggested. We continue to believe that the 60-day filing requirement provides firms with sufficient time from the evaluation date to the reporting date to complete their evaluation and report to the PCAOB.

We also proposed an amendment to General Instruction 4 to Form QC to clarify the reporting period covered by the firm's evaluation (see Appendix 2). As proposed, the reporting period would be the period beginning the day after the most recent previous evaluation date and ending on the evaluation date, with the following exceptions as to the beginning of the reporting period:

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243 *See* comment letters from BDO, CFA, Crowe, EY, GT, KPMG, Spitters, and VSCPA.

244 *See* comment letter from PICPA.

245 *See id*.

- If a firm has not previously been required to evaluate its QC system under QC 1000, the reporting period is the period beginning on the date the firm first incurred an obligation to design, implement, and operate a QC system under QC 1000.06.

- If a firm was previously required to evaluate its QC system under QC 1000, but such obligation lapsed because the firm ceased having any obligations under applicable professional and legal requirements with respect to one or more engagements, the reporting period is the period beginning when the firm subsequently incurred an obligation to design, implement, and operate a QC system under QC 1000.06.

Under this proposed amendment, the reporting period would generally be twelve months long, but it would be longer or shorter if the obligation to design, implement, and operate the QC system arises mid-period (whether by virtue of the effective date of QC 1000 or the firm's otherwise becoming subject to the requirement to design, implement, and operate a QC system). For example, for a firm that selects March 31 as its evaluation date, upon the effective date of QC 1000 the firm's first evaluation would cover the reporting period from December 15, 2026, to March 31, 2028, resulting in a greater-than-15-month reporting period, with the first Form QC due to be filed no later than 60 days following March 31, 2028. This is because as of March 31, 2027, the firm would not have been subject to the requirement to design, implement, and operate a QC system for at least five consecutive months (under the five-month threshold in paragraph .77 discussed above). By contrast, for a firm that selects May 31 as its evaluation date and is subject to QC 1000 on the standard's effective date, this firm's first evaluation would cover approximately five and a half months beginning on December 15, 2026, and ending on May 31, 2027, with the first Form QC due to be filed no later than 60 days following May 31, 2027.

The proposed amendment to General Instruction 4 did not draw comment.

We are adopting as proposed the amendments to paragraph .79, PCAOB Rule 2203A, and Form QC described above.

One commenter stated that two important elements of Form QC reporting would be lost with the removal of the "major QC deficiency" concept: (1) the requirement to flag whether each unremediated deficiency is major, and (2) the narrative required where a major deficiency is presumed but determined not to exist.[246] This commenter requested that the Board preserve equivalent signals under the proposed evaluation framework and require that firms (1) indicate, for each unremediated QC deficiency, whether the firm assessed it as severe, and (2) explain the basis for any determination that severe deficiencies do not, individually or in

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[246] *See* comment letter from CFA.

combination, render the QC system not effective.[247] QC 1000 continues to require that firms report all unremediated QC deficiencies as of the evaluation date on Form QC, regardless of the conclusion reported under paragraph .80a. Accordingly, a firm's Form QC reporting must include any unremediated QC deficiencies identified as of the evaluation date, including QC deficiencies that were determined not to be severe or pervasive. We continue to believe that reporting of all unremediated QC deficiencies will inform various aspects of our oversight activities. Upon receipt of a Form QC, the PCAOB will have the ability to perform further inquiries of a firm regarding any of the information provided. Additionally, the firm is required to document under paragraph .82d the basis for the conclusion reached under paragraph .77, which would include the firm's evaluation of the severity and pervasiveness of unremediated QC deficiencies, and this information would be available to the PCAOB in connection with its oversight activities, including inspections.[248]

Based on the amendments described above in Section III.F.1., we are adopting additional conforming amendments to paragraph .80 and Form QC, substantially as proposed.[249] We are also adopting amendments to paragraph .80 and Form QC to replace the language "the issuance of unsupported opinions" with "significant engagement deficiencies," consistent with the amendments described in Section III.E.1.a. above, as proposed.

The amendments to PCAOB Rule 2203A and Form QC, including the Form QC instructions, are attached as part of Appendix 2.

b. Reporting changes to the firm's evaluation date

Under the amendments to QC 1000.77, as discussed above in Section III.F.1.a., each firm selects its own evaluation date. We proposed that any change in the evaluation date, together with a brief statement of the firm's rationale for making the change, be reported on Form QC within 30 days after the firm's decision. We believe this information would inform the timing of our oversight efforts.

To codify this requirement, we proposed to recaption Rule 2203A as "*Reporting on the Evaluation of the Firm's System of Quality Control*," amend paragraph (a) of Rule 2203A to require notification of a change in the evaluation date on Form QC, and amend paragraph (b) of

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247 *See id*.

248 *See* PCAOB Rule 4000(b), *General*.

249 Note 1 to Item 3.2 within Form QC is amended to include a reference to the evaluation date. Also, language related to Exhibit 3.2.b in Part VII of Form QC is amended to refer to individuals "assigned" operational responsibility and accountability for the firm's QC system as a whole.

Rule 2203A to require such notification to be filed no later than 30 days after the firm's decision to change the evaluation date.

Relatedly, we proposed to amend Form QC to add a new Item 1.2, *Change to the Evaluation Date*, for providing notice of a change to the evaluation date, including the new evaluation date and a brief statement of the rationale for making the change. Additional language was also proposed to be added to General Instruction 3 to explain that Form QC is required to be filed no later than 30 days after the firm's decision to change the evaluation date and that a notification of change in the evaluation date need only include a completed Part I and the signed certification in Part V of Form QC.

Several commenters expressed support for the proposed reporting changes regarding the firm's evaluation date.[250] Some commenters requested additional clarifications regarding (1) whether the firm should use business days or calendar days when calculating the deadline for submitting Form QC to notify the Board of a new evaluation date, (2) changes in the firm's evaluation date (for example, due to mergers or acquisitions), and (3) changing an evaluation date after the first year of implementation.[251] Because the deadline for submitting Form QC is greater than seven days, the 30-day submission deadline when providing notice of a new evaluation date is based on calendar days, taking into account the exception that applies if the last day of the 30-day period is a Saturday, Sunday, or federal legal holiday.[252] Additionally, the standard does not limit when a firm can change its evaluation date, but a change to a firm's evaluation date would likely involve significant changes to many aspects of the firm's QC processes, so a firm will need to consider the implications to its QC system of making such a change. As noted above, if the firm decides to change its evaluation date, the change must be reported on Form QC within 30 days after the firm's decision, together with a brief statement of the firm's rationale for the change.

We are adopting these amendments as proposed.

These amendments to PCAOB Rule 2203A and Form QC, including the Form QC instructions, are also attached as part of Appendix 2.

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250 *See* comment letters from CFA, GT, and KPMG.

251 *See* comment letters from Baker Tilly, BDO, CAQ, and Plante & Moran.

252 *See* PCAOB Rule 1002, *Time Computation*; *see also* PCAOB Rule 2203A, which states that pursuant to Rule 1002, in any year in which the filing deadline falls on a Saturday, Sunday, or federal legal holiday, the deadline for filing Form QC shall be the next day that is not a Saturday, Sunday, or federal legal holiday.

G. Documentation

.84 ~~A complete and final set of documentation as required by paragraphs .81–.83 with respect to the 12-month[48] period ended the prior September 30 and any evaluation required as of that date should be assembled for retention not later than December 14 ("QC documentation completion date").~~No later than 14 days after Form QC is filed (or due to be filed, if earlier) ("QC documentation completion date"), the firm should complete the documentation required by paragraphs .81-.83 with respect to the period covered by the firm's annual evaluation and retain it in a manner that permits timely retrieval.

~~48 In the first year that the firm is required to evaluate its QC system under paragraph .77, the period is from the date on which the firm becomes subject to such requirement to the next September 30.~~

As originally adopted, QC 1000 provides firms until December 14 following the firm's annual evaluation to assemble for retention a complete and final set of QC documentation.

We proposed amendments to QC 1000.84 to clarify that the QC documentation should be completed and retained "in a manner that permits timely retrieval," rather than "assembled for retention," by the QC documentation completion date. Documentation is considered timely retrievable when it is made available in a manner that does not hinder an experienced auditor's ability to understand the design, implementation, and operation of the QC system during a particular evaluation period in accordance with QC 1000.83b and the accompanying note. In addition, in conjunction with the amendments to paragraphs .77 and .79 of QC 1000, which permit firms to select their own evaluation date and require them to report on that evaluation no later than 60 days after that date, we proposed to amend the QC documentation completion date to be 14 days after Form QC is filed (or due to be filed, if earlier).

Many commenters supported the proposed amendments to paragraph .84[253] but some stated they continue to have concerns regarding the scope of the documentation requirements, particularly the extent of documentation required to be retained.[254] One of these commenters raised concerns regarding the clarity and practical application of "timely retrieval of documentation" that is not maintained in the quality monitoring tool and stated that firms would otherwise need to identify, monitor, and retain documentation across a broad range of

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[253] *See* comment letters from AAA, Baker Tilly, BDO, Forvis, GT, KPMG, MIAG, PICPA, PwC, and Spitters.

[254] *See* comment letters from Baker Tilly, GT, PICPA, and PwC.

decentralized locations.[255] One commenter stated that, while they did not object to the proposed amendments, the proposed amendments did not address a key issue related to real-time systems, namely, that such systems may not allow for the reconstruction of information back to a specific point in time unless versions are archived or captured otherwise.[256] Another commenter did not object to the proposed amendments allowing firms to retain QC documentation within their original systems of record, provided it remains promptly retrievable.[257]

Two commenters expressed uncertainty as to the nature of the documentation required to be retained, for example, emails or other documentation that relate to QC processes.[258] One of these commenters requested clarification that other evidence of the underlying documentation, such as system-generated reports or other reproducible outputs, would meet the documentation requirements.[259] This commenter stated that the release text in the supplemental request for comment indicated that firms were expected to retrieve documentation from live systems "as it existed at the time that it was considered complete," which might not be feasible with continuously updating systems and would appear to reintroduce the same operational challenges the proposed amendment was intended to alleviate.[260] The other commenter stated that it was unclear as to how to address documentation residing in systems or applications that have been replaced during the evaluation period.[261]

Two commenters requested changes to documentation retention requirements, including limiting the retention requirement to evidence generated through the firm's own monitoring activities and reducing the volume of documentation required to be retained for five years.[262] Another commenter stated that the proposed amendments to paragraph .84 do

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255 *See* comment letter from GT.

256 *See* comment letter from RSM.

257 *See* comment letter from CFA.

258 *See* comment letters from GT and KPMG.

259 *See* comment letter from KPMG.

260 *See id*.

261 *See* comment letter from GT.

262 *See* comment letters from EY and PICPA.

not clarify whether firms are required to retain evidence of every instance of every response, or just those instances that were tested to support the firm's QC system evaluation.[263]

After consideration of the comments received, we are adopting the amendments to paragraph .84 as proposed.

The proposed amendments clarify that firms are afforded flexibility in determining the manner(s) in which they retain documentation. Specifically, the proposed amendment to this documentation requirement clarifies that firms are permitted to maintain their QC documentation in the original system(s) of record, or in any manner or combination of manners they deem appropriate, and do not have to undergo the potentially costly and time-consuming process of transferring and assembling documentation from various source systems into a single system for archiving and retention. In addition, we believe that the proposed amendments clarify that it is not necessary for the firm to implement new technology solutions for the purpose of meeting QC 1000's documentation requirements because the amendment makes clear that documentation can continue to exist within the systems in which it originated or is used as long as it remains available for retrieval, e.g., for purposes of subsequent monitoring or inspection.

We believe the proposed amendments should provide operational relief for firms when maintaining documentation of their QC systems. If circumstances arise, such as when a firm decides to replace an existing system or determines that the decentralization of a firm's QC documentation is too broad, then a firm can maintain the required documentation of its QC system in the manner that is most appropriate for the firm—provided that the documentation is retained in a manner that permits timely retrieval. QC 1000 does not impose requirements on firms with respect to the specific systems in which QC documentation must be retained or the number of systems that retain a firm's QC documentation.

We acknowledge that a firm's QC system is continuously operating and the firm might not have the capability to take snapshots of system-based evidence at a point in time or for the systems to be locked down to allow for documentation to be archived. Therefore, the proposed amendment requires that the documentation be retained in a manner that permits timely retrieval but does not specify a particular approach. Firms are not expected to continuously or periodically take snapshots of their system's data to meet this amended requirement. However, given that QC documentation may reside within live systems, the firm will need to be able to access and timely retrieve documentation sufficient to demonstrate compliance with paragraphs .81-.83 for the applicable evaluation as of the time the documentation was considered complete. If certain information related to the operation of the firm's QC systems is

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263 *See* comment letter from RSM.

relevant or needed for the firm to monitor and evaluate whether a quality response operated as intended, then the firm would need to retain that information.

In determining the nature of the QC documentation to be retained, a firm may identify aspects within the QC system for which the evidence required to demonstrate that the QC system was designed, implemented, or operating effectively may not entail retention of all information that the system produces in its daily operation. For example, rather than retaining printed copies or screenshots of the restricted entity list after each change, the firm may produce the current listing along with a system-generated report listing the changes after a specified date.

As noted in the QC 1000 2024 adopting release, in light of the scope of our statutory mandate, the Board's inspection procedures cannot be limited to quality responses (and, to the extent applicable, samples of the operation of quality responses) that the firm chose to monitor in the period.[264] On the contrary, firms will be expected to provide evidence of the operating effectiveness of any quality responses selected for inspection.

.86 The firm must retain the documentation of its QC system required under paragraphs .81-.83 and paragraph .85 for ~~seven~~five years from the QC documentation completion date, unless a longer period of time is required by law.

As originally adopted, QC 1000 includes a requirement that the firm retain QC documentation for seven years from the QC documentation completion date, unless a longer period is required by law.

We proposed to amend paragraph .86 to reduce the QC documentation retention period to five years from the QC documentation completion date.

Many commenters supported the proposed amendment to paragraph .86,[265] but some of these commenters encouraged the Board to consider whether the retention period could be further reduced,[266] with two of them suggesting that a three-year retention period may be sufficient.[267] Another commenter stated that a single retention period applied to all QC documentation may not be necessary and encouraged consideration of an approach whereby

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[264] *See* PCAOB Rel. No. 2024-005, at 283.

[265] *See* comment letters from Baker Tilly, BDO, CAQ, Deloitte, EY, Forvis, GT, KPMG, MIAG, PICPA, Plante & Moran, PwC, RSM, and Spitters.

[266] *See* comment letters from Baker Tilly, CAQ, Deloitte, GT, and PICPA.

[267] *See* comment letters from Baker Tilly and CAQ.

documentation supporting the firm's evaluation of its system of quality control be retained for a period of five years, while broader system documentation could be subject to a shorter retention period, such as three years.[268] Another commenter suggested that the Board should clarify whether the same documentation expectations apply to both the firm's overall evaluation and conclusion on its QC system and the day-to-day execution of individual quality responses.[269] The commenter added that documentation supporting the firm's evaluation and conclusion is generally more centralized and better suited to a five-year retention period, whereas execution-level documentation is often more detailed and may reside in several systems that change over time.[270] One commenter cited specific concerns relating to the need to update systems and maintain system licenses for five years for the purpose of retaining records,[271] and another commenter stated that there are still significant costs associated with retaining the required data for five years.[272]

One commenter stated that an argument for requiring a seven-year retention period is that the retention period for QC documentation should be no shorter than that of the audit documentation requirements included in AS 1215, *Audit Documentation*.[273] However, the commenter also stated that if that argument is not persuasive, then the minimum retention period should be as low as possible based on users' needs, including regulators', and in that context five years sounded excessive.[274] Another commenter stated that a consideration for retaining the seven-year requirement could be that some U.S. federal and state tax retention periods are a minimum of seven years.[275] Another commenter questioned whether it would be preferable to use the term "applicable professional and legal requirements" instead of "law" in the phrase "unless a longer period of time is required by law."[276]

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268 *See* comment letter from BDO.

269 *See* comment letter from Forvis.

270 *See id*.

271 *See* comment letter from CAQ.

272 *See* comment letter from RSM.

273 *See* comment letter from Grosvenor.

274 *See id*.

275 *See* comment letter from ICGN.

276 *See* comment letter from Grosvenor.

Another commenter asked the Board to reconsider the proposed reduction from seven years to five years, stating that, under a five-year QC documentation retention period, engagement workpapers would remain available to inspection and enforcement for up to two years after the QC records that contextualize them—such as monitoring results, root cause analyses, and remediation evidence—could have been lawfully destroyed.[277] The commenter said that, at a minimum, the retention period must remain long enough for the PCAOB to identify deficiency patterns that only become visible across more than one inspection cycle.[278] The commenter further stated that QC documentation relevant to an identified deficiency, or to an open inspection or enforcement matter, should be retained until the matter is resolved.[279]

We have considered the costs and benefits of various retention periods, including both retaining a seven-year retention period to be consistent with audit documentation requirements under AS 1215 and adopting a retention period shorter than five years. We believe that a five-year retention period appropriately balances the objective of reducing unnecessary retention costs with the need to preserve documentation relevant to the PCAOB's oversight activities. In particular, we believe that a retention period shorter than five years could adversely affect the PCAOB's ability to carry out its oversight responsibilities and evaluate information relating to a firm's QC system over time—and carrying out our responsibilities may require access to information beyond that supporting the firm's evaluation and conclusion.

We also do not believe that adopting multiple retention periods for different categories of QC documentation would be appropriate. QC 1000 contemplates an integrated and interrelated system of quality control, and the documentation required by paragraphs .81-.83 is intended to support an understanding of the design, implementation, and operation of that system as a whole. Applying different retention periods to different categories of QC documentation could introduce unnecessary complexity and inconsistency and diminish the usefulness of documentation in understanding the operation of the firm's QC system over time.

Regarding commenter concerns relating to the need to update systems or maintain system licenses over time, as discussed above in connection with the proposed amendment to paragraph .84, QC 1000 does not prescribe the systems in which QC documentation should be retained or the number of systems that may be used to retain such documentation. Firms may determine the most appropriate retention approaches based on their own facts and circumstances, provided that the documentation of the firm's QC system can be timely

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277 *See* comment letter from CFA.

278 *See id*.

279 *See id*.

retrieved and is retained for five years from the QC documentation completion date unless a longer period of time is required by law.

QC 1000 acknowledges that firms may be subject to laws requiring retention of QC documentation for a longer period than what the standard requires. In such situations, firms would be required to retain documentation for that longer period. This approach is consistent with that used in AS 1215, which similarly recognizes that longer retention periods required "by law" may override the period specified in the standard. We acknowledge the comment suggesting use of a longer period whenever required by applicable professional and legal requirements, but we have determined to follow the approach of AS 1215 for consistency.

After consideration of the comments received, we are adopting this amendment as proposed.

H. Requests for Implementation Guidance and Additional Commenter Feedback

1. Requests for implementation guidance

Commenters requested additional guidance on QC 1000, including specific examples and general guidance related to the proposed amendments, noting that such guidance would help promote consistent and effective implementation of the standard.[280] While some of these commenters acknowledged and appreciated the staff's ongoing engagement with firms,[281] a few commenters also requested that we memorialize the substance of those discussions into interpretive guidance available to all firms, suggesting that doing so would further enhance consistency and effectiveness in implementing QC 1000.[282]

Several commenters requested guidance on specific areas of QC 1000 and related changes to other PCAOB standards that are not subject to this rulemaking, including:

a. The definition of quality response, suggesting that it is not intended to require every quality response to consist of both a policy and a procedure;[283]

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280 *See* comment letters from Baker Tilly, BDO, CAQ, CBIZ, Crowe, Deloitte, EY, Forvis, GT, KPMG, Kramer, PICPA, Plante & Moran, PwC, RSM, SCCG, and VSCPA.

281 *See* comment letters from CAQ, Crowe, Deloitte, and GT.

282 *See* comment letters from Baker Tilly, CAQ, and Deloitte.

283 *See* comment letter from EY.

b. The requirement in QC 1000.33e to monitor compliance by affiliates of the firm with applicable professional and legal requirements and related firm policies and procedures;[284]

c. The requirement in QC 1000.34b to update and communicate at least monthly additions to the restricted entities list;[285]

d. The scope of the requirement in QC 1000.53d regarding communications of information to external parties in accordance with applicable professional and legal requirements;[286]

e. Evaluating and responding to information that becomes known after the annual evaluation date but before the filing date on Form QC;[287]

f. The nature and extent of documentation required to be retained, including questions regarding reperformance and the level of documentation necessary to support monitoring conclusions;[288]

g. QC considerations related to technological resources, particularly due diligence on artificial intelligence tools, used on engagements or in the firm's system of quality control;[289]

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[284] *See* comment letter from Deloitte.

[285] *See* comment letters from CAQ and EY.

[286] *See id*.

[287] *See* comment letters from Baker Tilly, BDO, CAQ, CBIZ, GT, Kramer, and Plante & Moran.

[288] *See* comment letters from Baker Tilly, BDO, CAQ, Deloitte, EY, Forvis, GT, KPMG, Plante & Moran, PwC, and RSM.

[289] *See* comment letters on *Request for Comment on PCAOB Standard Setting*, PCAOB Rel. No. 2026-005 (Jun. 23, 2026), from CBIZ CPAs P.C. (Aug. 7, 2026), DNL Deep Neuron Lab GmbH (Aug. 7, 2026), Pennsylvania Institute of Certified Public Accountants (Aug. 5, 2026), and PricewaterhouseCoopers LLP (Aug. 5, 2026), available here: https://pcaobus.org/oversight/standards/standard-setting-research-projects/agenda-consultation--request-for-public-comment-on-pcaob-standard-setting.

h. Clarification of the meaning of specified terms used in AS 1310, *Notification of Termination of the Auditor-Issuer Relationship*;[290]

i. How to respond to engagement deficiencies on audits of internal control over financial reporting under AS 2901, *Responding to Engagement Deficiencies After Issuance of the Auditor's Report*;[291] and

j. How to report on Form AP the use of other quality reviewers given the rescission of SECPS § 1000.45, *Appendix K—SECPS Member Firms With Foreign Associated Firms That Audit SEC Registrants*.[292]

As discussed in Section II.B., the staff recently issued QC 1000 Q&As.[293] Those Q&As address the guidance requests discussed in bullets a. – f. above. The staff will continue to evaluate implementation questions and requests for clarification, including those received through the Firm Consultation Process,[294] and may address additional matters through future updates to the QC 1000 Q&As or other implementation guidance.

2. Additional commenter feedback

Some commenters also provided feedback on aspects of QC 1000 that were outside the scope of the proposed amendments in the supplemental request for comment and that were not requests for additional implementation guidance.[295] These comments recommended changes to various other provisions of the standard and expressed concerns regarding scalability and cost:

- Two commenters requested the Board revisit the 100-issuer threshold.[296] One of these commenters expressed concern that the requirement for firms auditing more than 100 issuers to maintain an automated independence-monitoring process could

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290 *See* comment letter from KPMG.

291 *See id*.

292 *See id*.

293 *See QC 1000 Questions and Answers, available at* https://pcaobus.org/oversight/standards/standard-setting-research-projects/quality-control/qc-1000-questions-and-answers.

294 *See* the Firm Consultation Process available on the PCAOB website.

295 *See* comment letters from Baker Tilly, CBIZ, Grosvenor, KPMG, Malone Bailey, PICPA, and SCCG.

296 *See* comment letters from Malone Bailey and PICPA.

impose significant implementation costs on firms that currently use spreadsheet-based processes.[297]

- One commenter requested clarification or modification of various provisions of QC 1000, including defined terms, risk assessment, governance and leadership, communication, monitoring and remediation, and documentation requirements.[298]

- Another commenter stated that they continued to have concerns regarding the confidentiality of information submitted through Form QC, particularly information relating to identified deficiencies, root causes, remediation strategies, governance matters, and other aspects of a firm's system of quality control, and suggested that additional clarity on certain matters would provide firms with greater certainty regarding the treatment of highly sensitive quality management information.[299]

- One commenter recommended that Form QC should, at a minimum, be made public with the PCAOB-identified deficiencies redacted, because the information included in it would be beneficial to investors for investment or proxy voting decisions.[300]

- Another commenter recommended that the Board clarify that quality responses addressing personnel competence and capability—including structured programs to develop and assess professional judgment—are valid quality responses within this framework.[301]

- Three commenters requested the PCAOB publish a consolidated adopting release that provides the entirety of the revised standard and relevant content from the original adopting release, and updated interpretive guidance.[302]

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297 *See* comment letter from Malone Bailey.

298 *See* comment letter from Grosvenor.

299 *See* comment letter from BDO.

300 *See* comment letter on *Request for Public Comment on Draft 2026-2030 Strategic Plan Goals and Objectives,* PCAOB Rel. No. 2026-006 (July 20, 2026), from the Council of Institutional Investors (Aug. 26, 2026), available here: https://assets.pcaobus.org/pcaob-dev/docs/default-source/about/administration/strategic-plan-goals-and-objectives-comments-2026-2030/5_cii.pdf?sfvrsn=aba1e9e7_2

301 *See* comment letter from SCCG.

302 *See* comment letters from Baker Tilly, CBIZ, and KPMG.

We have considered these comments but are not making additional changes to QC 1000 beyond the amendments in this release. As discussed above, these comments relate to aspects of QC 1000 that were outside the scope of the supplemental request for comment. The Board will continue to monitor implementation of QC 1000 and may consider whether further changes to the standard or related guidance are warranted based on experience gained from implementation.

IV. AMENDMENTS TO PCAOB FORM 1 AND FORM 2

In conjunction with the Board's adoption of QC 1000, Form 1 and Form 2 were each amended to include an item directing firms to confirm whether they have designed a QC system in accordance with QC 1000. In light of the proposed amendments discussed in Section III.A., we also proposed to rescind these amendments to Form 1 and Form 2.

All commenters who commented on this topic supported these proposed amendments to Form 1 and Form 2.[303] As part of the supplemental request for comment, we sought comment on whether a firm applying for registration should be required to identify on Form 1 the quality management standard(s)—for example, QC 1000, ISQM 1, or SQMS 1—upon which its QC policies were based. Some commenters supported this concept,[304] but two commenters questioned the Board's intended use of the information.[305] The Board will consider this feedback and determine in the future whether any changes to its registration processes, including the content of Form 1, are necessary.

We are adopting as proposed the amendments to Form 1 and Form 2.

The amendments to Form 1 and Form 2 appear in Appendix 3.

V. ECONOMIC ANALYSIS

The Board is mindful of the economic impacts of its standard setting. When the Board adopted QC 1000, it included an economic analysis of the new standard in the QC 1000 2024 adopting release, including discussion of the benefits and costs of key provisions, some of which would be affected by the amendments.[306] The Board also submitted a comment letter to the SEC ("Board Letter") that provided additional information regarding its economic analysis,

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303 *See* comment letters from Baker Tilly, BDO, CAQ, GT, ICGN, KPMG, PICPA, and Spitters.

304 *See* comment letters from BDO, CAQ, KPMG, RSM, and Spitters.

305 *See* comment letters from GT and PICPA.

306 *See* PCAOB Rel. No. 2024-005, at 345-351, 355-360.

including the benefits and costs of the EQCF requirement that the Board is rescinding.[307] When the SEC approved QC 1000, it included additional discussion of the benefits and costs of certain of the provisions of QC 1000 and related amendments in its order granting approval.[308] Finally, as discussed above, we issued a supplemental request for comment on the amendments to QC 1000 and a related PCAOB rule and forms. We have considered the comments received in response to that request as part of this economic analysis.

This economic analysis describes the baseline for evaluating the economic impacts of the amendments, the need for the amendments, their expected economic impacts (including benefits, costs, and potential unintended consequences), and reasonable alternatives considered. There are limited data and research findings available to estimate quantitatively the economic impacts of the amendments. Therefore, the economic analysis is largely qualitative in nature. However, certain parts of the economic analysis, where reasonable and feasible, incorporate newly available quantitative information (e.g., in the "Need" section when discussing challenges firms have encountered designing and implementing QC 1000).[309] The economic analysis also considers information about firms' implementation activities obtained through the PCAOB's implementation support efforts and PCAOB oversight as well as information provided by commenters.

The supplemental request for comment sought public comment on the amendments, including the economic considerations.[310] Most commenters generally agreed that the amendments would reduce complexity and the overall cost burden, especially for smaller firms.[311] Some commenters generally said that the amendments would not negatively impact audit quality.[312] Some commenters raised concerns with the proposed rescission of the EQCF

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307 *See* PCAOB Board Letter to SEC Regarding Rule Filing 2024-02 (Aug. 16, 2024), *available at* https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket046/pcaob-board-letter-to-sec-regarding-rule-filing-2024-02.pdf?sfvrsn=cd8cde04_1.

308 *See generally* SEC Rel. No. 34-100968.

309 Staff gathered data and performed this analysis in the third quarter of 2026. The data include PCAOB filings by firms through August 10, 2026. Because the present staff analysis relies on more recent PCAOB filings, the results may differ from the results presented in the supplemental request for comment.

310 *See* PCAOB Rel. No. 2026-002, at 82.

311 *See, e.g.,* comment letters from Baker Tilly, CAQ, CBIZ, KPMG, and Kramer.

312 *See*, *e.g.*, comment letters from BDO, CAQ, Deloitte, and PICPA.

requirement.[313] The Board has considered all the comments received, including the quantitative perspectives and academic research the comments referenced.

A. Baseline

The economic analysis considers potential impacts relative to a regulatory baseline in which QC 1000, as originally adopted by the PCAOB and approved by the SEC, would become effective. Accordingly, the baseline reflects the regulatory framework that would exist absent the amendments. We have limited direct experience with the QC 1000 baseline, as it is not yet effective and will not go into effect until December 15, 2026. However, the data presented below indicate the number of firms that would have been impacted by QC 1000, including requirements that we are amending or rescinding.

As originally adopted, all firms are required to design a QC system that complies with QC 1000. However, certain of its provisions apply to only a subset of these firms.[314] Specifically:

- Firms are required to implement and operate a QC system that complies with QC 1000 when they lead an engagement under PCAOB standards, play a substantial role in the preparation or furnishing of an audit report (as defined in our rules), or have current responsibilities under applicable professional and legal requirements regarding any such engagement.[315] We refer to such firms as "full-implementation" firms. All other firms registered with the PCAOB are required to design (but not

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[313] *See* comment letters from CFA, CII, ICGN, and MIAG.

[314] One commenter questioned whether statements made in Section V.A. of the supplemental request for comment were inconsistent with the amendment to rescind the design-only requirement. *See* comment letter from Kramer. We do not believe so. To provide a baseline for considering the impact of the amendments, Section V.A. of the supplemental request for comment provided information about how QC 1000, as originally adopted, would impact the audit market. Quantifying the subset of firms that would have been required to implement the design-only requirements under QC 1000 as originally adopted enabled an assessment of the impact of the proposed amendment to rescind the design-only requirement.

[315] An "engagement" is any audit, attestation, 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). *See* QC 1000.A3. Playing a substantial role in the preparation or furnishing of an audit report means (1) performing material services that a public accounting firm uses or relies on in issuing all or part of its audit report, or (2) performing the majority of the audit procedures with respect to a subsidiary or component of any issuer, broker, or dealer, the assets or revenues of which constitute 20% or more of the consolidated assets or revenues of such issuer, broker, or dealer necessary for the lead auditor to issue an audit report. *See* PCAOB Rule 1001(p)(ii).

implement or operate) a QC system that complies with QC 1000; we refer to these herein as "design-only" firms. The Board is rescinding this design-only requirement.

- Firms that issued audit reports with respect to more than 100 issuers in the prior calendar year are required to implement several additional requirements, such as the requirement to have an EQCF.[316]

Table 1 summarizes the number of registered firms, and whether they would likely be considered either design-only or full-implementation firms. It further breaks down the number of full-implementation firms by the number of audit reports the firm recently issued. Firms that reported any engagements on their Form 2 filings from the prior seven reporting years are classified as full-implementation firms because they are likely subject, at a minimum, to audit documentation requirements and therefore would likely have implementation obligations under QC 1000.[317] Table 1 is relevant to several of the analyses that appear below because it identifies the principal populations affected by the amendments and provides context for later discussion of the economic significance of those populations.[318]

- Table 1 shows that 49% (734 ÷ 1,489) of the firms in our sample are design-only firms. Figure 1 in Section V.C.1. below utilizes the same methodology to identify design-only firms. Section V.C.1. discusses the impacts of the amendment to rescind the design-only requirement, which primarily impacts these design-only firms.

- Table 1 also shows that 1% (12 ÷ 1,489) of the firms in our sample are subject to QC 1000's requirements that apply to firms that audit more than 100 issuers. Section V.C.3. discusses the impacts of the amendment to rescind the EQCF requirement, which is one such requirement with a 100-issuer threshold. Section V.C.8. provides

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316 *See* PCAOB Rel. No. 2024-005, at 9. Staff note that broker-dealer audit reports are not counted for purposes of determining whether firms are required to implement these additional requirements.

317 *See* AS 1215.14 (establishing a seven-year retention period for audit documentation).

318 Referring to the data presented in Table 1, one commenter said the economic analysis provides counts of firms by the number of issuers they audit and does not pair those counts with the market capitalization audited by each category or show where emerging growth company ("EGC") audits actually sit across the categories. *See* comment letter from CFA. Section V.C.3. provides issuer market capitalization information for firms that issued more than 100 issuer audit reports during the 2025 calendar year. Section V.D.2. provides issuer market capitalization information for firms that issued audit reports with respect to more than 500 issuers during the 2025 calendar year. Section VI. provides the issuer market capitalization information of those EGCs audited by firms that issued audit reports with respect to more than 100 issuers.

additional discussion on how the impacts of the amendments would vary by firm size.[319]

- Finally, Table 1 shows that 23% (336 ÷ 1,489) of the firms in our sample issued no audit reports for issuers during the 2025 reporting period yet still qualify as full-implementation firms based on (1) broker-dealer audit reports issued during the 2025 reporting period; (2) substantial roles played with respect to an issuer or broker-dealer audit report during the 2025 reporting period; or (3) issuer or broker-dealer audit reports issued or substantial roles played with respect to such audit reports during the six prior reporting periods.

Table 1. Full-Implementation and Design-Only Firms, U.S. and Non-U.S., as of March 31, 2025

	Firms	U.S. Firms	Non-U.S. Firms
All firms	1,489	662	827
Full-implementation firms	755	393	362
By recent issuer audit report count:			
More than 100	12	12	0
1 – 100	407	192	215
0	336	189	147
Design-only firms	734	269	465

Source: PCAOB Form 2 filings.

Notes: (1) Table 1 shows the counts of firms registered with the PCAOB as of March 31, 2025, excluding firms with withdrawal pending or suspended status. U.S. and non-U.S. firms are defined based on firm headquarters locations as indicated in their required PCAOB filings. Staff considered firms registered as of March 31, 2025, because 2025 Form 2 filings cover the period from April 1, 2024, through March 31, 2025. Staff did not use 2026 Form 2 filings because, as of the date of this analysis, 19% of firms had not submitted their 2026 Form 2 filings. The number of firms has changed since March 31, 2025, due to registration approvals and withdrawals from registration.

(2) Staff identified full-implementation and design-only firms based on their annual Form 2 filings for the 2019 through 2025 reporting periods, which cover firm activity from April 1, 2018, to March 31, 2025. Staff classified a firm as full-implementation if the firm reported on any of its 2019 through 2025 Form 2 filings that it issued an audit report with respect to any issuer, broker, or dealer or that it played a substantial role with respect to any such audit report during the 2019 through 2025 reporting periods. On such engagements, the firms in our sample would likely have been subject at least to audit documentation requirements as of March 31, 2025. Staff classified all other firms as design-only firms. Staff assumed that a firm that did not file a Form 2 for a given reporting period did not lead or play a substantial role in any issuer or broker-dealer audit during the reporting period. The staff's methodology may misclassify firms to the extent firms incorrectly completed or failed to

[319] The number of firms subject to the QC 1000 requirements that apply to firms that issued audit reports for more than 100 issuers in the prior calendar year may differ from the figures in Table 1 because Table 1 presents counts of issuer audit reports issued during the 2025 reporting period, as reported by firms in their Form 2 filings, which is not a calendar year. Staff note that firms that have issued audit reports for more than 100 issuers during the prior calendar year are subject to annual inspection and, as of the time of this analysis, 13 firms are subject to annual inspection.

file their Form 2. A firm's classification as full-implementation or design-only as of March 31, 2025, is hypothetical since QC 1000 was not in effect at that time. A firm's actual classification on the effective date may be different than reflected above.

(3) For purposes of categorizing full-implementation firms by their recent issuer audit report counts, staff referred to the number of audit reports issued by the firm for issuers based on the firm's 2025 Form 2 filing.

B. Need

In 2024, the PCAOB adopted QC 1000 to strengthen firms' QC systems. Since adoption, however, we have received new information—through comment letters, implementation support efforts, and data obtained during inspection outreach activities—suggesting that certain provisions of QC 1000 were unclear in their application, might impose higher costs than initially anticipated in relation to the potential benefits, or might be unnecessarily prescriptive.[320]

This new information is primarily qualitative and provides limited quantitative estimates of QC 1000 implementation costs, with the following exceptions. One commenter described an anonymous firm's experience implementing QC 1000, including an estimate that implementation had increased annual operating costs by approximately 1% to 1.5% of firm revenue.[321] Through PCAOB inspection outreach activities, several firms provided quantitative information related to their implementation efforts.[322] Among a sample of 57 firms subject to

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[320] *See* Sections II and III for discussion of challenges faced by firms implementing QC 1000.

[321] *See* comment letter from PICPA. Staff acknowledge the quantitative estimate of an anonymous firm's implementation costs as a share of its revenue. However, staff note several important limitations of the comment. First, the comment does not explain how the referenced firm was selected. As a result, it is unclear whether its experience is representative of the broader population of registered firms. Second, the comment does not describe the methodology used by the firm to quantify its implementation costs, making it difficult to assess the reliability of the estimate. Finally, the comment does not provide the firm's annual revenue, which prevents staff from monetizing the costs incurred by the firm. Staff also note that only a portion of this cost is attributable to the QC 1000 requirements we are rescinding or revising. The amendments can only reduce this portion of QC 1000 implementation costs.

[322] As part of the PCAOB's inspection outreach activities, we obtained feedback on the progress made by firms toward implementing QC 1000 in their QC systems. This included feedback gathered during the first three quarters of 2026 from 57 firms, including 43 U.S. non-affiliated firms ("NAFs"), seven non-U.S. global network firms ("GNFs"), and seven non-U.S. NAFs. Accordingly, the sample is not representative of all registered firms. While inspections staff solicited information on QC 1000 implementation costs, most of the firms in the sample stated that they could not quantify incurred or expected costs as they were still in the process or at an early stage of implementing QC 1000. The firms that provided cost estimates did not describe their methodology. We believe most firms are subject to ISQM 1 or SQMS 1. *See* footnote 383. Accordingly, we believe these firms may have already implemented requirements under ISQM 1 or SQMS 1 into their QC systems.

inspection in 2026, three provided estimates of the total costs of implementing QC 1000, ranging from $6,250 to $10,000 per issuer audit.[323] The March 20, 2026 CAQ comment letter ("CAQ 2026 Letter") reports that average estimated one-time and ongoing QC 1000 costs are $18.9 million and $12.1 million, respectively.[324] One commenter said that the estimates provided in the CAQ 2026 Letter should be closely scrutinized and independently validated,

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[323] Each of these three firms provided a total cost estimate in response to the question. Staff calculated per-issuer expected costs by dividing each firm's total cost estimate by the number of issuers the firm reported on its most recent Form 2 filing. One of these three firms is annually inspected.

[324] *See* CAQ 2026 Letter. The CAQ 2026 Letter provides some evidence related to (1) the overall costs to operate firms' systems of quality control and (2) the one-time and ongoing costs of the QC 1000 requirements that are incremental to ISQM 1 and SQMS 1. The CAQ 2026 Letter indicates that the CAQ obtained estimated cost data from nine of its member firms. Based on the letter, the surveyed firms (1) generally have the largest issuer portfolios; (2) collectively audit 99.6% of U.S. market capitalization; and (3) utilized different methodologies and assumptions when preparing their responses. Regarding overall costs, the letter reports that for respondents that were unable to gather the necessary data to quantify the incremental costs of ISQM 1, the cost to operate their respective systems of quality control is over half a billion dollars annually. Based on the letter, it is unclear whether this cost estimate refers to costs incurred by individual respondents or to total costs incurred by all respondents. We recognize that firms' systems of quality control require significant resources. Accordingly, as part of the QC 1000 2024 adopting release, PCAOB staff conducted a voluntary survey of the U.S. members of the six largest global networks ("U.S. GNFs") on the resources they employ to design, implement, and operate QC policies and procedures. *See* PCAOB Rel. No. 2024-005, at 318. However, the CAQ 2026 Letter does not describe the methodology for defining the scope of the system of quality control (e.g., whether it includes engagement-level work related to the system of quality control, and whether it includes spending on information technology). Regarding costs associated with QC 1000 requirements that are incremental to ISQM 1, the letter reports that, for respondents that were able to gather the necessary data, these costs are 224% of ongoing ISQM 1 costs. We note that this calculation includes one-time costs in the numerator (incremental QC 1000 requirements) but not in the denominator (ISQM 1 requirements). This may increase the percentage because we believe much of the costs are incurred in the one-time setup phase. Research on Sarbanes-Oxley implementation has found this to be the case in the context of public company ICFR systems. *See*, *e.g.*, John C. Coates and Suraj Srinivasan, *SOX After Ten Years: A Multidisciplinary Review*, 28 Accounting Horizons 627 (2014). Further, the CAQ 2026 Letter reports that average estimated one-time and ongoing QC 1000 costs are $18.9 million and $12.1 million, respectively. Since firms have not completed their QC 1000 implementation, it is unclear whether the reported implementation cost estimate includes future spending. Staff note that, while the survey respondents were asked to report costs of the QC 1000 requirements that are incremental to ISQM 1 and SQMS 1, respondents' use of different and undisclosed methodologies and assumptions in their estimates makes it difficult to evaluate the reliability of these estimates. One commenter noted similar limitations of the methodology used in the CAQ 2026 Letter. *See generally* comment letter from CFA.

particularly given the methodological limitations.[325] We have assessed that methodology and acknowledged its limitations.[326]

Data received through inspection outreach activities also indicates the prevalence of certain implementation challenges. Of the 57 firms in the sample, 48 indicated that they were preparing for, assessing, or designing a system for the implementation of QC 1000, or had begun some form of implementation to comply with the standard. Among these 48 firms, five firms, including one annually inspected firm, reported experiencing significant implementation challenges that the amendments address. The annually inspected firm reported challenges related to the EQCF requirement, the determination of a QC deficiency, the QC system evaluation date, and the seven-year QC documentation retention period. Among the four triennially inspected firms, two reported challenges related to allocating and filling certain roles, one reported difficulty aligning two different QC system evaluation dates, and one reported uncertainty about the required level of documentation.

This new information has led us to re-evaluate the benefits and costs of alternative approaches to several QC 1000 requirements.[327] While QC 1000 as a whole remains necessary to enhance firms' QC systems and improve audit quality, this new information points to specific QC 1000 requirements whose costs may be disproportionate to their benefits. The need addressed here is the rescission or amendment of those specific requirements; it does not relate to other provisions of QC 1000 adopted in 2024. Accordingly, the amendments are intended to preserve QC 1000's core investor-protection objectives while reducing unnecessary complexity, duplication, and implementation costs. The amendments we are making to QC 1000 involve:

- *Rescinding Requirements*: The amendments rescind the requirement for "design-only" firms to design a QC system that complies with QC 1000. The amendments also rescind the EQCF requirement.

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[325] *See* comment letter from CFA.

[326] *See* footnote 324.

[327] Evaluating whether alternative approaches would be more cost-effective is consistent with the Office of Management and Budget's Circular A-4. By way of background, the PCAOB's Staff Guidance on Economic Analysis in PCAOB Standard Setting was prepared after considering, among other inputs, the Office of Management and Budget's Circular A-4. *See* Staff Guidance on Economic Analysis in PCAOB Standard-Setting (Feb. 14, 2014), *available at* https://pcaobus.org/oversight/standards/economic-analysis/05152014_guidance. Circular A-4 explains that one of the central motivations of regulatory analysis is to "discover which of various possible alternatives would be the most cost-effective." *See* Office of Management and Budget, Circular A-4 (Sept. 17, 2003), at 2, *available at* https://www.whitehouse.gov/wp-content/uploads/2025/08/CircularA-4.pdf.

- *Reducing Scope*: The amendments narrow and simplify communication requirements relating to metrics that the firm communicates to external parties about its audit practice, firm personnel, or its engagements. With respect to identified engagement deficiencies, the amendments reduce the set of circumstances in which firms would be required to evaluate whether similar engagement deficiencies exist on other engagements. Furthermore, the amendments simplify the requirements for retention of QC system documentation and abbreviate the retention period from seven to five years.

- *Increasing Alignment and Flexibility*: The amendments increase alignment with other quality management standards, including ISQM 1, by providing flexibility in assigning roles and responsibilities, selecting the evaluation date, and generally aligning the QC system evaluation conclusions.

- *Improving Clarity*: The amendments revise the definition of a QC deficiency to make clear that, when firms have implemented more than one quality response to address the same quality risk, they can take those other quality responses (e.g., compensating responses) into account when determining whether a QC deficiency exists.

C. Economic Impacts

The economic analysis evaluates potential impacts of the amendments relative to a regulatory baseline in which QC 1000, as originally adopted by the PCAOB and approved by the SEC, will be effective. Since QC 1000 is not yet effective, the amendments could allow many firms to avoid some QC system design and implementation costs that would be incurred if QC 1000 were to take effect as originally adopted. Some firms, however, may already have incurred certain design and implementation costs to comply with the requirements the amendments rescind or revise, and some of those costs may not be recoverable. For example, one commenter said that many firms had already designed and implemented processes, monitoring activities, and documentation protocols around a September 30 evaluation date requirement under QC 1000 and that, as a result, modifying those processes before the initial effective date may present practical challenges, particularly for smaller firms.[328] Another commenter said that their firm had incurred some paperwork preparation costs as well as internal costs related to reviewing literature related to QC 1000.[329] One commenter said that many of the costs in establishing the EQCF or similar advisory functions have likely already been

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328 *See* comment letter from Plante & Moran.

329 *See* comment letter from Spitters.

incurred.[330] We recognize that, to the extent incurred costs cannot be recovered, some of the cost savings discussed below would be attenuated.

In the QC 1000 2024 adopting release, we noted that QC 1000 would benefit investors by improving compliance with applicable professional and legal requirements, thereby improving audit quality and in turn improving investors' capital allocation decisions, increasing capital formation, and reducing cost of capital to audited companies.[331] Regarding costs, we noted that there would be direct costs to firms to design and, as applicable, implement and operate a QC system that complies with QC 1000, and that such costs would be largely fixed in nature and would decline over time.[332] We also noted there could be indirect costs to audited companies to the extent firms request more audit evidence from them.[333] Finally, we also noted that firms may require greater fees.[334]

As in the supplemental request for comment, we analyze the potential impacts of the amendments, each of which revises or rescinds certain requirements of QC 1000. Because QC 1000 establishes outcome-based quality objectives, any risk to audit quality that may arise from an amended requirement in QC 1000 may be mitigated by other QC 1000 requirements or other policies and procedures firms have established to achieve those quality objectives. As previously noted, the economic impacts of the amendments are measured against the baseline of QC 1000 as adopted. The supplemental request for comment was the first to analyze impacts against that baseline; although it did not formally define the baseline, we have done so above.

Commenters generally supported our analysis of the economic impacts of the proposed amendments to QC 1000 in the supplemental request for comment;[335] however, some commenters raised concerns about our analysis of the economic impacts of rescinding the EQCF requirement.[336] One commenter also said the economic analysis could be improved by addressing how the amendments would impact cost reductions, audit quality, firm capacity,

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330 *See* comment letter from CFA.

331 *See* PCAOB Rel. No. 2024-005, at 341-345.

332 *See id.* at 352-353.

333 *See id*. at 354-355.

334 *See id.* at 355.

335 *See* comment letters from CAQ, GT, PwC, RSM, and Spitters.

336 *See* comment letters from CFA, CII, and MIAG.

inspection outcomes, investor confidence, and smaller issuers.[337] We discuss the impacts on audit quality throughout the economic analysis. As discussed below, taking the entirety of QC 1000 into consideration, we believe any negative impact of the amendments on audit quality would likely be limited, so any downstream effect on the incidence of engagement deficiencies identified in PCAOB inspection reports, investor confidence, or the broader public would be correspondingly minor. As to firm capacity, the amendments would likely free some staff resources for redeployment to other activities, including those that may more directly support audit quality.

Regarding smaller issuers, the amendments would impact issuers primarily through lower audit fees relative to the baseline to the extent audit firms pass on the direct cost savings provided by the amendments. Reduced audit fees may have a relatively greater effect on smaller issuers' profitability compared to larger issuers since audit fees typically represent a larger share of their revenue.[338] One commenter noted that smaller issuers may rely especially heavily on the external audit given greater information asymmetry and less market coverage.[339] Thus, to the extent the amendments negatively impact audit quality, this would imply smaller issuers could be disproportionately impacted. However, as discussed below, we believe any negative impacts on audit quality will be minimal. One commenter said cost savings retained by firms should not be assumed to constitute investor benefits.[340] We agree and we do not make this assumption. The extent to which firms would choose to pass on any cost savings arising from the amendment to their clients is unclear. The commenter also said there is no quantification of whether the hypothetical cost savings the Board expects firms to realize will flow through to lower audit fees.[341] We are unaware of data or a methodology that would allow us to reliably quantify the pass through of cost savings to audited companies, including any impact on audit fees.

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[337] *See* comment letter from MIAG. This commenter also said the economic analysis could be improved by addressing (1) the potential economic impacts of private equity investments in audit firms in determining the benefits of the EQCF; (2) our use of benchmarks in determining the costs of the EQCF; and (3) the potential economic impacts of the amendments on EGCs. We address these comments in Section V.C.3. and Section VI below.

[338] *See*, *e.g.*, Ideagen Audit Analytics, *Audit Fee Trends: A 20-Year Review,* (Sept. 2025), at 19, *available at* https://go.ideagen.com/audit-fee-trends-sep25.

[339] *See* comment letter from MIAG. Section VI discusses the importance of external audit in the context of EGC audits.

[340] *See* comment letter from CFA.

[341] *See id.*

The same commenter expressed concern that the economic considerations discussion in the supplemental request for comment conflated smaller audit firms with smaller issuers and that the economic analysis must be segmented because the amendments affect each segment differently.[342] The economic considerations did not conflate smaller audit firms with smaller issuers. Where necessary and appropriate, the economic analysis segments the discussion of impacts (e.g., by reference to impacts on firms, issuers, smaller firms, smaller issuers, and EGCs).

This commenter also suggested that the Board disclose the methodology behind any cost estimates it relies on in the economic analysis.[343] The economic analysis describes the methodology we used for all its independent analyses. In cases where the economic analysis relies on external research, it provides sourcing. In cases where the economic analysis discusses cost estimates provided by commenters, it presents and assesses any information provided by the commenter about the methodology used.

The same commenter expressed concern that the economic considerations discussion in the supplemental request for comment does not provide a quantitative assessment of the impact on audit quality and the costs for investors.[344] The commenter suggested that the PCAOB perform and publish its own cost estimates that are comparable and methodologically transparent rather than relying solely on cost estimates provided by the auditing profession.[345] The commenter also suggested that the PCAOB measure the tradeoff between reduced firm costs against the risk of weakened QC effectiveness and audit quality (or do so qualitatively) provision by provision.[346] We are not aware of data or a methodology that would allow us to quantitatively assess all the impacts of the amendments or the tradeoff between benefits and costs on a provision-by-provision basis. While the commenter questioned reliance on data provided by audit firms, the commenter did not provide alternative data sources.[347] The economic analysis discusses the potential economic impacts of the amendments grouped into key areas and, as stated above, is largely qualitative in nature. However, where reasonable and feasible, the economic analysis incorporates quantitative information.

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342 *See id.*

343 *See id.*

344 *See id.*

345 *See id.*

346 *See id.*

347 *See id*.

One commenter made three further points about the economic impacts of the amendments. First, the commenter said some of the amendments weaken key requirements and risk undermining the overall importance of a firmwide approach to quality that investors value and are willing to pay for.[348] As discussed in greater detail below, however, we believe any negative impacts on audit quality will be minimal. To the extent the amendments reduce firms' compliance costs, moreover, firms may not pass all of those savings—or any associated costs—through to their clients. Taken together, we believe the amendments will reduce unnecessary regulatory burden for firms while essentially achieving the same quality objectives that investors value.

Second, the commenter said that investors ultimately pay for investment in quality assurance services.[349] We acknowledge that investors ultimately pay for audit services. However, specific investments by firms may not necessarily be passed on to investors in the form of higher audit fees. The commenter also asserted that investments in high-quality systems should pay off for firms over the longer term and drive down costs because the cost reductions to firms arising from the amendments will tend to occur mostly in the first year but would come down over time.[350] We agree that, as a general matter, the costs of quality management systems decrease over time.[351] We also acknowledge that some of the cost savings resulting from the amendments would be concentrated in largely fixed or one-time activities, such as designing a QC system. Many of the other cost savings discussed below, however, are associated with ongoing activities—such as eliminated EQCF compensation and fewer resources devoted to identifying similar engagement deficiencies on other engagements—rather than initial implementation activities. Therefore, we are not persuaded that, without the amendments, the benefits of the requirements we are amending would necessarily exceed their costs in the longer term.

Third, the commenter also noted that QC 1000 costs could be spread over the costs of all public audits and, therefore, seemed to be a reasonable price to pay.[352] In the QC 1000 2024 adopting release, the economic analysis acknowledged that larger firms would be able to spread the fixed costs over a larger number of issuers.[353] As discussed in Section V.C.8. below, the same is true of the fixed costs that the amendments will allow firms to avoid (e.g.,

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348 *See* comment letter from ICGN.

349 *See id.*

350 *See id*.

351 *See* PCAOB Rel. No. 2024-005, at 353; *see also id.* at 351 n.496.

352 *See* comment letter from ICGN.

353 *See* PCAOB Rel. No. 2024-005, at 354.

identifying an individual to serve in an EQCF role and adjusting firm governance). However, many registered firms have relatively few engagements over which to spread fixed costs and some QC 1000 costs scale with the number of engagements. As discussed below, we have also heard from larger firms that certain of the requirements are proving to be costly as compared to the expected benefits, notwithstanding their ability to spread fixed costs over a relatively large number of engagements.

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

The amendments rescind the requirement for design-only firms to design a QC system that complies with QC 1000.

In the QC 1000 2024 adopting release, we noted that requiring design-only firms to design a QC system that complies with QC 1000 would better position these firms to accept and perform engagements in compliance with applicable professional and legal requirements because design-only firms would have a PCAOB-compliant QC system ready for implementation and operation.[354] We also noted that design-only firms would face design costs incremental to the requirements of complying with ISQM 1 or SQMS 1, including around ethics, independence, monitoring, and remediation, and that these costs could lead some firms to withdraw from PCAOB registration.[355]

Table 1 indicates that, based on the set of firms registered as of March 31, 2025, approximately 734 firms would be design-only under QC 1000 as originally adopted. Although design-only firms comprise 49% (734 ÷ 1,489) of registered firms, their role in the issuer and broker-dealer audit market is small: based on their Form 2 filings, they played no lead or substantial role on any engagements in the 2019 through 2025 reporting periods. Only 5% (35 ÷ 734) provided at least 5% of total audit hours on the audits of 51 issuers during the 2025 reporting period, with audit fees to the lead auditor and all participants on these engagements totaling approximately $379 million.[356] The remaining 95% (699 ÷ 734) of design-only firms

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[354] *See id.* at 346.

[355] *See id.* at 355.

[356] For three of these 51 issuer audits, multiple design-only firms (three on average) provided at least 5% of the total audit hours. The staff's analysis is based on Form AP filings for audit reports issued during the 2025 reporting period (i.e., from April 1, 2024, through March 31, 2025). In cases where multiple audit reports were issued with respect to the same issuer during the reporting period, staff selected the Form AP associated with the most recent audit report. Firms are identified on Form AP as other accounting firms if they provided at least 5% of the total audit hours for the engagement. *See* Form AP instructions, *available at* https://pcaobus.org/about/rules-rulemaking/rules/form-ap---auditor-reporting-of-certain-audit-participants. Form AP filings are available for download from the Board's website, https://pcaobus.org/resources/auditorsearch. The staff's methodology searches for other

were not identified on any Form AP filings for audit reports issued during the 2025 reporting period.

We understand that most PCAOB-registered firms have implemented either ISQM 1 or SQMS 1, including design-only firms.[357] In addition, 11% (82 ÷ 734) of the 2025 design-only

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accounting firm roles in Form AP filings using the firm's Firm ID. Accordingly, the staff's methodology may undercount other accounting firm roles to the extent lead auditor firms either never filed a Form AP or failed to report Firm IDs of other accounting firms providing at least 5% of the total audit hours for the engagement. Staff obtained audit fees data from Audit Analytics. Staff note that academic literature finds that audit fees are highly correlated with audit hours. *See*, *e.g.*, Daniel Aobdia, *Do Practitioner Assessments Agree with Academic Proxies for Audit Quality? Evidence from PCAOB and Internal Inspections*, 67 Journal of Accounting and Economics 144 (2019), Table 4 (finding Spearman and Pearson correlations of 0.91 and 0.90, respectively, between audit hours and audit fees for PCAOB-inspected audit engagements). Therefore, the level of participation by these design-only firms in these audits provides a proxy for their share of the total audit fees. The most common level of participation (63% of roles played) was 5% to less than 10% of total audit hours. Design-only firms should have played a less-than-substantial role and, therefore, their hours generally should not constitute more than 20% of the total engagement hours provided by the lead auditor. From April 1, 2025, through August 10, 2026, 39 design-only firms provided at least 5% of the total audit hours on the audits of 52 issuers. The total audit fees paid to the lead auditor and all participants on these engagements were approximately $194 million. For three of these 52 issuer audits, multiple design-only firms (two on average) provided at least 5% of the total audit hours.

[357] Staff performed several quantitative analyses to test our view that most design-only firms are subject to either ISQM 1 or SQMS 1. First, using the AICPA Peer Review public website, staff manually checked whether U.S.-headquartered design-only firms had been peer reviewed as part of the AICPA peer review program and are currently enrolled in the program. Staff found that 74% of these U.S. firms were peer reviewed and are currently enrolled in the program and thus would likely be subject to SQMS 1. Second, staff's review of firms' responses to Item 5.2 of their most recent Form 2 filings indicates that 62% of non-U.S.-headquartered design-only firms have an audit-related membership, affiliation, or similar arrangement (i.e., firms that answered "Yes" for either Item 5.2a.1 or Item 5.2a.2). These firms likely obtain QC policies and procedures derived from ISQM 1 as part of these relationships. Third, 16% of non-U.S.-headquartered design-only firms are members of the six largest global networks (BDO International Ltd., Deloitte Touche Tohmatsu Ltd., Ernst & Young Global Ltd., Grant Thornton International Ltd., KPMG International Cooperative, and PricewaterhouseCoopers International Ltd.). We believe these firms have likely adopted policies and procedures derived from ISQM 1 because these six global networks generally encourage member firms to adopt their global quality management frameworks which largely encompass ISQM 1. *See*, *e.g.,* PricewaterhouseCoopers U.S.'s 2025 Transparency Report (Oct. 31, 2025) at 4, *available at* https://www.pwc.com/us/en/about-us/assets/pwc-us-2025-transparency-report.pdf. Indeed, in its comment letter, PwC said that all registered firms in its network are already subject to ISQM 1. *See* comment letter from PwC. Fourth, based on information published by the International Federation of Accountants (IFAC), staff identified countries that indicate that they have adopted ISQM 1 or similar quality management standards (*see*,

firms have failed to file a Form 2 and pay their annual fees to the PCAOB for at least two consecutive years; these firms might no longer be operational, and if their delinquencies persist, they would be eligible for withdrawal from PCAOB registration at the Board's discretion.[358]

Potential Benefits

The amendments will generate direct cost savings for many design-only firms, including firms that are already subject to ISQM 1 or SQMS 1. For such firms that remain registered following the effective date of QC 1000, the amendments would essentially eliminate the need to make any initial changes to their QC system design and to annually identify and assess quality risks to comply with QC 1000. One commenter estimated that, for its own firm, the costs to design a QC system that complies with QC 1000 might be close to $1,000.[359] Another commenter said the design-only requirement would have entailed training costs, consulting costs, and professional time.[360] For design-only firms that register (or re-register) in the future, the amendment would also eliminate the need to annually identify and assess risks after they register.[361] These cost savings would be largest for the subset of design-only firms that are not

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e.g., the "Quality Assurance" section of Switzerland's profile page on the IFAC webpage, *available at* https://www.ifac.org/about-ifac/membership/profile/switzerland, indicating that Switzerland "has issued national quality management standards . . . which are based on the International Standards on Quality Management (ISQM) issued by the International Auditing and Assurance Standards Board (IAASB)"). Eighty-eight percent of non-U.S.-headquartered design-only firms are headquartered in these countries and may therefore have adopted or be adopting ISQM 1 or similar standards. We note that the CAQ 2026 Letter indicated that, in most cases, design-only firms had already adopted ISQM 1, and the CAQ recently reiterated that nearly all design-only firms are subject to the recently adopted IAASB or AICPA QC standards. *See* comment letter from CAQ.

[358] *See* PCAOB Rule 2107(h). For more information on this withdrawal process, *see Constructive Requests to Withdraw from Registration*, PCAOB Rel. No. 2024-011 (Nov. 14, 2024), and *Public Company Accounting Oversight Board; Order Granting Approval on Constructive Requests to Withdraw from Registration*, SEC Rel. No. 34-102074 (Jan. 2, 2025).

[359] *See* comment letter from Spitters. The commenter, a design-only firm, did not indicate whether it had implemented ISQM 1 or SQMS 1. The commenter's 2026 Form 2 filing indicates that it has a single accountant. By contrast, based on their most recent Form 2 filings, the average (median) number of accountants at design-only firms is 125 (30). Therefore, we believe that this commenter's cost estimate is likely lower than the cost most design-only firms might incur to design a QC system that complies with QC 1000.

[360] *See* comment letter from PICPA.

[361] For design-only firms that register (or re-register) in the future, the amendments may also reduce costs associated with the registration process; however, the extent of any cost reduction will

already subject to ISQM 1 or SQMS 1, since for them the savings reflect the avoided cost of designing a wholly new QC system rather than designing incremental changes to an existing one.

By reducing burdens to design-only firms, the amendments may also increase or help to maintain the number of registered firms. Several commenters agreed that the design-only requirement could lead registered firms to withdraw from registration.[362]

To inform the Board's consideration of the potential impacts of the amendments on registration activity, Figure 1 shows trends in requests to withdraw from registration (Panels A and B, for full-implementation and design-only firms respectively) and in applications for registration (Panel C), for calendar years 2020 through 2025. The figure also shows the number of firms in each category as of March 31 of each year, using the Table 1 methodology. Overall, we observe an uptick in requests to withdraw from registration that appears to be related in some part to QC 1000. For example, 154 (2 + 60 + 4 + 9 + 79) withdrawal requests were filed in 2025, greater than any year since 2020, and 7% ((2 + 9) ÷ 154) of these cited QC 1000 as a reason. This trend appears to be more pronounced for design-only firms. Notably, 10% (9 ÷ (9 + 79)) of their withdrawal requests cited QC 1000, versus 3% (2 ÷ (2 + 60 + 4)) for full-implementation firms. It is important to note that Panels A and B of Figure 1 report on firms that requested to withdraw from registration and do not include firms that are considering requesting to withdraw from registration but have not yet filed the request. Similarly, Panel C of Figure 1 reports on firms that applied to register and does not include firms that are considering applying for registration but have not yet filed the application.

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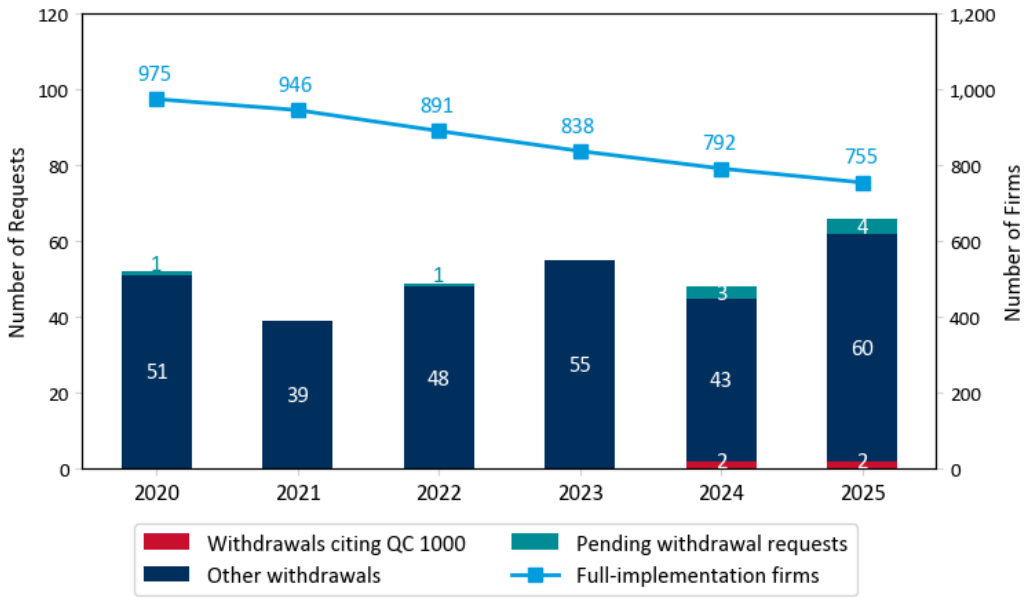
depend on how the Board evaluates registration applications after QC 1000 goes into effect. Under Section 102(b)(2)(D) of Sarbanes-Oxley, applicant firms are required to provide a statement of the quality control policies of the firm for its accounting and auditing practices when applying to register with the PCAOB. *See Frequently Asked Questions Regarding Registration with the Board*, PCAOB Rel. No. 2003-011F, at Q.32 (Dec. 4, 2017) (providing guidance regarding PCAOB Form 1, *Application for Registration*, Item 4.1). In light of QC 1000, the Board may opt to revise its interpretation or implementation of this requirement or its criteria for evaluating these statements.

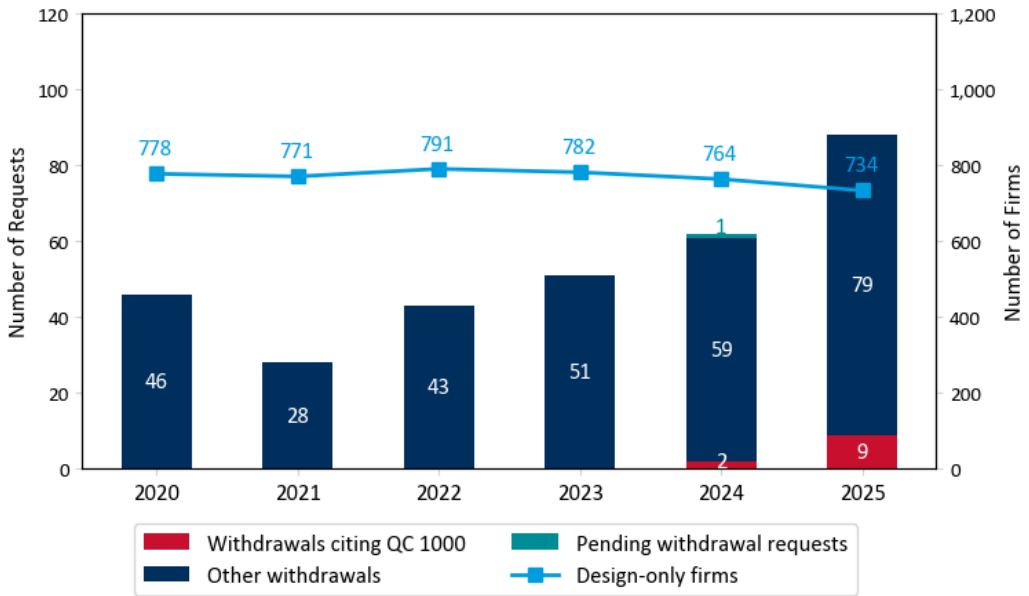
[362] *See* comment letters from AAA, Baker Tilly, PICPA, and RSM.

Figure 1. PCAOB Registration Activity

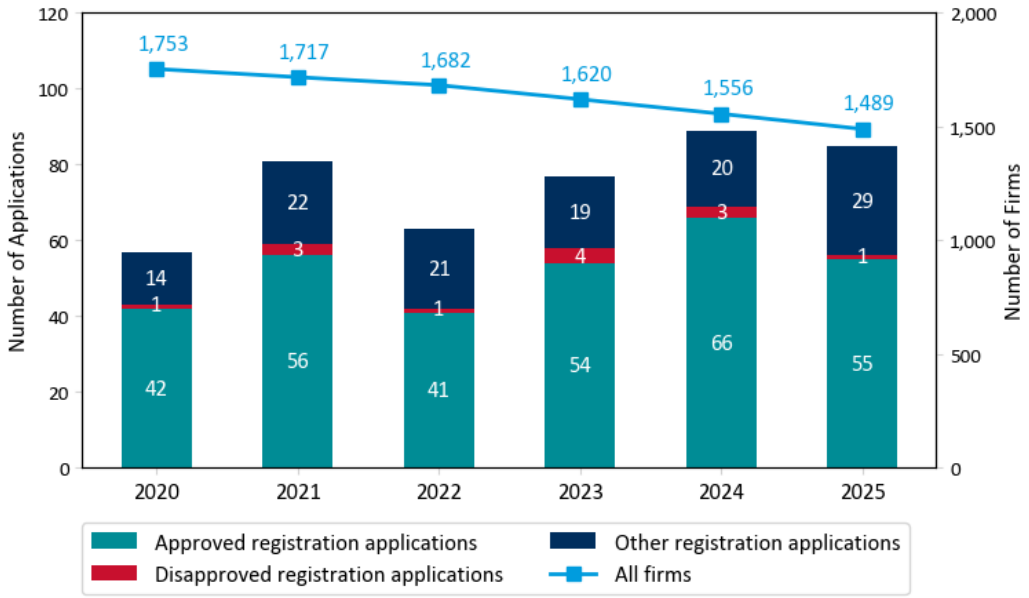
Panel A. Full-Implementation Firm Requests to Withdraw from Registration, Calendar Years 2020-2025



Panel B. Design-Only Firm Requests to Withdraw from Registration, Calendar Years 2020-2025



Panel C. Applications for Registration, Calendar Years 2020-2025



Sources: PCAOB Form 2 filings; Form 1-WD filings; Form 1 filings.

Notes: (1) The number of firms in each panel of Figure 1 represents the count of firms registered with the PCAOB as of March 31 of each calendar year, excluding firms with withdrawal pending or suspended status. These firms are identified as full-implementation or design-only firms based on the information contained in their Form 2 filings for the seven reporting periods leading up to and including the calendar year. For example, firms as of March 31, 2020, are classified based on their 2014 through 2020 Form 2 filings. Staff assumed that a firm that did not file a Form 2 for a given reporting period did not lead or play a substantial role in any issuer or broker-dealer audit during the reporting period.

(2) Panels A and B show the number of Form 1-WD requests to withdraw from registration, grouped by the calendar year in which each request was initially filed, from 2020 to 2025. Request status (i.e., withdrawal or pending withdrawal request) is as of August 10, 2026. Staff identified the firms that filed a Form 1-WD as full-implementation or design-only based on their Form 2 filings for the most recent seven reporting periods prior to their Form 1-WD filing.

(3) Form 1-WD asks firms to provide a reason for their withdrawal. When firms do not provide a reason for withdrawing, PCAOB staff solicit a reason. The analysis reported in Figure 1 reflects the reason stated on Form 1-WD when available and otherwise the solicited reason. Of the 627 firms that filed withdrawal requests between 2020 and 2025, 16% (103 ÷ 627) did not provide a withdrawal reason through either channel. Among those that provided a reason, staff determined whether a firm cited QC 1000 based on a programmatic search for keywords related to QC 1000 followed by a manual review. Staff note that firms citing QC 1000 may have requested withdrawal for other reasons as well. Staff also note that the staff's methodology may undercount the number of withdrawal requests related to QC 1000 to the extent firms did not explicitly mention QC 1000 as the reason for their withdrawal. For example, of the 123 firms that filed withdrawal requests in 2025 for which a withdrawal reason is available, four discussed overall compliance costs associated with PCAOB standards while not specifically citing QC 1000. Further, it is possible that any of the 103 firms that filed a withdrawal request without providing a withdrawal reason through either channel could have withdrawn because of QC 1000.

(4) Figure 1 does not include the 2026 calendar year because it is a partial calendar year as of the time this analysis was performed and therefore is not directly comparable to earlier years. However, staff note that, as of August 10, 2026, there have been 67 withdrawal requests filed in 2026, and none cited QC 1000 as a reason for withdrawal.

(5) Panel C shows applications for PCAOB registration, grouped by the calendar year in which each application was initially filed, from 2020 to 2025. Application status (i.e., approved, disapproved, or other) is as of August 10, 2026. The "other registration

applications" group includes applications under review and applications withdrawn by firms. Staff note that there are potentially fewer approved applications in 2025 because some applications filed in 2025 may still be under review.

For design-only firms that have withdrawn, or plan to withdraw, as a result of QC 1000, the amendments could incentivize some to re-apply or remain registered. The comments received are consistent with this potential benefit. One commenter said the amendment would alleviate concerns about smaller firms withdrawing their PCAOB registration and allow more flexibility for these firms to remain registered and apply the QC 1000 requirements only when they choose to accept engagements requiring registration with the PCAOB.[363] Another commenter stated concern that some firms had withdrawn from registration in response to QC 1000 and that this unintended consequence of the design-only requirement could be detrimental to the quality of multinational company audits because firms may seek creative ways to complete the audits when a registered firm cannot be found in a particular jurisdiction.[364] Another commenter said that the proposed rescission of the design-only requirement would make it more likely that firms would remain registered, where they would be able to pursue opportunities for PCAOB engagements if they appropriately planned for compliance with QC 1000.[365] Another commenter stated that the design-only requirement incentivized firms to deregister and that, while they could later re-register, that process adds time and effort and restricts a firm's ability to bid on work or quickly respond to the marketplace.[366] The rescission of the design-only requirement could benefit these firms by facilitating greater participation in the PCAOB audit market—for example, where lead auditors may prefer to use registered firms for less-than-substantial-role work—offset in part by the cost of re-registering (in the case of firms that have already withdrawn from registration).

An increase in the number of registered firms could also benefit audited companies by expanding the supply of firms able, after designing, implementing, and operating a QC 1000-compliant system, to serve as a lead auditor or play a substantial role.[367] Staff analysis suggests

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363 *See* comment letter from Baker Tilly.

364 *See* comment letter from AAA.

365 *See* comment letter from RSM.

366 *See* comment letter from PICPA.

367 Panel B of Figure 1 provides an indication of this population of design-only firms. It indicates that between 2020 and 2025, 11 design-only firms requested to withdraw from registration, citing QC 1000 as a reason. As discussed in greater detail above, staff analysis indicates that these firms played a relatively small role in the overall audit market. We recognize that, absent the amendments, the number of registration withdrawals could increase in the future after QC 1000 goes into effect. We also note that the impacts discussed in this paragraph apply similarly to future design-only firms that might choose to remain unregistered due to QC 1000. Consistent with the discussion in the QC 1000 2024

that this is not uncommon: roughly 8% (62 ÷ 778) of firms classified as design-only as of March 31, 2020, later reported a lead or substantial role at least once over the following five reporting periods.[368] Although lead auditors may continue using design-only firms below a substantial role even after those firms withdraw from registration, some may prefer registered firms; if such firms remain registered, lead auditors with this preference can continue using their work and avoid the cost and risk of transitioning it elsewhere. Similarly, some audit committees may consider only already-registered firms as lead auditors. Accordingly, the increased supply of registered firms could support competition in the audit market.[369]

Additionally, by rescinding the design-only requirement, design-only firms that were planning to withdraw from registration may choose to remain registered, avoiding the time and costs associated with re-applying for registration if they decide to take on an engagement in the

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adopting release, an increase in the supply of design-only firms may lower audit fees but may also lead to audit quality risks. For example, there may be increased potential for opinion shopping since issuers and broker-dealers would have a larger set of potential lead auditors from which to select. *See* PCAOB Rel. No. 2024-005, at 361-365. However, recent literature suggests that audit quality may improve in the specific context of potential competition among smaller firms. *See* Devin Williams, *The Effect of Potential Entrants on Audit Market Competition*, 100 The Accounting Review 375 (2025) (finding that the potential competitive threat posed by firms that have no publicly traded clients lowers audit fees and increases audit quality for engagements performed by triennially inspected firms).

[368] As shown in Figure 1, 778 firms registered with the PCAOB as of March 31, 2020, are classified as design-only based on their 2014 through 2020 Form 2 filings. Staff used these firms' 2021 through 2025 Form 2 filings to determine the proportion that subsequently served in a lead or substantial role on an engagement.

[369] Academic research provides mixed findings regarding the impact PCAOB deregistration may have on audit quality. Staff note that recent unpublished research suggests that PCAOB deregistration is associated with an increase in audit fees for clients of deregistering firms. *See* Michael Ettredge, Juan Mao, and Mary S. Stone, *Small Audit Firms' Public Market Exits, Business Model Changes, and Market Consequences*, SSRN Electronic Journal (2024) (finding that audit firm deregistration does not appear to affect the audit quality of these firms' former issuer clients on average but it is associated with higher audit fees). Depending on the audit quality proxy, earlier research finds mixed results on the effect on audit quality from firms exiting the market after the passage of Sarbanes-Oxley. *See* Mark L. DeFond and Clive S. Lennox, *The Effect of SOX on Small Auditor Exits and Audit Quality*, 52 Journal of Accounting and Economics 21 (2011); Neil L. Fargher, Alicia Jiang, and Yangxin Yu, *Further Evidence on the Effect of Regulation on the Exit of Small Auditors from the Audit Market and Resulting Audit Quality*, 37 Auditing: A Journal of Practice & Theory 95 (2018). Staff note that, in these studies, PCAOB deregistration typically refers to withdrawal from PCAOB registration.

future. Staff analysis indicates that the registration process takes on average 133 days from filing a Form 1 to Board approval, plus a $500 fee.[370]

Nevertheless, the effect of rescission of the design-only requirement on re-registration and withdrawals may be limited. Panel B of Figure 1 shows that just 7% ((9 + 2) ÷ (9 + 2 + 59 + 79 + 1)) of design-only firms that requested withdrawal in 2024 and 2025 cited QC 1000, suggesting many recent withdrawals are for reasons unrelated to the amendments we are adopting.[371] These firms also had small market share, so their re-registration would be unlikely to significantly affect audit fees or audit quality. The 11 design-only firms that withdrew citing QC 1000 reported no lead or substantial roles since 2019; four were named on Form AP as other accounting firms on seven audits of four issuers, with total audit fees to the lead auditor and all participants of $17 million.[372] We recognize that withdrawal requests arising in part from QC 1000 could increase in the future if QC 1000 were to take effect as originally adopted.[373]

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[370] The length of the registration process has changed over time. This estimate is based on the 304 firms that had their registration applications approved by the Board between 2020 and 2025. Section 102(c)(1) of Sarbanes-Oxley requires the Board to approve a completed application for registration not later than 45 days after the date of receipt of the application, in accordance with the rules of the Board, unless the Board, prior to such date, issues a written notice of disapproval to, or requests more information from, the prospective registrant. *See* PCAOB Rel. No. 2003-011F, at Q.11, for additional information on the time it takes firms to register.

[371] Staff found no instances of a firm citing the new paragraph (h) ("Constructive Withdrawal Requests") of PCAOB Rule 2107, which went into effect in 2025, as a reason for withdrawal.

[372] The audit reports for these seven audits were issued during the 2019 through 2023 reporting periods. For each of the seven audits, only one of the four firms was named. The remaining seven firms were not named on a Form AP since the 2019 reporting period. The staff's analysis is based on Form AP filings for audit reports issued since the 2019 reporting period (i.e., from April 1, 2018, through August 10, 2026). Staff obtained audit fees information from Audit Analytics. As noted above, audits fees are highly correlated with audit hours. The level of participation of these four firms on these seven audits was 5% to less than 10% of total audit hours.

[373] Staff recognize that design-only firms that have not affirmatively withdrawn from registration may also have lost interest in remaining registered with the PCAOB, which is a requirement to serve as a lead auditor or play a substantial role in the issuer and broker-dealer audit market. To evaluate whether any design-only firms may have lost interest in remaining registered in response to QC 1000, staff performed an analysis of trends in new design-only delinquent Form 2 filers and annual-fee payers. Staff identified by calendar year design-only firms that failed to file a Form 2 and pay their annual fees to the PCAOB for the two-year period ending in each calendar year, excluding firms that were already delinquent in prior years. The staff's analysis suggests that this form of disengagement (1) has been infrequent by comparison to the number of requests for withdrawal from registration and (2) was

The amendments could also affect registration applications, but we see no strong evidence of a significant impact. Almost all firms that applied to register in 2020–2025 had not performed an engagement in the prior seven years and would be classified, upon entry, as design-only.[374] Panel C of Figure 1 shows that registration applications did not decline in anticipation of QC 1000; to the contrary, they peaked in 2024, the year QC 1000 was adopted.[375] We recognize applications may decrease in the future once QC 1000 takes effect.

Potential Costs

The amendments may also have some negative impacts. Design-only firms that choose not to voluntarily design a QC system compliant with QC 1000 may be less prepared to implement and operate such a system if they later take on an engagement. If such a firm implements its QC system within a compressed timeline and fails to account for a quality risk or otherwise fails to implement an effective QC system, the firm increases its risk that it may fail to comply with applicable professional and legal requirements when performing an engagement. As discussed above, roughly 8% (62 ÷ 778) of design-only firms as of March 31, 2020, reported a lead or substantial role at least once over the subsequent five reporting periods. One commenter said that a QC system cannot be designed and made operational overnight, and the first investors served by a newly active firm should not bear the risk of a system still under construction.[376]

These impacts would be mitigated, however, to the extent firms most interested in leading or performing a substantial role on an engagement have incentives to voluntarily design a QC 1000-compliant system to compete for engagements. One commenter observed that firms actively proposing on PCAOB engagements would be wise to do so.[377] The impacts would

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mostly flat between 2022 and 2025 (ranging from four to six per year). Overall, while this form of disengagement may be driven by many factors, the evidence suggests that this form of disengagement has not increased due to QC 1000.

[374] Of the 452 firms that applied for registration between 2020 and 2025, 18 had been previously registered with the PCAOB at some point during the seven years before their current registration approval dates. Of these 18 firms, five had a lead or substantial role on engagements during the seven reporting periods prior to their return to PCAOB registration.

[375] We acknowledge that trends in the number of applications for registration may be driven by multiple factors. For example, part of the increase we observe may be driven in part by pandemic-related disruptions that occurred during the earlier part of the period.

[376] *See* comment letter from CFA.

[377] *See* comment letter from AAA.

also be mitigated to the extent these firms already have a QC system that complies with ISQM 1 or SQMS 1 or have already designed a QC system that complies with QC 1000.

Some commenters were generally skeptical that the design-only requirement was beneficial in relation to its costs.[378] For example, one commenter said the benefits of the design-only requirement were unclear as these firms are not performing engagements subject to PCAOB requirements, and that the design would be hypothetical, likely to become obsolete, and could create a false impression of readiness.[379] We note that the annual reassessment of quality risks the requirement would have entailed mitigates this last concern. Others said that the amendment introduces no risk to investors because these firms neither perform nor serve in a substantial role on PCAOB engagements.[380] We believe that the costs of rescinding the design-only requirement will likely be minimal, taking mitigating factors into account.

2. Roles and Responsibilities

The amendments provide increased flexibility in filling certain specified roles in the QC system by permitting roles to be assigned to non-firm personnel and divided among multiple individuals.

Potential Benefits

The amendments will help address the implementation challenges of the original requirement that commenters raised. Some commenters said that QC 1000 would have required some firms to change their existing structures and incur unnecessary operational challenges and disruptions without a commensurate benefit.[381] One of these commenters said it is challenging to identify a singular firm personnel member to assume operational responsibility for the entire scope of requirements of paragraph .16, which relates to ethics and independence.[382]

The amendments will reduce restructuring costs for firms that currently assign roles to non-firm personnel or divide roles among multiple individuals when operating their QC systems. The reduced restructuring costs may be particularly significant for firms that are

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378 *See* comment letters from Baker Tilly, CAQ, GT, KPMG, and PICPA.

379 *See* comment letter from PICPA.

380 *See* comment letters from Baker Tilly, CFA, GT, and KPMG.

381 *See* comment letters from Baker Tilly and CAQ.

382 *See* comment letter from Baker Tilly.

already implementing ISQM 1 or SQMS 1.[383] One commenter said that the proposed amendment would provide welcome and needed flexibility, which is important for firms of varying sizes and structures, including for some non-U.S. firms with smaller PCAOB audit practices that have found that using others from outside the firm to perform certain functions specified in paragraph .12 of QC 1000, such as monitoring and remediation and ethics and independence roles, has had a positive impact on audit quality as it brings sufficiently competent and experienced individuals with relevant subject matter expertise to the firm.[384]

The amendments could also improve audit quality to the extent the responsibilities performed over firms' QC systems are carried out more effectively under the amendments. Firms with larger and more complex audit practices (e.g., the U.S. GNFs) may find that some

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[383] We believe most firms are subject to ISQM 1 or SQMS 1. Staff performed several quantitative analyses to test our view that most firms are subject to either ISQM 1 or SQMS 1. Whereas the analyses presented in footnote 357 consider only the design-only firms, the analyses presented in this footnote consider full-implementation firms as well as design-only firms. First, using the AICPA Peer Review public website, staff manually checked whether U.S.-headquartered firms had been peer reviewed as part of the AICPA peer review program and are currently enrolled in the program. Staff found that 79% of these U.S. firms were peer reviewed and are currently enrolled in the program and thus would likely be subject to SQMS 1. Second, staff's review of firms' responses to Item 5.2 of their most recent Form 2 submissions indicates that 73% of non-U.S.-headquartered firms have an audit-related membership, affiliation, or similar arrangement (i.e., firms that answered "Yes" for either Item 5.2a.1 or Item 5.2a.2). These firms likely obtain QC policies and procedures derived from ISQM 1 as part of these relationships. Third, 39% of non-U.S.-headquartered firms are members of the six largest global networks. We believe these firms have likely adopted policies and procedures derived from ISQM 1 because these six global networks generally encourage member firms to adopt their global quality management frameworks which largely encompass ISQM 1. *See*, *e.g.,* PricewaterhouseCoopers U.S.'s 2025 Transparency Report (Oct. 31, 2025) at 4, *available at* https://www.pwc.com/us/en/about-us/assets/pwc-us-2025-transparency-report.pdf. Indeed, in its commenter letter, PwC said that all registered firms in its network are already subject to ISQM 1. *See* comment letter from PwC. Fourth, based on information published by IFAC and a web search for official pronouncements from local jurisdictions, staff identified countries that indicate that they have adopted ISQM 1 or similar quality management standards (*see*, *e.g.*, the "Quality Assurance" section of Switzerland's profile page on the IFAC webpage, *available at* https://www.ifac.org/about-ifac/membership/profile/switzerland, indicating that Switzerland "has issued national quality management standards . . . which are based on the International Standards on Quality Management (ISQM) issued by the International Auditing and Assurance Standards Board (IAASB)"). Eighty-nine percent of non-U.S.-headquartered firms are headquartered in these countries and may therefore have adopted or be adopting ISQM 1 or similar standards. Fifth, just 8% of full-implementation firms reported on their 2025 Form 2 filings in Item 3.2a that 100% of their total fees billed to all clients for services rendered during the reporting period were attributable to fees billed to issuer audit clients. This suggests that few full-implementation firms specialize only in audits of issuers under PCAOB standards.

[384] *See* comment letter from CAQ.

specific responsibilities required under QC 1000, such as the responsibility over ethics and independence compliance, require the expertise of multiple individuals. Firms may also find it excessively burdensome to identify a single individual willing to bear the entire responsibility for these areas. Firms with fewer staff that are part of a network may prefer to use individuals from other firms within their network (whether registered or unregistered) that have more expertise and capacity. For context, 4% (31 ÷ 755) of the full-implementation firms identified in Table 1 have just one accountant on staff, and 12% (89 ÷ 755) have between two and 10 accountants. Among these firms, 19% (23 ÷ (31 + 89)) are a member of one of the six largest global networks or indicated on Item 5.2 of their most recent Form 2 filing that they are a member of or affiliated with some other audit-related network, arrangement, alliance, partnership, or association.[385]

Commenters provided examples to support the view that the amendments would improve audit quality.[386] One commenter asserted that the amendments would allow a firm to assign subject matter experts inside their firm networks to specific compliance tasks, which is likely to yield higher quality results.[387] Another commenter said that assigning roles and responsibilities to other individuals who are not firm personnel often enhances the experience, competence, and authority specific to functional areas, such as ethics and independence, or provides the individuals with the time needed to carry out their responsibilities effectively.[388] One commenter also said that the amendments would enhance audit quality outcomes by promoting the effective execution of quality control responsibilities, while maintaining accountability for results.[389] Another commenter noted that certain functions in a quality management system draw on disciplines that firms do not uniformly maintain in-house and the amendment would allow firms to engage qualified external specialists for such roles, which should improve the quality of those functions.[390] One commenter asserted that ethics and independence are disciplines that benefit from the dedicated focus of individuals with different skills and areas of expertise and confirmed these roles have been assigned to different

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385 Staff determined that firms were members of or affiliated with some other audit-related network, arrangement, alliance, partnership, or association if they answered "Yes" for Item 5.2a.1, Item 5.2a.2, or Item 5.2a.3 in their most recent Form 2 filing.

386 *See*, *e.g.*, comment letters from EY, GT, and PICPA.

387 *See* comment letter from PICPA.

388 *See* comment letter from EY.

389 *See* comment letter from GT.

390 *See* comment letter from SCCG.

individuals to drive the highest quality outcome.[391] This commenter believed the amendment would allow firms to designate individuals serving across registered firms within a network and enable firms to place the most experienced and qualified individuals in those positions, which is accretive to audit quality.[392] We agree that the amendments could improve audit quality.

Potential Costs

The amendments could also have some negative consequences. If a firm's QC system responsibilities are split into subcomponents across multiple individuals, there could be a risk that subcomponents of the responsibilities are never assigned, leading to a less effective QC system. For example, if a firm's QC system responsibility over monitoring and remediation is split into responsibility over monitoring and responsibility over remediation, responsibilities that could reasonably be associated with either monitoring or remediation may inadvertently never be assigned. Absent an explicit assignment, individuals may not be motivated to pick up these responsibilities voluntarily. On the other hand, there could be a risk that certain subcomponents are assigned multiple times, leading to unnecessary costs for firms. However, these risks would be mitigated by paragraph .27 of QC 1000, which requires the firm to establish and maintain clear lines of responsibility and supervision—including defining authorities, responsibilities, accountabilities, and supervisory and reporting lines for roles within the firm, up to and including the principal executive officer(s) or equivalent—within the QC system. These risks would also be mitigated through the governance and leadership component of the QC system.[393]

The amended requirements could also require greater coordination and communication between individuals with responsibility over related subcomponents (e.g., monitoring and remediation) and between these individuals and the individual(s) with ultimate responsibility. If information is not shared effectively, individuals may be forced to make decisions with incomplete information. However, this risk would be mitigated by the firm's implementation of quality responses that reduce to an appropriately low level the risk that the quality objectives related to information and communication will not be achieved.[394]

If responsibility is assigned to an individual external to the firm, this external individual's incentives may not be aligned with the firm's incentives. For example, while firms may be able to align external individuals' incentives with the success of the firm's QC system to some extent

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391 *See* comment letter from Deloitte.

392 *See id*.

393 *See*, *e.g.*, QC 1000.25e and .25f.

394 *See*, *e.g.*, QC 1000.53a.

through incentive contracting, such external individuals may remain more attentive to the reputation and commercial success of their home firms than to their QC responsibilities to another firm. One commenter said that individuals outside the firm may have conflicting interests, and because these responsibilities are not their full-time job, they cannot provide the day-to-day ownership the roles require.[395] An external individual may also be less familiar with the firm and, as an "other participant" for purposes of QC 1000, would not be subject to the firm's QC system in the same way as "firm personnel." These factors could reduce the effectiveness of the QC system. However, this risk would be mitigated by the requirement that the individual(s) assigned roles and responsibilities with respect to the QC system understand and be accountable for their roles and responsibilities.[396]

A commenter said that investors would not be opposed to an amendment to enable a limited degree of scaling the roles and responsibilities requirements to address cost considerations for small and large firms, but would be concerned about any dilution of requirements due to costs alone that impact audit quality.[397] Another commenter acknowledged that some may question whether the flexibility provided by the amendments could dilute accountability or weaken the clarity of responsibilities within a firm's QC system.[398] This commenter asserted that QC 1000 will continue to require that roles and responsibilities be clearly defined and understood and require firms to be accountable for allocating responsibilities in a way that supports effective oversight and execution, even where responsibilities are divided.[399] We believe these potential negative consequences would be mitigated by other QC 1000 provisions.[400]

3. External QC Function

The amendments rescind paragraph .28 of QC 1000, which requires firms that issued audit reports for more than 100 issuers in the prior calendar year to incorporate into their governance structure an EQCF. In evaluating the economic impacts of rescinding the EQCF

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395 *See* comment letter from CFA.

396 *See* amendment to paragraph .12 of QC 1000.

397 *See* comment letter from ICGN.

398 *See* comment letter from KPMG.

399 *See id*.

400 *See*, *e.g.*, QC 1000.25e, .25f, .27, and .53a. *See also* the amendment to paragraph .12 of QC 1000, which will require that the individual(s) assigned roles and responsibilities with respect to the QC system understand and be accountable for those responsibilities and have the experience, competence, authority, and time needed to carry them out.

requirement, the Board considered the potential benefits of eliminating implementation and ongoing compliance costs and complexity, as well as the potential costs of foregoing an additional perspective on significant judgments made and the related conclusions reached by the firm when evaluating and reporting on the effectiveness of its QC system. As discussed below, limited data and information are available to quantify these benefits and costs. However, where reasonable and feasible, this discussion considers relevant indirect evidence, including commenter input, implementation experience, and academic research, to inform the Board's assessment of the potential impacts of rescission.

We estimate that the EQCF requirement would apply to 13 firms based on the threshold of more than 100 issuer audit reports during the 2025 calendar year.[401] Those firms collectively audited 8,085 issuers, representing approximately 70% of all issuer audits and approximately 82.3% of aggregate issuer market capitalization.[402]

Potential Benefits

Rescinding paragraph .28 of QC 1000 will eliminate the costs to firms of identifying, hiring, retaining, and compensating suitable individuals for the EQCF role, including the specific costs highlighted by commenters. Firms could redirect the funds and resources that otherwise would have been devoted to implementing the EQCF requirement to other activities, including activities that may support audit quality.

One commenter said that some of the costs in establishing the EQCF have likely already been incurred.[403] We agree that any cost savings could be attenuated to the extent that firms

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401 These 13 firms are Baker Tilly US, LLP; BDO USA, P.C.; CBIZ CPAs P.C.; Cohen & Company, Ltd.; Crowe LLP; Deloitte & Touche LLP; Ernst & Young LLP; Forvis Mazars, LLP; Grant Thornton LLP; KPMG LLP; PricewaterhouseCoopers LLP; RSM US LLP; and WithumSmith+Brown, PC. The number of firms that issued audit reports for more than 100 issuers during the 2025 calendar year differs from the figures in Table 1 because of different data sources and measurement periods. *See* footnote 319 for details.

402 The issuer count includes issuers for which the firm signed an audit report within the 12 months ending December 31, 2025, excluding broker-dealers and benefit plans. It includes companies that filed an annual report or registration statement with the SEC but excludes the following filing types: "S-B," "DRS," "18-K," "DOS," "ANNLPRT," "SUPPL," "1-A," "1-K," "1-U," "253G2," "C," "ARS," "C-AR," "CB/A," and "U-1." Issuer market capitalization is determined by Standard and Poor's. Issuer market capitalization is assigned to the firm that issued the most recent opinion as of December 31, 2025, based on data from Audit Analytics.

403 *See* comment letter from CFA.

have already incurred costs to identify and contract with individuals to perform the EQCF role.[404]

As discussed in Section III.C, commenters have stated that implementing the EQCF has proven more difficult and more costly than originally anticipated. Some commenters identified significant implementation challenges and costs associated with identifying, recruiting, and onboarding individuals with the necessary expertise, independence, and availability to serve in the role.[405] One commenter confirmed some of its member firms found it challenging to identify candidates willing and able to perform the EQCF function.[406] Another commenter noted that firms have experienced challenges identifying appropriate individuals that meet what this commenter characterized as "overly prescriptive guidelines" for the EQCF requirement.[407] The commenter also identified practical constraints that could make suitable candidates difficult to identify, including the need for sufficient experience and competence and compliance with applicable independence requirements.[408] Another commenter said that their firm experienced practical challenges with the "ambiguity" of the EQCF requirement, particularly in defining the appropriate scope of activities and distinguishing advisory oversight from operational involvement.[409]

We are not aware of evidence that bears directly on the magnitude of the cost to firms that are required to incorporate an EQCF in their QC systems. In the QC 1000 2024 adopting release, we used the average compensation per non-employee director at S&P 500 public companies in 2023 as a potential benchmark to inform some of the costs to retain appropriate individuals from outside the firm to serve in an EQCF role.[410] We also used the range and average of total remuneration for individual independent non-executives ("INEs") under the

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404 During implementation support efforts, we learned that some firms had initiated recruitment for the EQCF role and that at least one firm had entered into a contractual arrangement with an individual to perform the EQCF role.

405 *See* comment letters from CAQ, Deloitte, GT, KPMG, PICPA, Plante & Moran, and RSM.

406 *See* comment letter from CAQ.

407 *See* comment letter from PICPA.

408 *See id.*

409 *See* comment letter from CBIZ.

410 *See* PCAOB Rel. No. 2024-005, at 356 n.499.

United Kingdom's ("U.K.") audit firm governance rules[411] in 2023 as another potential benchmark for the potential costs of the EQCF.[412]

In the supplemental request for comment, we used the same potential benchmarks with more recent data to inform the potential cost savings that could result from rescinding the EQCF requirement. First, we reported recent compensation for INEs disclosed by PCAOB-registered firms based in the U.K.: the total annual remuneration per INE ranges from $25,935 to $387,288 with an average of $141,691; the total annual remuneration is on average $180,850 for Big 4 firms[413] and $110,364 for other firms that must comply with the EQCF requirement.[414] Second, we used the average compensation per non-employee board director at S&P 500 public companies, which was $336,352 in 2025.[415]

Two commenters asserted potential flaws in the PCAOB's analysis of the potential benefits associated with rescinding the EQCF requirement in QC 1000.[416] Specifically, these commenters stated that using either the compensation of a non-employee director at S&P 500

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411 *See* U.K. Financial Reporting Council (FRC) Audit Firm Governance Code (Apr. 2022), *available at* https://www.frc.org.uk/library/standards-codes-policy/audit-assurance-and-ethics/audit-firm-governance-code/.

412 *See* Board Letter, at 20.

413 Big 4 firms are member firms of the following global networks: Deloitte Touche Tohmatsu Ltd., Ernst & Young Global Ltd., KPMG International Cooperative, and PricewaterhouseCoopers International Ltd.

414 The INE analysis reported in the supplemental request for comment expanded the sample and used more recent data than the analysis reported in the Board Letter. The analysis was based on the nine firms that the FRC lists as being subject to the Audit Firm Governance Code and that are registered with the PCAOB. Staff obtained the INE remuneration information from each firm's most recent transparency report (covering fiscal year 2024 or 2025) as of the date of the analysis. All dollar amounts are nominal. *See* PCAOB Rel. No. 2026-002, at 70-71.

415 *See* 2025 U.S. Spencer Stuart Board Index (2025), at 21, *available at* https://www.spencerstuart.com/-/media/2025/10/ssbi2025/2025-us-board-index.pdf (analyzing 488 DEF-14A proxy statements filed by S&P 500 companies with the SEC from May 1, 2024, through April 30, 2025). Total average compensation per non-employee director includes "all board and committee retainers and meeting fees, supplemental lead/presiding director fees, the value of equity compensation and all other compensation paid in fiscal year 2024 to non-employee directors who served for the full year."

416 *See* comment letters from CII and MIAG. The commenters also raised concerns about our analysis of the potential costs of rescinding the EQCF requirement, which we address later in this section.

public companies or the remuneration for INEs under the U.K.'s audit firm governance rules as benchmarks overstates the potential costs of the EQCF requirement.[417] Another commenter said that a non-executive director of a S&P 500 public company has a very different role than an external quality review professional; however, this commenter agreed that a U.K. INE who would serve on a firm's board is a good model for considering the potential costs of the EQCF requirement.[418] Another commenter said that the supplemental request for comment provided no evidence with direct relevance to the cost savings from rescission and relied only on "a proxy-based cost case."[419]

While the total cost of the EQCF role could differ substantially from these benchmarks, we continue to believe that they provide illustrative reference points for considering the potential costs associated with retaining qualified individuals to perform the role. In the supplemental request for comment, we acknowledged the limitations of using the compensation of non-employee directors at S&P 500 public companies or the remuneration for INEs under the U.K.'s audit firm governance rules as benchmarks for estimating the potential cost savings from rescinding the EQCF requirement, including differences in the responsibilities of an oversight function and those of a non-employee director function, as well as differences in their litigation risk profiles.[420] These differences limit the extent to which either benchmark can be used to estimate the actual costs of the EQCF role. We have not identified new data or research, or received new information through comments, that would allow us to quantify those costs more reliably.

In addition, the compensation cost for the EQCF role may be affected by factors such as qualification requirements, liability concerns, and the availability of candidates willing to serve. Through implementation support efforts, we learned that some firms experienced challenges in identifying individuals willing to take on the role, and one commenter cited liability concerns as a contributing factor.[421] It appears that these concerns may be limiting the effective supply of willing individuals and would require firms to offer compensation sufficient to attract them.

Furthermore, the EQCF requirement sets no ceiling on the level of involvement that the EQCF may undertake in performing its mandated role, which could increase the total cost of the role. Paragraph .28 of QC 1000 requires the EQCF to serve as "an external oversight function for

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417 *See id*.

418 *See* comment letter from ICGN.

419 *See* comment letter from CFA.

420 *See* PCAOB Rel. No. 2026-002, at 70-71.

421 *See* PCAOB Rel. No. 2026-002, at 69, and comment letter from CAQ.

the QC system" and, at a minimum, to evaluate the significant judgments made and the related conclusions reached by the firm when evaluating and reporting on the effectiveness of its QC system. This minimum responsibility is a focused, analytical task that could, depending on how a firm chooses to implement the requirement, involve substantial engagement with a complex QC system. Given the complexity of the QC systems at annually inspected firms, a firm may choose to have the EQCF devote substantial time and effort to understanding its QC system or have multiple individuals perform the role.[422] Indeed, through implementation support efforts, we learned that some firms were considering assigning multiple individuals to serve in an EQCF role. Therefore, depending on how firms choose to implement the EQCF requirement, the total cost of the role could vary substantially.

One commenter asked the Board to compute and publish, for each of the largest firms, the cost of the EQCF per audit performed, as such information would allow investors to weigh the claimed burden against the value of "independent oversight."[423] The commenter also stated that the cost savings from rescission, when spread across thousands of audits, would not meaningfully reduce audit fees.[424] While such estimates could inform consideration of the potential impacts of rescinding the EQCF requirement, we have limited information to reliably estimate each large firm's actual EQCF costs. As discussed above, these costs could vary substantially depending on how each firm chooses to implement the requirement. Although we cannot estimate the EQCF cost per audit for each firm, we acknowledge that the incremental costs may not impose a large per-audit burden on the largest firms, given the number of issuers and broker-dealers they audit and the associated audit revenue. We also agree that the extent to which the corresponding cost savings from rescission would affect audit fees is unclear. Even so, the incremental costs should be evaluated together with the incremental benefits that the EQCF might provide. As discussed below, the magnitude of those benefits is uncertain and may be limited, particularly with respect to the EQCF's ability to provide effective "independent oversight."

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[422] Paragraph .28 of QC 1000 provides that the EQCF is composed of "one or more persons." In addition, some firms may voluntarily choose to assign the EQCF additional responsibilities beyond the specified minimum as part of its broader external oversight function for the QC system. As described in the QC 1000 2024 adopting release, firms would have flexibility in establishing other responsibilities of the EQCF beyond the minimum responsibilities specified in paragraph .28. *See* PCAOB Rel. No. 2024-005, at 122. The Board Letter further clarified that the firm would have wide latitude to decide how best to design its EQCF, including how many people should comprise the EQCF, and whether to assign additional responsibilities to the EQCF, among other things. *See* Board Letter, at 8.

[423] *See* comment letter from CFA.

[424] *See id.*

One commenter said that a minority of its members opposed rescinding the EQCF requirement, noting that the largest firms have voluntarily established functions that could be upgraded to satisfy the EQCF requirement.[425] Similarly, another commenter stated that many of the firms subject to the EQCF requirement already use external advisors and that the incremental burden of establishing the mandated function may be less substantial than the proposal implied.[426] The functions the commenters identified are external advisory bodies whose current responsibilities differ from those of the EQCF, and their members would not necessarily satisfy the roles and responsibilities described in the EQCF requirement unless the external advisory bodies are modified and these members are willing to assume these new roles and responsibilities. We also observed that one commenter acknowledged that its existing external advisory council structure does not satisfy the EQCF requirement.[427] Another commenter said that identification and onboarding of the EQCF role would be a significant undertaking because, among other things, it has many existing governance and advisory structures in place.[428] Another commenter opined that the EQCF responsibilities described in QC 1000 extend well beyond the responsibilities of the structures currently in place at the largest six firms.[429] These comments are consistent with the observations in the QC 1000 2024 adopting release and the supplemental request for comment that firms with an existing external advisory function would still incur incremental costs to incorporate the EQCF requirement, including the costs of hiring new individuals, providing liability insurance, or committing additional time and resources.[430] On the other hand, as discussed below, the EQCF could provide incremental benefits by bringing a fresh perspective to the firm's evaluation of its QC system. That benefit may be smaller at firms that already obtain external perspectives through existing advisory structures.

Potential Costs

The potential costs of rescinding the EQCF requirement are the foregone benefits that the EQCF might provide if the requirement were to take effect and operate as intended. We believe the main value of the EQCF requirement would be the introduction of an external

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425 *See* comment letter from AAA (pointing to the "Assurance Quality Advisory Committee" at PwC, the "Independent Audit Quality Committee" at EY, the "Independent Audit Quality Advisory Committee" at KPMG, and the "Audit Quality Advisory Council" at Deloitte).

426 *See* comment letter from CFA.

427 *See* comment letter from Deloitte.

428 *See* comment letter from EY.

429 *See* comment letter from PwC.

430 *See* PCAOB Rel. No. 2024-005, at 356; PCAOB Rel. No. 2026-002, at 21.

second look at the firm's significant judgments made and related conclusions reached when evaluating and reporting on the effectiveness of its QC system. An individual from outside the firm could bring an additional perspective that may help identify issues or risks the firm may have missed when evaluating and reporting on the effectiveness of its QC system. By providing an external evaluation of significant QC judgments, the EQCF could help improve the firm's QC system and thereby benefit investors.

The magnitude of such benefits, however, is uncertain and difficult to quantify. Paragraph .28 of QC 1000 provides firms with flexibility regarding implementation and does not prescribe detailed procedures beyond the EQCF's core responsibility to evaluate significant judgments and related conclusions concerning the effectiveness of the firm's QC system. The implementation support efforts indicated that firms were considering a range of approaches to complying with the requirement; as a result, any resulting benefits would likely have varied across firms. We do not expect rescission to result in significant negative impacts on audit quality, particularly taking into account existing governance structures, monitoring, PCAOB oversight, and other QC 1000 requirements that will remain in place.

Most commenters supported the rescission of the EQCF requirement.[431] Some commenters said that removing the EQCF requirement would not diminish the focus on audit quality because QC 1000 advances the objectives of strengthening trust in governance, reinforcing accountability, and supporting a commitment to quality through other provisions in the standard.[432] Other commenters observed that existing governance structures, leadership accountability, monitoring activities, and PCAOB inspections already provide meaningful oversight.[433] Some commenters also said that rescission would allow firms to leverage existing external governance structures or develop other mechanisms tailored to their circumstances to support audit quality.[434] For example, based on information obtained through recent PCAOB oversight activities, 9 of the 13 firms that would likely have been subject to the EQCF requirement already have an independent individual serving in an advisory role for the firm.[435]

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[431] *See* comment letters from AAA (majority of AAA committee members), Baker Tilly, BDO, CAQ, CBIZ, Crowe, Deloitte, EY, Forvis, GT, KPMG, PICPA, Plante & Moran, PwC, RSM, and VSCPA.

[432] *See* comment letters from BDO, CBIZ, Crowe, KPMG, and PwC.

[433] *See* comment letters from CAQ, EY, PICPA, and VSCPA.

[434] *See* comment letters from BDO, CBIZ, Deloitte, EY, GT, KPMG, Plante & Moran, PwC, RSM, and VSCPA.

[435] One commenter, while supporting the rescission of the EQCF requirement, questioned the relevance of academic research cited in the QC 1000 2024 adopting release and the supplemental request for comment concerning the impacts of board member independence in public company

Some commenters opposed rescission of the EQCF requirement.[436] One commenter said that some form of independent challenge is vital.[437] This commenter said that the PCAOB may have understated the potential benefits of the EQCF requirement by failing to consider the impact of the ongoing trend of private equity investment in accounting firms.[438] Another commenter echoed this point and identified three annually inspected firms that have received some form of private equity investment since 2024.[439] These two commenters asserted that the consideration of the risks that private equity investments present to auditor independence, including the potential trade-offs between audit quality and commercial decisions, increases the benefits of the EQCF requirement.[440] Another commenter said that the EQCF is essential to audit quality and that independent oversight is essential for investor protection, which is even more important given the changes in ownership structures and more complex transactions.[441] Another commenter said that the EQCF is the clearest structural safeguard against the commercial and network pressures and interests that can affect a firm's own judgments about its QC system.[442] This commenter expressed concern that the rescission would remove that safeguard, while evolving ownership structures and continuing commercial pressures heighten the importance of independent oversight.[443] By reference to academic research, one commenter said that alternative practice structures embed pressures that reshape firm

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governance. *See* comment letter from PICPA; PCAOB Rel. No. 2024-005, at 347; PCAOB Rel. No. 2026-002, at 71. We agree that this research addresses a governance setting that differs in important respects from the operating environment of audit firms. This distinction, however, does not by itself resolve questions regarding the potential benefits of the EQCF.

[436] *See* comment letters from AAA (noting that a majority of AAA committee members supported rescission while a minority supported retaining the EQCF requirement for annually inspected firms), CFA, CII, ICGN, and MIAG.

[437] *See* comment letter from MIAG.

[438] *See id*.

[439] *See* comment letter from CII (identifying BDO USA, P.C., Crowe LLP, and Grant Thornton LLP). Staff are aware of two other annually inspected firms, Baker Tilly US and Cohen & Company, that reportedly have also received some form of private equity investment. *See* Tuan Doan, Steven Utke, Ying Zhou, and Youli Zou, *The Consequences of Private Equity Investment in Accounting Firms*, SSRN Electronic Journal, 59 (2026) (providing a list of private equity investments in accounting firms).

[440] *See* comment letters from CII and MIAG.

[441] *See* comment letter from ICGN.

[442] *See* comment letter from CFA.

[443] *See id*.

priorities, compensation systems, and strategic decision making.[444] One commenter, while expressing the view that the EQCF may be costly and unnecessary, cautioned that rescission of the EQCF requirement would remove a level of assurance regarding firms' internal processes and audit quality.[445]

The QC 1000 2024 adopting release recognized that the EQCF could reduce negative impacts of commercial considerations on decision making by firms, which may occur in some circumstances when the EQCF's perspective causes the firm to reconsider significant QC judgments and related conclusions when evaluating and reporting on the effectiveness of its QC system.[446] The commenters who opposed rescission, however, appear to view this potential benefit as much more certain than was reflected in the 2024 adopting release. In particular, the commenters appear to expect the EQCF's "independent oversight" to serve as a "safeguard" against firms' "commercial decisions" or "commercial and network pressures and interests" that may adversely affect audit quality.[447]

The commenters' expectations should be considered in light of the structure of the EQCF role. Audit firms have an obligation to serve the public interest. This obligation is bolstered by PCAOB oversight and professional obligations, as well as reputational and litigation risks, all of which create strong incentives for firms to fulfill their professional duty to produce high-quality audits. As a result, firms' interests in maintaining high audit quality are often aligned with investor interests. The concerns raised by the commenters, however, relate to circumstances in which those interests may diverge and to the expectation that the EQCF would prioritize investors' interests when such divergence occurs. Although the EQCF requirement is established in QC 1000, the EQCF would remain a private service obtained by the firm. The audit firm would be responsible for selecting, engaging, compensating, retaining, and removing the individual performing an EQCF role.[448] As a private contractor operating in a commercial market in which future business opportunities depend on client relationships, the individual performing an EQCF role would also have his or her own commercial interests, which could create incentives to avoid challenging the judgments of the firm in circumstances where protecting investor interests would require such a challenge. Further, because QC 1000 does

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444 *See* comment letter from AAA.

445 *See* comment letter from Spitters.

446 *See* PCAOB Rel. No. 2024-005, at 347.

447 *See* comment letters from CFA, CII, ICGN, and MIAG.

448 Although QC 1000 does not require such measures, firms may choose to adopt arrangements relating to length of service, such as term limits and protections against removal. *See* PCAOB Rel. No. 2024-005, at 121.

not prescribe how individuals serving in the EQCF role should perform the evaluation and because the evaluation necessarily involves subjective and discretionary assessments, the judgments they make in conducting the evaluation may be influenced by their own incentives. The structural features of the EQCF may limit the EQCF's ability to reliably meet commenters' expectations regarding the role.

Taking these considerations together, we believe the primary benefit the EQCF could reasonably provide is an additional, external perspective on the firm's significant judgments and conclusions made in connection with its QC system evaluation and reporting. Although this external-perspective benefit is real, its magnitude is uncertain and would depend on firm-specific implementation choices that QC 1000 does not standardize or require. The Board recognizes that rescission will forgo such potential benefits, while retaining the requirement would impose implementation and ongoing compliance costs.

4. Information and Communication

The amendments narrow and simplify communication requirements relating to metrics that the firm communicates to external parties about its audit practice, firm personnel, or engagements.

Potential Benefits

The amendments should reduce costs for firms when disclosing written metrics to external parties on a nonpublic basis. The amendments may also incentivize firms to provide more disclosure of written metrics to external parties on a nonpublic basis because the costs of doing so would be less. One commenter said that paragraph .53e as originally adopted and approved would be impractical and may not meaningfully enhance audit quality.[449] Some commenters noted that the amendments would focus on more relevant information, reduce the risk of over-collection and duplication, and enhance clarity and accessibility for investors and other users.[450] We agree with these observations about potential benefits.

Potential Costs

We expect these amendments would have limited negative impacts. External parties receiving nonpublic written metrics should already understand these metrics and some may be able to request additional information directly from the firm on an as-needed basis. One

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449 *See* comment letter from CAQ.

450 *See* comment letters from BDO, GT, and KPMG.

commenter said that dialogue and follow-ups are readily available to these external parties.[451] We agree with this observation.

5. Monitoring and Remediation Process

a. Evaluating whether similar engagement deficiencies exist on other engagements

With respect to identified engagement deficiencies, the amendment requires evaluation of whether similar engagement deficiencies exist on other engagements only if the identified engagement deficiency resulted or could result in (1) a failure to obtain sufficient appropriate evidence to support the conclusion reached on an engagement or (2) an inappropriate overall conclusion on the subject matter of an engagement.

Potential Benefits

This amendment will reduce costs for firms to operate their QC systems because they will be required to evaluate whether similar engagement deficiencies exist in fewer cases. Some commenters said the amendment could reduce the complexity, subjectivity, and costs associated with evaluating engagement deficiencies across other engagements.[452]

Potential Costs

We believe it is unlikely the amendment would have a significant impact on audit quality because the amendment scopes out only engagement deficiencies that are less likely to impact audit quality. Furthermore, firms would still be required to address all types of engagement deficiencies on the engagements on which they have been identified in accordance with subparagraphs a-c of paragraph .68 and evaluate them to determine whether QC deficiencies exist in accordance with paragraph .72. To the extent firms are constrained by limited staff resources, focusing firms' attention on engagement deficiencies that are most likely to impact audit quality may improve audit quality overall.

One commenter suggested that the amendment could improve audit quality as it would allow firms to focus attention on those engagement deficiencies that are most relevant.[453] Another commenter noted the amendment could allow firms to focus their efforts on matters

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451 *See* comment letter from BDO.

452 *See* comment letters from CAQ, RSM, and Spitters.

453 *See* comment letter from GT.

that are likely to have an effect on audit quality.[454] However, one commenter questioned why only items (1) and (2) from footnote 40A to proposed paragraph .68a were included in proposed paragraph .68d while items (3) and (4) (the engagement report is not appropriate in the circumstances and the firm is not independent of its client, respectively) were not.[455] Another commenter stated that a deficiency that appears immaterial on the engagement where it was first identified can still be a symptom of a firm-wide QC weakness and a narrower trigger reduces the number of opportunities a firm has to find that pattern before it results in an audit failure.[456] The commenter also said the economic analysis offers no data or analysis on which deficiencies would no longer require evaluation of whether similar engagement deficiencies exist on a firm's other engagements.[457] See Section III.E.1.b. for a discussion of the types of deficiencies that would require evaluation under the revised paragraph .68d. The amendment to this paragraph focuses on those engagement deficiencies that most directly affect the sufficiency and appropriateness of evidence obtained on the engagement as well as the ultimate opinion expressed by the firm.

b. Definition of QC deficiency

The amendments revise the definition of "QC deficiency" to make clear that, when firms have implemented more than one quality response to address the same quality risk, they can take those other quality responses (e.g., compensating responses) into account when determining whether a QC deficiency exists; if the other quality responses were effective in achieving the relevant objective(s), no QC deficiency would exist.

Potential Benefits

By clarifying the scope of the definition, this amendment would reduce regulatory uncertainty about the existence of, and thus the need to remediate, QC deficiencies in firms' QC systems. One commenter explained that QC systems often include multiple, interrelated quality responses to address the same quality risk and that evaluating one quality response in isolation could overstate the significance of an issue.[458] Another commenter said that this amendment would improve the evaluation of QC observations and help focus monitoring and

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454 *See* comment letter from Baker Tilly.

455 *See* comment letter from Grosvenor.

456 *See* comment letter from CFA.

457 *See id*.

458 *See* comment letter from CAQ.

remediation efforts on issues that have the greatest potential impact on audit quality.[459] We agree with the commenters' assessments of these potential benefits.

Potential Costs

At the same time, there would be limited risk to the overall functioning of the QC system because the amendment is only a clarification. One commenter expressed concern that the amendment would give firms or networks additional temptation to identify compensating responses when the linkage is tenuous.[460] Another commenter said that without a documented, inspectable basis for concluding that a "compensating response" actually operated effectively, the amendment risks becoming a way to explain away deficiencies rather than a genuine test of whether investors remain protected.[461] We acknowledge these concerns. However, as described above, while firms are permitted to take other quality responses into account when determining whether a QC deficiency exists, they may do so only if the other quality responses are effective in achieving the relevant objective(s), that is, they would need to be properly designed, implemented, tested, and found to operate effectively.

6. Evaluation of and Reporting on the QC System

c. Evaluation date

The amendments allow firms to select the date as of which they annually evaluate the effectiveness of their QC system, rather than requiring firms to evaluate as of September 30. In the QC 1000 2024 adopting release, we noted that a benefit of a fixed September 30 evaluation date is that the PCAOB would have relatively current information available when it selects firms and engagements for inspection.[462] However, we also noted that the evaluation requirement would be less costly to firms if they were able to choose the date because, for example, they could choose to use the same evaluation date under QC 1000 and ISQM 1.[463]

Commenters generally supported the proposed amendment to allow firms to select their own annual evaluation date for their QC systems because the prescribed September 30

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459 *See* comment letter from GT.

460 *See* comment letter from Grosvenor.

461 *See* comment letter from CFA.

462 *See* PCAOB Rel. No. 2024-005, at 371.

463 *See id*.

evaluation date had led to significant challenges.[464] For example, one commenter said that their network firms generally have a fiscal year-end of May 31 and anchor their evaluation dates relative to that fiscal year-end for European Union ("EU") transparency reporting purposes.[465] This commenter also said the practical costs of duplicative evaluation dates are significant.[466] One commenter asserted that many firms struggled with operationalizing a mandated September 30 evaluation date given their respective operations and other quality management processes.[467] Another commenter said that it is appropriate to permit firms to select the evaluation date based on their individual facts and circumstances and noted that the fixed September 30 date could be detrimental to audit quality for some firms if it requires the diversion of resources away from other activities.[468]

Potential Benefits

We believe that the amendment would effectively address the concerns discussed above, generate cost savings, and enhance QC system evaluations. These cost savings would be particularly significant for the firms that have already implemented ISQM 1 or SQMS 1 and are using an evaluation date under these standards that is different from September 30.[469] Firms that would have performed two separate evaluations (e.g., to address separate evaluation and reporting requirements) can avoid the recurring costs of doing so, while firms that would have chosen to align their existing QC system evaluation to September 30 can avoid the costs of doing so, to the extent they have not already implemented the September 30 evaluation date.

Commenters generally agreed the amendment would be beneficial.[470] One commenter said the amendment would reduce costs and support a more integrated evaluation process.[471] Another commenter said the amendment would promote both efficiency and effectiveness.[472] However, one commenter noted that, even with the amendments, firms' initial evaluation

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464 *See*, *e.g.*, comment letters from Baker Tilly, BDO, and Deloitte.

465 *See* comment letter from Deloitte.

466 *See id*.

467 *See* comment letter from Baker Tilly.

468 *See* comment letter from AAA.

469 We believe most firms are subject to ISQM 1 or SQMS 1. *See* footnote 383.

470 *See*, *e.g.*, comment letters from CAQ, Deloitte, EY, and PICPA.

471 *See* comment letter from Deloitte.

472 *See* comment letter from KPMG.

periods may not be 12 months and therefore may not align with their ISQM 1 evaluation periods.[473] Another commenter said many firms have already designed and implemented processes and protocols around a September 30 evaluation date and, as a result, for a firm that chooses an earlier date (e.g., May 31), modification of those processes before the initial effective date may present practical challenges, particularly for smaller firms.[474] We recognize that the potential benefits may be offset in part by these challenges. Firms that have already implemented a September 30 evaluation date would be free to avoid costs related to modification of their processes and protocols by retaining the September 30 evaluation date.

To help inform the Board's consideration of the potential magnitude of concerns about a fixed September 30 evaluation date, staff performed an analysis of firms' QC system annual evaluation dates disclosed pursuant to EU transparency rules.[475] Figure 2 shows the distribution of firms' existing annual evaluation dates based on their recent transparency reports.[476] Panel A shows the distribution by month while Panel B shows the distribution by month relative to the month of the firm's fiscal year-end. Panel A shows that 79% (19 ÷ 24) of the firms in our sample use evaluation months other than September (86% (6 ÷ 7) of the annually inspected firms in our sample). Panel B shows that 78% (18 ÷ 23) of the firms in our sample set the month of their evaluation date to be the same as the month of their fiscal year-end (43% (3 ÷ 7) of the annually inspected firms in our sample). Allowing these firms to select the evaluation date that aligns with their individual circumstances (e.g., fiscal year-end, other reporting date(s)) would thus appear to confer substantial, widespread benefits.

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473 *See* comment letter from BDO.

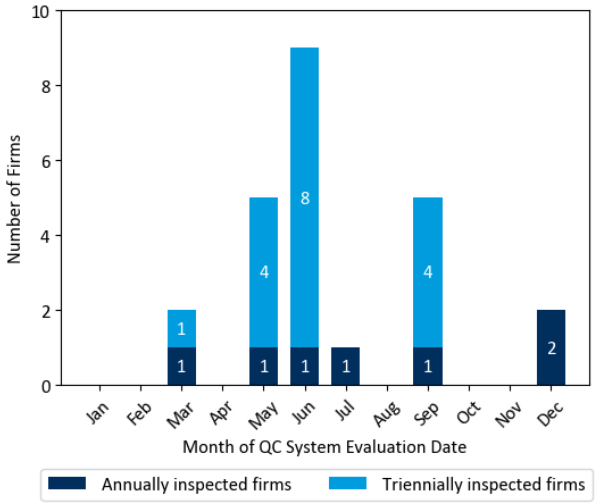
474 *See* comment letter from Plante & Moran.

475 Regulation (EU) 537/2014, Article 13, requires audit firms that carry out statutory audits of public-interest entities to make public an annual transparency report after the end of each financial year. The transparency report must include, among other information about the audit firm, an indication of when the last quality assurance review was carried out and a statement by the administrative or management body on the effectiveness of the functioning of the internal quality control system.

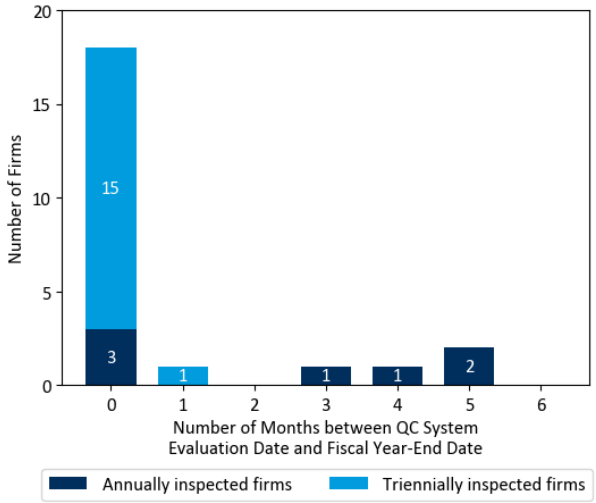
476 Staff searched for transparency reports or audit quality reports for the 100 largest PCAOB-registered firms by issuer count and identified information regarding QC system evaluations from the reports found. Among the 100 firms, 30 firms published an EU transparency report or audit quality report in recent years, including 24 firms that disclosed QC system evaluation dates. Among the 24 firms, staff identified fiscal year-ends for 23 firms from their transparency reports or other official documents published by the firms.

Figure 2. QC System Annual Evaluation Dates

Panel A: Distribution of QC System Evaluation Dates



Panel B: Months between QC System Evaluation Date and Fiscal Year-End Date



Source: Firm EU transparency reports.

Note: The staff's analysis is based on 24 audit firms that disclosed their QC evaluation dates in their most recent EU transparency reports. Staff could not identify the fiscal year-end for one of these firms and, therefore, excluded it from Panel B. Registered firms that have issued audit reports for more than 100 issuers during the prior calendar year are subject to annual inspection. Registered firms that have issued audit reports for 100 or fewer issuers during the prior calendar year are required to be inspected at least once every three years. Staff assigned firms as annually or triennially inspected based on their designation as of the time of this analysis.

Potential Costs

The PCAOB could have relatively less current information available when making inspection planning decisions depending on the evaluation dates firms choose. However, the PCAOB may seek to minimize this cost in the future by adjusting its inspection program.

While we believe the amendment would generally reduce costs to firms, one commenter said that many firms have already designed and implemented processes, monitoring activities, and documentation protocols around a September 30 evaluation date.[477] Accordingly, to the extent firms choose to switch their evaluation date, such firms may incur additional one-time costs to design and implement processes, monitoring activities, and documentation protocols around a new evaluation date. However, we expect firms would only

[477] *See* comment letter from Plante & Moran.

incur these costs if they conclude that the new evaluation date provided long-run efficiencies that justified the initial adjustment costs.

d. Evaluation conclusions

The amendments revise the QC system evaluation conclusions to align more closely with the conclusions in other quality management standards, while retaining a structured process, including specified factors for consideration, to guide the evaluation.

Several commenters highlighted challenges with the evaluation conclusions as originally adopted.[478] For example, one commenter said that differences in conclusion types and definitions between QC 1000 and other quality management standards create challenges whereby different conclusions could be reached under the same set of circumstances.[479] Another commenter said the amendments would appropriately address concerns raised regarding the downstream ramifications of communicating these conclusions to other participants as well as transparency reporting inconsistencies.[480]

Potential Benefits

The amendments to evaluation conclusions would reduce potential confusion by reducing (but not eliminating) the likelihood that firms reach different conclusions about the effectiveness of their QC system under different QC standards.[481] Even if QC 1000 and ISQM 1 were identical in all respects, differences in firm QC systems would remain, including due to variations in applicable professional and legal requirements, the populations of engagements subject to the QC systems, and the individuals performing such engagements or performing activities within the QC system. As to the QC system evaluation conclusions in particular, conclusions may also differ based on QC 1000's more precisely defined and potentially broader concept of an unremediated QC deficiency (i.e., one for which remedial actions that completely address the QC deficiency have not been fully implemented, tested, and found effective). One commenter agreed that the amendments would address the risk that the disclosure of a firm's evaluation conclusion under other quality management standards and voluntary disclosure of its assessment under QC 1000 could be confusing to stakeholders to the extent the conclusions

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478 *See* Section III.F.1.c for additional discussion of comments on the proposed amendments to the evaluation conclusions.

479 *See* comment letter from Deloitte.

480 *See* comment letter from EY.

481 We believe most firms are subject to ISQM 1 or SQMS 1. *See* footnote 383.

differed under the same set of circumstances.[482] Another commenter said the amendments provide more meaningful information to stakeholders regarding the effectiveness of a firm's QC system.[483] Another commenter said that it would be uncommon for firms to come to different conclusions under QC 1000 and ISQM 1 under the amendments.[484]

The amendments may also reduce the cost of a QC system evaluation as firms may be able to draw on, to some extent, the evaluation process they perform under ISQM 1 or SQMS 1 (e.g., when assessing the severity and pervasiveness of unremediated QC deficiencies) or perform both evaluations concurrently. One commenter said that removing the concept of a "major QC deficiency" would reduce unnecessary complexity and better align the evaluation conclusions with the reasonable assurance objective of the QC system.[485] Similarly, other commenters expressed support for the removal of the "major QC deficiency" concept and believe doing so simplifies the evaluation framework and improves alignment with other quality management standards.[486]

Potential Costs

The amendments would likely broaden the conditions under which firms would be able to reach favorable conclusions about the effectiveness of their QC system. For example, firms could report that the system was effective, without an "except for" qualification, when there were unremediated QC deficiencies that, individually or in combination, are not severe. Under QC 1000 as originally adopted and approved, this reporting would have been permitted only if there were no unremediated QC deficiencies at all. The presumptions regarding the existence of a major QC deficiency would also be eliminated, affording firms greater latitude when determining whether the QC system failed to achieve the reasonable assurance objective. In either of these cases, firms may have less incentive to remediate QC deficiencies because doing so would not impact the overall conclusion they report to the PCAOB.

However, we acknowledge that firms would still have significant incentives to remediate QC deficiencies for reasons independent of these amendments. For example, firms would still need to consider a variety of factors when assessing the severity of unremediated QC deficiencies, including the persistence of those QC deficiencies. In addition, allowing QC deficiencies to remain unremediated may lead to pervasive or severe QC deficiencies in the

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482 *See* comment letter from Deloitte.

483 *See* comment letter from BDO.

484 *See* comment letter from EY.

485 *See* comment letter from CAQ.

486 *See* comment letters from BDO, GT, KPMG, PICPA, RSM, and Spitters.

future. Firms would also have an incentive to remediate QC deficiencies because unremediated QC deficiencies would be disclosed to the PCAOB on Form QC. Furthermore, to the extent QC deficiencies are determined to be Part II deficiencies, firms would have an incentive to remediate them.[487]

7. Documentation

The amendments simplify the requirement for retention of QC system documentation and abbreviate the documentation retention period from seven to five years.

Potential Benefits

The amendment to simplify the documentation retention requirement will reduce costs to firms to design, implement, and operate their QC systems. For example, costs associated with developing IT systems and gathering, transferring, and retaining data should be reduced. One commenter said that the amendments would reduce operational complexity, administrative burden, and compliance costs.[488] Another commenter said that the amendments would reduce the need for firms to build and maintain centralized archives solely for retention purposes.[489]

The amendment to the documentation retention period will also reduce the costs for firms to design, implement, and operate their QC systems. Many commenters who commented on the supplemental request for comment supported this amendment.[490] For example, one

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[487] We include deficiencies in Part II of an inspection report if an analysis of the inspection results, including the results of the reviews of individual audits, indicates that the firm's QC system does not provide reasonable assurance that firm personnel will comply with applicable professional standards and requirements. Generally, the report's description of quality control criticisms is based on observations from our inspection procedures. As required under Section 104(g)(2) of Sarbanes-Oxley, any criticisms of or potential defects in the QC system of the firm identified through a PCAOB inspection are not included in the public portion of the relevant inspection report when first issued. If a firm does not address to the Board's satisfaction criticisms of, and potential defects in, the firm's QC system within 12 months after the issuance of the PCAOB inspection report, Part II of the report will be issued publicly to include such deficiencies. Outcome-based management of the remediation and evaluation processes in a way that is not compliant with QC 1000 could itself form the basis for a Part II finding, which should provide another constraint on the extent to which judgment can be used to avoid reaching a negative conclusion.

[488] *See* comment letter from BDO.

[489] *See* comment letter from KPMG.

[490] *See* Section III.G. for additional discussion of comments related to the proposed amendments to the documentation requirements.

commenter said the reduction of the document retention period to five years helps alleviate a portion of the cost burden.[491] Another commenter agreed that this amendment would reduce compliance costs for all firms.[492] The commenter also said that the extent of cost savings would vary by firm size, structure, existing quality management framework, PCAOB engagement profile, and progress toward implementation.[493] We agree that the extent of cost savings will likely vary based on these characteristics.

Potential Costs

As the amendment to simplify the documentation retention requirement is intended to address specific potential unintended negative consequences, we do not expect it would negatively impact the overall effectiveness of firms' QC systems or our ability to carry out our oversight. For example, we believe permitting firms to maintain documentation of their QC system in the documentation's original system of record should not have any impact on the overall effectiveness of their QC systems.

The amendment to shorten the retention period would reduce the length of time information is available to firms and to the PCAOB. This could negatively affect firms' ability to analyze the performance of their QC system over time. However, the salience of QC system documentation likely decreases with time and shortening the period by two years should not have a significant negative impact on firms' ability to monitor their QC systems or impair PCAOB oversight.

8. Differential Impacts for Firms of Different Sizes

The impact of the amendments on an individual firm will depend on the firm's unique facts and circumstances, including the size of the firm's issuer and broker-dealer assurance practice (e.g., the number of engagements and the amount of auditing required for those engagements, which may vary based on the size or complexity of those engagements). In the QC 1000 2024 adopting release, we noted that the direct costs of QC 1000 would likely depend on the size of the firm and the nature of the firm's audit practice.[494] We noted that firms with larger PCAOB audit practices that already have extensive QC systems in place may benefit from economies of scale or scope when incorporating the new requirements into their existing

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491 *See* comment letter from Deloitte.

492 *See* comment letter from CAQ.

493 *See id.*

494 *See* PCAOB Rel. No. 2024-005, at 354.

systems, which would decrease the cost of QC 1000 per engagement.[495] We further noted that firms with larger PCAOB audit practices would be able to distribute fixed implementation costs over a larger number of engagements, while firms with smaller practices would distribute fixed implementation costs over a smaller number of engagements.[496] We also noted that, to the extent that QC 1000 improves compliance with applicable professional and legal requirements, the improvement might be greater with respect to broker-dealer engagements and issuer audits performed by firms other than U.S. GNFs because auditing deficiencies appeared to be more prevalent for these firms.[497] We also noted that, under QC 1000, larger firms were subject to additional requirements meaningfully different from ISQM 1 or SQMS 1, which would increase the overall cost of QC 1000 to these firms.[498]

The amendment to rescind the EQCF requirement would result in cost savings only for firms with larger PCAOB audit practices because the EQCF requirement applies solely to those firms that issued audit reports for more than 100 issuers in the prior calendar year. By contrast, the rescission of the QC system design requirement would result in cost savings only for design-only firms. These firms, by definition, do not serve as lead auditors and do not play a substantial role in PCAOB engagements, although some may participate in a more limited capacity. Accordingly, the two amendments affect different segments of the registered-firm population: the rescission of the EQCF requirement will reduce costs for a relatively small number of firms that audit a substantial portion of the issuer and broker-dealer audit market, while the rescission of the design-only requirement will reduce costs to a much larger population of firms with limited participation in the issuer and broker-dealer audit market.[499]

Other amendments would apply to all firms required to design, implement, and operate a QC 1000-compliant system. For example, the amendments would allow multiple individuals and non-firm personnel to serve in certain QC system governance roles, allow firms to choose their own QC system evaluation date, and narrow the scope of deficiencies for which firms would be required to evaluate whether similar engagement deficiencies exist on other engagements. These amendments would reduce the costs of designing, implementing, and operating a QC system in compliance with QC 1000 for all firms. However, the magnitude of

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495 *See id.* at 354.

496 *See id.* at 354.

497 *See id.* at 341.

498 *See id.* at 355-360.

499 In addition to having smaller PCAOB audit practices, design-only firms tend to have fewer accountants. Based on analysis of firms' most recent Form 2 filings and using the design-only and full-implementation firms identified above in Table 1, staff analysis finds that design-only firms have a median (mean) of 30 (125) accountants compared to 123 (783) for full-implementation firms.

these effects may differ between larger and smaller firms. For example, smaller firms may be more likely to share resources with other firms. The ability to use non-firm personnel to serve in certain QC system governance roles may, therefore, be more beneficial to these firms.

Some of these cost savings would largely be fixed in nature and would not scale with the firm's size (i.e., the number of engagements or the amount of auditing required for those engagements). For example, the flexibility to choose any QC system evaluation date is largely independent of the number of engagements a firm has. Because smaller firms have fewer engagements to distribute QC system cost savings across, these cost savings could have a more significant impact on smaller firms' profitability and competitiveness. On the other hand, some of the cost savings associated with the amendments would scale with the firm's size and therefore should benefit both smaller firms and larger firms proportionately. For example, the amendment to narrow the scope of deficiencies for which firms would be required to evaluate whether similar engagement deficiencies exist on other engagements would provide greater cost savings to larger firms in absolute dollars, but because the cost savings would be proportional to the size of the issuer and broker-dealer audit practice, the impact is not expected to be disproportionate.

Some commenters provided perspectives on potential differential impacts for smaller firms.[500] One commenter said that a firm with a limited pool of PCAOB audit engagements and limited resources would likely find it more challenging than larger firms to have to parse its monitoring and remediation activities for the nuanced distinctions made in paragraph .77(b).[501] The same commenter suggested that the amendments to paragraphs .12 and .15-.17 would be especially helpful to triennial firms.[502] Similarly, a commenter said the amendments to paragraphs .12 and .15-.17 provide flexibility to smaller firms that may rely on other participants to obtain specialized skills, expertise, and objectivity.[503] Another commenter said that smaller firms and firms with limited PCAOB engagements may experience proportionately greater benefits from rescission of the design-only requirement and added flexibility in

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500 *See*, *e.g.*, comment letters from BDO, CAQ, and Kramer.

501 *See* comment letter from Kramer. Paragraph .77(b) will require firms to conclude whether its QC system is effective in achieving the reasonable assurance objective except for unremediated QC deficiencies that have a severe but not pervasive effect on the design, implementation, and operation of the QC system (and do not render the QC system not effective). In evaluating the severity and pervasiveness of unremediated QC deficiencies, paragraph .78 provides eight factors that the firm should consider.

502 *See* comment letter from Kramer.

503 *See* comment letter from BDO.

assigning roles.[504] The commenter also said larger firms may benefit from the removal of prescriptive requirements that are difficult to operationalize at scale, such as the EQCF requirement, and from clarifications that reduce duplicative or low-value compliance activities.[505]

One commenter noted that the amendments collectively would improve the operability of QC 1000, which is particularly important for firms outside the six largest global networks.[506] Another commenter said that the amendments would have a beneficial impact on smaller firms.[507] The same commenter also explained that the vast majority of smaller firms operate with less complex organizational and governance structures, narrow service offerings and industry concentrations, and fewer personnel dedicated exclusively to quality control, monitoring, and remediation activities.[508] Another commenter said that smaller firms will proportionally have integrated QC 1000 for much less economic and monetary costs than larger firms with a good-size subset of their operations devoted to compliance with QC 1000.[509] We agree that, as discussed above, some of the amendments could disproportionately benefit smaller firms.

D. Alternatives Considered

During the development of the amendments, we considered a number of alternative approaches to address the need described in Section V.B. above, including those suggested by commenters. This section explains reasonable alternatives related to an earlier design requirement trigger, the EQCF requirement, the QC system evaluation framework, and the documentation requirements.

1. Earlier Design Requirement Trigger

In the supplemental request for comment, we considered whether the obligations to design a QC system should be triggered earlier than when a firm becomes subject to applicable professional and legal requirements with respect to an engagement. Commenters responding

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504 *See* comment letter from CAQ. Firms with limited (or "any") PCAOB engagements would be subject to QC 1000 in accordance with paragraph .06.

505 *See* comment letter from CAQ.

506 *See* comment letter from Forvis.

507 *See* comment letter from PICPA.

508 *See id*.

509 *See* comment letter from Spitters.

to possible earlier QC-system design requirement triggers generally did not support this alternative.[510] However, one commenter requested that the Board specify an earlier trigger—for example, when a firm bids for or is appointed to issuer or broker-dealer work—by which time a compliant QC system must be designed and operating, well in advance of the firm commencing that work.[511]

If an earlier trigger for the design requirement were adopted, registered firms that are not subject to any applicable professional and legal requirements would incur costs to monitor relevant facts and circumstances to determine whether the triggering event has occurred. If the triggering event were to occur, these firms would then incur costs to design their QC systems.[512] To avoid incurring these costs, some of these firms may choose to withdraw from registration, depriving these firms of the benefit of greater participation in the issuer and broker-dealer audit market (e.g., in cases where lead auditors prefer to use registered firms for less-than-substantial-role work) and reducing the supply of registered firms. A reduction in the supply of registered firms could in turn lead to a reduction in competition. As discussed in Section V.C.1., we have observed that some design-only firms have already withdrawn from registration, citing QC 1000 as a reason. At the same time, since these firms are not subject to applicable professional and legal requirements, their design of a QC system under QC 1000 would not immediately benefit any engagements. To better prepare themselves for performing engagements, some of these firms may voluntarily design a QC 1000-compliant system.

These impacts would be offset to the extent firms have already implemented ISQM 1 or SQMS 1 when the event that requires them to design a QC system under QC 1000 occurs.[513] Furthermore, as a commenter noted, the requirements of QC 1000 related to client acceptance and continuance and AS 2101, *Audit Planning*, currently require a firm to assess its readiness and ability to comply with QC 1000 before undertaking a PCAOB engagement.[514] When a firm becomes subject to applicable professional and legal requirements with respect to an engagement, the firm will become subject to these QC 1000 and AS 2101 requirements, which, if properly implemented, should help firms prepare to perform the engagement. Accordingly, these requirements may offset any potential benefit of an earlier design requirement trigger.

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510 *See* comment letters from AAA, BDO, CAQ, GT, KPMG, and Kramer.

511 *See* comment letter from CFA.

512 These impacts may apply as well to firms that register in the future. However, this impact may depend in part on the PCAOB registration process when these firms register. *See* Section V.C.1. for additional discussion of this issue.

513 *See* Section V.C.1. for additional discussion on this point.

514 *See* comment letter from CAQ.

2. EQCF for Largest Firms

We considered and solicited feedback on whether 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 would be appropriate. As discussed further in Section III.C., commenters responding to the question about the alternative approach generally did not support the 500-issuer threshold. However, one commenter expressed concern with rescinding the EQCF requirement and suggested instead retaining the requirement for firms auditing more than 500 issuers.[515] The commenter asserted that, under this alternative, the defined, independent evaluation of the firm's self-assessment would survive at the five firms where "nearly all U.S. public market capitalization sits."[516] Using 2025 data, we confirm that the alternative 500-issuer EQCF requirement threshold would apply to five firms, which collectively audited 6,962 issuers, representing approximately 60% of all issuer audits and approximately 81.8% of aggregate issuer market capitalization.[517]

If the EQCF requirement were retained and amended using a 500-issuer threshold, the five firms would incur implementation and compliance costs, including costs to identify, hire, retain, and compensate suitable individuals for the EQCF role. As discussed in Section V.C.3., while we have limited information to reliably quantify the potential costs of compliance with the requirement, these costs could vary substantially depending on how each firm chooses to implement the requirement. The costs could be particularly high for these largest firms because they tend to have more complex QC systems. The incremental costs may be offset to the extent that these firms could modify their existing external advisory structures to satisfy the EQCF requirement. However, as discussed in Section V.C.3., the firms would still incur incremental costs, including the costs of providing liability insurance and committing additional time and resources.

Retaining this requirement only for firms above the 500-issuer threshold would be unlikely to provide the independent evaluation the above commenter expected from the EQCF requirement.[518] As discussed in Section V.C.3., the structural features of the EQCF may limit its ability to independently evaluate firms' self-assessment, as an individual serving in an EQCF role

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515 *See* comment letter from CFA.

516 *See id.*

517 The supplemental request for comment stated that these five firms currently audit companies that make up approximately 98% of U.S. public market capitalization. *See* PCAOB Rel. No. 2026-002, at 22. That figure, however, encompassed the U.S. public market capitalization of companies audited by those firms' non-U.S. affiliates. This analysis reports the issuer count and market capitalization calculated using the same methodology described in Section V.C.3. *See* footnote 402 for details.

518 *See* comment letter from CFA.

would still be selected, compensated and retained by the firm, regardless of firm size. Retaining the EQCF requirement for these five firms could nevertheless provide potential benefits by introducing an external second look at the significant judgments made and related conclusions reached by these firms when evaluating and reporting on the effectiveness of their QC systems. However, the benefits of such an external second look may be limited because the five firms already obtain, through existing advisory structures, some of the external perspectives that the EQCF's second-look review might otherwise provide.

3. QC System Evaluation Framework

In the supplemental request for comment, we considered an alternative evaluation framework under which a firm would be required to reach a binary conclusion (i.e., that its QC system is either effective or not effective in achieving the reasonable assurance objective). Under this approach, the evaluation would not include a separate category for the conclusion that the firm's QC system is effective in achieving the reasonable assurance objective except for unremediated QC deficiencies that have a severe but not pervasive effect on the design, implementation, and operation of the QC system. Accordingly, we expect in these cases that firms would report that their QC system is effective because the reasonable assurance objective would still be met. One commenter suggested that a binary framework may be appropriate for many triennial firms as it would simplify their evaluations and provide the Board with more useful information.[519] However, many commenters opposed the binary approach for the evaluation framework.[520] These commenters generally argued that a binary conclusion would be less informative.[521] One commenter said that the three-tiered structure conveys meaningfully more information than a binary conclusion would.[522]

This alternative could reduce costs to firms as it would likely simplify to some extent the evaluation process. We acknowledge that some triennial firms may experience some challenges applying the evaluation criteria. However, many of these triennial firms should have experience with the three-tiered evaluation framework of ISQM 1 or SQMS 1. Furthermore, under this alternative, we believe firms would still need a structure for evaluating identified QC deficiencies and determining whether those deficiencies result in a conclusion that the QC system is not effective. For this reason, this alternative approach may not significantly reduce

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519 *See* comment letter from Kramer.

520 *See* comment letters from AAA, Baker Tilly, BDO, CAQ, CBIZ, GT, ICGN, KPMG, MIAG, PICPA, PwC, and RSM.

521 *See* comment letters from BDO, CAQ, CBIZ, GT, KPMG, and PICPA. *See* Section III.F.1.c. for additional discussion of the comments related to this alternative.

522 *See* comment letter from CFA.

any potential challenges that may be faced by triennial firms. While unremediated QC deficiencies would still be reported to the Board under this alternative approach, we believe that a binary conclusion would result in less informative reporting to the Board. More specifically, if a firm's QC system is effective in achieving the reasonable assurance objective except for unremediated QC deficiencies that have a severe but not pervasive effect on the design, implementation, and operation of the QC system and do not render the QC system not effective, the firm would not be required to report this conclusion to the Board on Form QC. Furthermore, the binary conclusion framework may incentivize firms with severe but not pervasive unremediated QC deficiencies not to remediate their QC deficiencies since doing so would not change the conclusion they report to the PCAOB.

4. Documentation Requirements

Several commenters requested that the Board consider a shorter documentation retention period.[523] Some commenters suggested that a shorter documentation retention period would reduce costs.[524] Two commenters noted that a three-year retention period may suffice to accomplish the Board's oversight objectives.[525] Another commenter said that the supplemental request for comment did not provide empirical evidence demonstrating that documentation older than several years is routinely relied upon in inspections or enforcement matters, nor did it explain why a five-year period, rather than a shorter period, is required to protect investors.[526] Two commenters called for an approach that would scale the documentation retention period according to facts and circumstances .[527] One commenter called for a more flexible approach to the documentation retention period.[528] One commenter said that it could be argued that the documentation retention period should be either (1) no shorter than seven years so that any engagement deficiencies evidenced by the audit documentation could be understood in the context of the QC system policies and procedures at that time or (2) the shortest time possible to meet regulator needs which is likely less than five

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523 *See*, *e.g.*, comment letters from Baker Tilly, CAQ, Deloitte, and GT.

524 *See* comment letters from Baker Tilly and Deloitte.

525 *See* comment letters from Baker Tilly and CAQ.

526 *See* comment letter from PICPA.

527 *See* comment letters from BDO and Forvis.

528 *See* comment letter from GT.

years.[529] Another commenter said that a five-year retention period could continue to pose significant challenges and unintended costs to firms.[530]

We recognize that a shorter retention period or more flexible documentation requirements could reduce costs. However, we believe a five-year documentation period is necessary for PCAOB oversight. For example, enforcement staff may investigate misconduct occurring over several years, and the staff generally reviews relevant QC documentation as part of their investigation. Staff analysis of PCAOB enforcement orders published since 2020 indicates that 45% of the orders explicitly cite PCAOB QC standards.[531]

VI. SPECIAL CONSIDERATIONS FOR EMERGING GROWTH COMPANIES

Pursuant to Section 104 of the Jumpstart Our Business Startups ("JOBS") Act, any additional rules adopted by the Board subsequent to April 5, 2012, generally do not apply to the audits of EGCs, as defined in Section 3(a)(80) of the Exchange Act, unless the SEC "determines that the application of such additional requirements is necessary or appropriate in the public interest, after considering the protection of investors and whether the action will promote efficiency, competition, and capital formation."[532]

To inform consideration of the application of the amendments to audits of EGCs, staff performed an analysis of EGC audits as of November 15, 2024.[533] The data remain generally consistent with the data outlined in the EGC white paper published May 23, 2025, which

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[529] *See* comment letter from Grosvenor.

[530] *See* comment letter from Plante & Moran.

[531] Staff's analysis uses data from 210 PCAOB settled disciplinary orders published between January 1, 2020, and December 31, 2025. PCAOB enforcement actions are available for download from the Board's website, *available at* https://pcaobus.org/oversight/enforcement/enforcement-actions.

[532] *See* Pub. L. No. 112-106 (Apr. 5, 2012). Section 103(a)(3)(C) of Sarbanes-Oxley, 15 U.S.C. § 7213(a)(3)(C), as added by Section 104 of the JOBS Act, also provides that any rules of the Board requiring (1) mandatory audit firm rotation or (2) a supplement to the auditor's report in which the auditor would be required to provide additional information about the audit and the financial statements of the issuer (auditor discussion and analysis) shall not apply to an audit of an EGC. None of the amendments would fall within either of these two categories.

[533] We are providing this analysis of the impact on EGCs to assist the SEC in considering this issue to the extent necessary. The analysis reported in this section follows the same methodology used in the EGC white paper published May 23, 2025, which is available on the PCAOB's website at https://pcaobus.org/resources/other-research-projects.

analyzed data as of November 15, 2023. PCAOB staff identified 2,379 EGCs.[534] Of those 2,379, the 1,252 EGCs with common equity securities listed on a U.S. national securities exchange had a total U.S. market capitalization of $466 billion. These EGCs represented approximately 23% of all exchange-listed companies yet just 0.6% of U.S. total market capitalization. Forty-one percent of EGCs reported no revenue or self-identified as shell companies.

Of the 245 PCAOB-registered firms that audited EGCs:

- 203 firms (or 83%) performed audits for both EGC and non-EGC issuers. Approximately 97% of EGCs were audited by these 203 firms.
- 119 firms (or 49%) were headquartered in the U.S. Approximately 77% of EGCs were audited by these 119 firms.
- None were design-only firms, but design-only firms provided at least 5% of total audit hours on nine EGC audit engagements.[535]
- 16 firms (or 7%) have withdrawn from PCAOB registration since November 15, 2024. None of these firms referenced QC 1000 as a reason for withdrawal.
- 14 firms (or 6%) issued audit reports with respect to more than 100 issuers. Forty-two percent of EGCs were audited by these 14 firms.

Any reduction in audit quality arising from the amendments could reduce financial reporting quality, which could result in less efficient capital allocation, higher cost of capital, and less capital formation. This effect could be particularly pronounced for EGCs. EGCs tend to be smaller and have a shorter SEC financial reporting history than the broader population of public companies. Academic research suggests that, for several reasons, smaller public

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[534] The methodology for capturing the EGC population covers only companies that self-identified as an EGC by selecting the applicable check box on an Exchange Act annual report or registration statement (Forms 10-K, 20-F, 40-F, 10-12B, 10-12G), or on a Securities Act registration statement (Forms F-1, F-4, S-1, S-4, S-11) filed with the SEC during the 18-month period ending November 15, 2024 (the measurement period). In instances where a company had more than one such filing during the measurement period, the most recent annual report was selected. If no annual report was filed during the measurement period, the most recent registration statement was selected. Staff removed companies whose annual reports or registration statements did not include an audit report signed by a registered firm in the measurement period (e.g., companies whose filings included unaudited financial statements or audit reports signed more than 18 months before the measurement date). Of the 2,379 EGCs we identified, 1,820 (1,721) filed an annual report during the 18-month (12-month) period ending November 15, 2025.

[535] Source: Form AP filings.

companies tend to exhibit greater information asymmetry between management and investors.[536] One commenter noted that EGCs "may rely especially heavily" on the external audit given greater information asymmetry and less market coverage.[537] Accordingly, we believe that EGCs are likely to exhibit greater information asymmetry between management and investors and hence the importance of the external audit to investors in enhancing the credibility of EGC financial reporting may be more pronounced. However, as we believe the amendments would have minimal impact on audit quality, any impact on EGCs' financial reporting quality should also be minimal.

The amendments would also likely decrease costs incurred by firms to design, implement, and operate their QC systems. Firms could pass part of these cost savings down to their clients, including EGCs, in the form of lower audit fees. EGCs are disproportionately audited by smaller firms. Approximately 42% (993 ÷ 2,379) of EGCs were audited by firms that had over 100 issuer clients while approximately 12% (276 ÷ 2,379) were audited by firms that had 10 or fewer issuer clients. By contrast, approximately 73% (6,824 ÷ 9,294) of non-EGCs were audited by firms that had over 100 issuer clients while approximately 9% (797 ÷ 9,294) were audited by firms that had 10 or fewer issuer clients. However, because it is unclear whether the amendments would disproportionately impact smaller firms, it is also unclear whether EGCs would be disproportionately impacted by cost savings passthrough.

Reduced audit fees could increase capital formation by decreasing the overall regulatory burdens of being a public company (e.g., accounting fees paid during IPO and for annual SEC reporting).[538] Reduced audit fees could also lessen a competitive disadvantage for EGCs in their respective product markets to the extent EGCs compete with companies that are not audited by PCAOB-registered firms. This could increase competition in product markets where EGCs have a less than dominant market share, which is likely the case as EGCs tend to be newer companies. However, we believe any impacts on competition in EGC product markets would likely be modest because audit fees reflect a small percentage—0.6%—of exchange-listed EGCs' revenues.[539]

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536 *See, e.g.*, Raymond Chiang and P. C. Venkatesh, *Insider Holdings and Perceptions of Information Asymmetry: A Note*, 43 Journal of Finance 1041 (1988); Ravi Bhushan, *Firm Characteristics and Analyst Following*, 11 Journal of Accounting and Economics 255 (1989).

537 *See* comment letter from MIAG.

538 One commenter said connecting the amendments to capital formation requires evidence that cost savings retained by firms equates to investor benefits. *See* comment letter from CFA. We acknowledge that the degree to which firms pass on cost reductions arising from the amendments to clients is unclear; we are not aware of information that would allow us to reliably estimate this.

539 By contrast, audit fees reflect 0.1% of exchange-listed non-EGCs' revenues.

In general, any new PCAOB standards and amendments to existing standards determined not to apply to the audits of EGCs would require auditors to design and implement differing requirements within their methodologies or policies and procedures with respect to audits of EGCs and non-EGCs, which would create the potential for confusion. This may not be practical in the context of the amendments; while some of the amendments may enable different approaches for audits of EGCs compared to audits of other companies (e.g., evaluating whether similar engagement deficiencies exist), others are necessarily firm-wide and cannot easily be differentiated for different types of audits (e.g., rescinding the EQCF requirement and permitting selection of the evaluation date). Even where differentiation is possible, maintaining separate QC system components for EGC and non-EGC audits and separate methodologies may add cost or lead to confusion, and could run counter to the objectives of the QC system. These methodology and QC system differentiation costs would affect at least the 203 firms that audit both EGCs and non-EGCs and that, collectively, audit approximately 97% of EGCs.

The supplemental request for comment sought comment on the applicability of the proposed amendments to audits of EGCs. Commenters generally did not provide views on the impacts of the amendments to the audits of EGCs or whether the amendments should apply to the audits of EGCs.

Accordingly, and for the reasons explained above, the Board will request that the Commission determine that, to the extent necessary, it is necessary or appropriate in the public interest, after considering the protection of investors and whether the action will promote efficiency, competition, and capital formation, to apply the amendments to audits of EGCs.

* * *

On the 9th day of September, in the year 2026, the foregoing was, in accordance with the bylaws of the Public Company Accounting Oversight Board,

ADOPTED BY THE BOARD.

Phoebe W. Brown

Secretary

September 9, 2026

APPENDIX 1 –AMENDMENTS TO QUALITY CONTROL STANDARD (QC 1000)

I. QC 1000 is amended by revising the beginning of paragraph .05 to read as follows:

.05 A properly conducted *engagement* and the related report enhance the confidence of investors and other market participants in the company's information to which the firm's report relates. The objective of the firm is to design, implement, and operate an effective QC system. An effective QC system protects investors by facilitating the consistent preparation and issuance of informative, accurate, and independent *engagement* reports in accordance with *applicable professional and legal requirements*. To accomplish this, an effective QC system consistently provides a firm with reasonable assurance that:

* * *

II. QC 1000 is amended by revising paragraph .06 and footnote 4 to read as follows:

.06 A firm must design, implement, and operate an effective QC system in compliance with this standard at all times when the firm is required to comply with *applicable professional and legal requirements* with respect to any of the firm's *engagements*,[3] and thereafter through the following *evaluation date*.[4]

[3] With respect to firm responsibilities subsequent to the issuance of an audit report, *see*, for example, AS 2901, *Responding to Engagement Deficiencies After Issuance of the Auditor's Report*; AS 2905, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*; AS 4101, *Responsibilities Regarding Filings Under Federal Securities Statutes*.

[4] *See* paragraph .77 (requiring evaluation of the effectiveness of the QC system as of the *evaluation date*).

III. QC 1000 is amended by revising paragraph .07 and the Note to read as follows:

.07 The requirement to design, implement, and operate the QC system applies as follows:

a. During the time the firm's QC system is required to be operating effectively, the firm's QC system must operate over any audit, attestation, review, or other work performed under PCAOB standards by the firm, regardless of the level of the firm's participation in such work (i.e., even if the firm plays less than a substantial role).[5]

b. A firm that is required to design, implement, and operate its QC system is also required to annually evaluate its QC system as of the *evaluation date* and report on that evaluation (*see* paragraphs .77-.80).

Note: Any obligations under QC 1000 that exist at the time a firm is no longer required to design, implement, and operate the QC system, such as obligations to evaluate and report on the QC system for previous periods, will continue.

[5] *See* PCAOB Rule 1001(p)(ii).

IV. QC 1000 is amended by revising paragraph .12 and the Note and adding footnote 5A to read as follows:

.12 The firm must assign other roles and responsibilities with respect to the QC system to individual(s)[5A] who understand and are accountable for their roles and responsibilities and who have the experience, competence, authority, and time needed to enable them to carry out their assigned responsibilities.[6] Such roles should include the following:

a. Operational responsibility and accountability for the QC system as a whole;

b. Operational responsibility for the firm's compliance with ethics and independence requirements;

c. Operational responsibility for the monitoring and remediation process; and

d. If appropriate based on the nature and circumstances of the firm, operational responsibility for other components of the QC system.

Note: Depending on the nature and circumstances of the firm (including its size and structure) and its *engagements*, the firm (i) may assign one individual to more than one of the roles identified in paragraphs .11 and .12 and (ii) may divide responsibilities of a role identified in paragraph .12 among multiple individuals.

[5A] Such individuals are "associated persons" of the firm. *See* PCAOB Rule 1001(p)(i).

[6] *See* Note in paragraph .44a. of this standard for a description of competence.

V. QC 1000 is amended by revising paragraphs .15, .16, and .17 to read as follows:

.15 The individual(s) assigned operational responsibility and accountability for the QC system as a whole should:

a. Supervise, within the scope of their assigned responsibilities, the design, implementation, and operation of the firm's QC system in accordance with

applicable professional and legal requirements and the firm's policies and procedures; and

b. Certify the firm's report to the PCAOB on its annual evaluation of the QC system (*see* paragraph .79).

.16 The individual(s) assigned operational responsibility for the firm's compliance with ethics and independence requirements should, within the scope of their assigned responsibilities:

a. Supervise the design, implementation, and operation of the firm's ethics and independence component (*see* paragraphs .30-.36); and

b. Communicate, on a timely basis, violations of ethics or independence requirements, including personal independence violations, to the individuals assigned (1) operational responsibility for the firm's monitoring and remediation process and (2) operational responsibility and accountability for the QC system as a whole.

.17 The individual(s) assigned operational responsibility for the monitoring and remediation process should, within the scope of their assigned responsibilities:

a. Supervise the design, implementation, and operation of the firm's monitoring and remediation process (*see* paragraphs .58-.76) and the annual evaluation of the QC system (*see* paragraphs .77-.78), including:

(1) The evaluation of the results of the monitoring activities;

(2) The evaluation of whether remedial actions are implemented as designed and operate effectively to remediate *QC deficiencies* and, if not, the taking of timely action until such *QC deficiencies* are remediated; and

(3) The firm's other policies and procedures with regard to monitoring and remediation.

b. Communicate, on a timely basis, to the individuals assigned (1) ultimate responsibility and accountability for the QC system as a whole and (2) operational responsibility and accountability for the QC system as a whole, a description of:

(1) Monitoring activities performed and the results of such activities, including, if applicable, monitoring activities performed by a network;

(2) Identified *engagement deficiencies* and *QC deficiencies*, including the nature, severity, and pervasiveness of such deficiencies; and

(3) Actions taken to address *engagement deficiencies* and *QC deficiencies*.

VI. QC 1000 is amended by revising paragraph .28 to read as follows:

.28 [Reserved]

VII. QC 1000 is amended by revising paragraph .53e and adding a Note to paragraph .53e to read as follows:

.53 The *quality objectives* established by the firm with respect to information and communication should include the following:

* * *

e. If a firm communicates firm-level or *engagement*-level information with respect to the firm's audit practice, *firm personnel*, or *engagements*, such as firm or *engagement* metrics, to external parties:

(1) Such information is accurate and not misleading; and

(2) With respect to any such metrics that are communicated in writing and made publicly available by the firm, the communication provides an explanation in reasonable detail of how the metrics were determined and, if applicable, how the method of determining them changed since the metrics were last communicated.

Note: The communication may provide an explanation either within the communication itself or by referring to a publicly available explanation presented elsewhere, such as the firm's website.

VIII. QC 1000 is amended by revising footnote 39 to paragraph .53g to read as follows:

[39] The most recent evaluation of the *other participant* firm's QC system refers to that firm's evaluation under paragraph .77 of this standard as of the most recent *evaluation date* (as defined in paragraph .A4A), if such an evaluation was performed. If the *other participant* firm did not evaluate its QC system under paragraph .77 of this standard as of the most recent *evaluation date*, then this provision refers to the most recent QC evaluation performed by the *other participant* firm under any professional standard.

IX. QC 1000 is amended by revising paragraph .68a and adding footnote 40A to read as follows:

.68 When an *engagement deficiency* exists, the firm should:

a. For *engagement deficiencies* relating to in-process *engagements*, take action to address the deficiency in accordance with *applicable professional and legal requirements* (to the extent necessary, before the issuance of the related *engagement* report(s)), such that the *engagement* is free of significant engagement deficiencies;[40A]

[40A] A significant engagement deficiency exists when (1) the engagement team failed to obtain sufficient appropriate evidence or failed to perform interim review or attestation procedures necessary in the circumstances in accordance with the standards of the PCAOB, (2) the engagement team reached an inappropriate overall conclusion on the subject matter of the *engagement*, (3) the *engagement* report is not appropriate in the circumstances, or (4) the firm is not independent of its client. This concept aligns with "significant engagement deficiency" in AS 1220, *Engagement Quality Review* (*see* Notes to AS 1220.12, .17, .18B), but applies to all *engagements* as defined in this standard.

X. QC 1000 is amended by revising paragraph .68d and adding a Note to read as follows:

d. For *engagement deficiencies* that resulted or could result in (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,* evaluate whether similar *engagement deficiencies* exist on:

(1) Other in-process *engagements*, or would arise if remedial action is not taken;

(2) Other completed *engagement*s, unless it is probable that the *engagement* report(s) are not being relied upon; and

(3) Work performed by the firm on other firms' *engagements*;

and if so, take actions described in paragraphs .68a.-c. above, as applicable.

Note: Understanding the circumstances that led to the *engagement deficiency* may assist the firm in identifying other *engagements* or work performed by the firm on other firms' *engagements* to evaluate for similar *engagement deficiencies*.

XI. QC 1000 is amended by revising paragraph .77, including the Note to this paragraph, revising footnote 44, and adding a Note to paragraph .77a to read as follows:

.77 Once a firm has been subject to the requirement to design, implement, and operate a QC system under paragraph .06 for at least five consecutive months, the firm must annually evaluate the effectiveness of its QC system, based on the results of its monitoring and remediation activities, and conclude, as of the *evaluation date,*[44] that its QC system:

a. Is effective in achieving the reasonable assurance objective; or

   Note: The firm's QC system is effective in achieving the reasonable assurance objective under paragraph .77a if, as of the *evaluation date*, there are no unremediated *QC deficiencies* other than those that, individually or in combination, are not severe.

b. Is effective in achieving the reasonable assurance objective except for unremediated *QC deficiencies* that have a severe but not pervasive effect on the design, implementation, and operation of the QC system (and do not render the QC system not effective); or

c. Is not effective in achieving the reasonable assurance objective.

Note: An unremediated *QC deficiency* is one for which remedial actions that completely address the *QC deficiency* have not been fully implemented, tested, and found effective. For this purpose, implementation must be completed as of the *evaluation date* and testing and the determination of effectiveness must be completed no later than the date Form QC is due under paragraph .79 (or, if earlier, the date Form QC is filed).

[44] The selection of the firm's *evaluation date* may be influenced by the nature and circumstances of the firm and its *engagements*, including, for example, the firm's fiscal year-end or the timing of monitoring activities. If the firm changes its *evaluation date,* the firm is required to provide notice of such change on Form QC.

XII. QC 1000 is amended by revising paragraph .78 and adding footnote 44A, to read as follows:

.78 In performing the evaluation and reaching the conclusion required by paragraph .77, the firm should evaluate the severity (i.e., the seriousness, including potential impact on the firm's ability to achieve the reasonable assurance objective) and the pervasiveness (i.e., the breadth of impact on the firm's QC system or across the firm's portfolio of *engagements*) of all unremediated *QC deficiencies*, individually and in combination, considering both quantitative

and qualitative implications. In evaluating severity and pervasiveness, the firm should consider the following factors:

a. The number and nature of components of the firm's QC system or *quality objectives* directly or indirectly affected;

b. The extent to which the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* relates to a component, *quality objective*, or *quality response* that affects the design or operation of other aspects of the QC system;

c. The number and pervasiveness of root causes;

d. The persistence of the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* over time;

e. Whether the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* has resulted or could result in significant engagement deficiencies;

f. Whether the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* has resulted or could result in the need for revisions to *engagement* reports, or is or could be associated with restatements of financial statements or reissuances of company-prepared reports that are the subject of audit or attestation *engagements*;[44A]

g. With respect to the factors in subparagraphs d.-f., the number and significance (to the firm's portfolio of *engagements*) of *engagements* that are affected by the unremediated *QC deficiency* or combination of unremediated *QC deficiencies* or are likely to be affected in the future in the absence of remediation, and the nature of the effect; and

h. The effects of any remedial actions that have been implemented, tested, and found to be effective.

[44A] Company-prepared reports subject to audit or attestation *engagements* include the report on internal control over financial reporting and broker-dealer compliance and exemption reports.

XIII. QC 1000 is amended by revising paragraphs .79 and .80 to read as follows:

.79 The firm must report annually to the PCAOB on Form QC, in accordance with the instructions to that form, the results of the evaluation of its QC system no later than 60 days after the *evaluation date*.

.80 The contents of the firm's reporting to the PCAOB must include the following:

a. The firm's conclusion that, as of the *evaluation date*, the firm's QC system:

(1) Is effective in achieving the reasonable assurance objective;

(2) Is effective in achieving the reasonable assurance objective, except for unremediated *QC deficiencies* that have a severe but not pervasive effect on the design, implementation, and operation of the QC system (and do not render the QC system not effective); or

(3) Is not effective in achieving the reasonable assurance objective.

b. If, as of the *evaluation date*, the firm has any unremediated *QC deficiencies*, a description of each unremediated *QC deficiency* consisting of:

(1) The requirements of this standard or the *quality objective(s)* to which it relates;

(2) The firm's basis for determining it was a *QC deficiency* as of the *evaluation date*; and

(3) A summary of the remedial actions taken and planned to be taken to address the *QC deficiency*, as well as the timing and the status of such actions, including a summary of actions taken or to be taken by the firm to address the risk that the *QC deficiency* resulted or could result in significant engagement deficiencies.

XIV. QC 1000 is amended by revising paragraph .84 and deleting footnote 48 to read as follows:

.84 No later than 14 days after Form QC is filed (or due to be filed, if earlier) ("QC documentation completion date"), the firm should complete the documentation required by paragraphs .81-.83 with respect to the period covered by the firm's annual evaluation and retain it in a manner that permits timely retrieval.

XV. QC 1000 is amended by revising paragraph .86 to read as follows:

.86 The firm must retain the documentation of its QC system required under paragraphs .81-.83 and paragraph .85 for five years from the QC documentation completion date, unless a longer period of time is required by law.

XVI. QC 1000 is amended by adding paragraph .A4A to read as follows:

.A4A Evaluation date – The date selected by the firm as of which to evaluate its QC system under paragraph .77.

XVII. QC 1000 is amended by revising paragraph .A6 to read as follows:

.A6 [Reserved]

XVIII. QC 1000 is amended by revising paragraph .A8 to read as follows:

.A8 QC deficiency – A *QC observation* that, based on the evaluation under paragraph .72, individually, or in combination with one or more other *QC observations*, evidences:

(1) That the likelihood of the firm not achieving the reasonable assurance objective or one or more *quality objectives* has not been reduced to an acceptably low level;

Note: The likelihood of not achieving the reasonable assurance objective or one or more *quality objectives* would be above an acceptably low level if, for example, a *quality objective* is not established, a *quality risk* is not properly identified or assessed, or a *quality response* is not properly designed or implemented or is not operating effectively and other *quality responses* do not achieve the relevant objective(s).

(2) Noncompliance with requirements of this standard, other than those under "Documentation"; or

(3) Noncompliance with requirements of this standard under "Documentation" that adversely affects the firm's ability to comply with any of the other requirements of this standard.

APPENDIX 2 – AMENDMENTS TO THE REPORTING RULE AND PCAOB FORM QC

The Board is adopting amendments to Rule 2203A and Form QC. The relevant text of this rule and form is set forth below.

I. The title of Rule 2203A is amended to read as follows:

Rule 2203A. Reporting on the Evaluation of the Firm's System of Quality Control

II. Rule 2203A is amended by revising paragraphs (a) and (b) to read as follows:

(a) If a registered public accounting firm is required to perform an evaluation of its QC system under paragraph .77 of QC 1000, *A Firm's System of Quality Control,* the firm must file with the Board a report on such evaluation and notification of any change in the firm's "evaluation date" (as defined in QC 1000.A4A) on Form QC, by following the instructions to that form.

(b) Unless directed otherwise by the Board, the registered public accounting firm must file electronically with the Board through the Board's Web-based system:

(1) each report on the evaluation of its QC system and exhibits thereto no later than 60 days following the evaluation date; and

(2) each such notification of a change in evaluation date no later than 30 days after the firm's decision to change the evaluation date.

III. Form QC is amended by revising General Instructions 3 and 4 to read as follows:

GENERAL INSTRUCTIONS

***

3. <u>When Report is Due and Considered Filed.</u> Reports on the evaluation of the Firm's QC system on this Form are required to be filed each year no later than 60 days following the *evaluation date*. A Form QC is considered filed when the Firm has submitted to the *Board* a Form QC in accordance with Rule 2203A that includes the signed certifications required in Parts III and V of Form QC.

   Reports on this Form are required to notify the Board of a change to the Firm's *evaluation date* and to be filed no later than 30 days after the Firm's decision to change the *evaluation date*. A Form QC is considered filed when the Firm has submitted to the

Board a Form QC in accordance with Rule 2203A that includes completed Part I and the signed certification in Part V of Form QC.

4. Period Covered by this Report. The reporting period, which the Firm should enter in Item 2.1, is the period beginning the day after the most recent previous *evaluation date*, except as provided in a. and b. below, and ending on the *evaluation date*.

   a. If a firm has not previously been required to evaluate its QC system under QC 1000, the reporting period begins on the date the firm first incurred an obligation to implement and operate a QC system under QC 1000.06.

   b. If a firm was previously required to evaluate its QC system under QC 1000, but such obligation lapsed because the firm ceased having any obligations under *applicable professional and legal requirements* with respect to one or more *engagements*, the reporting period begins on the date the firm subsequently incurred an obligation to implement and operate a QC system under QC 1000.06.

IV. Form QC is amended by revising the title of Part I to read as follows:

PART I – IDENTITY OF THE FIRM AND, IF APPLICABLE, BOARD NOTIFICATION OF CHANGE OF EVALUATION DATE

V. Form QC is amended by adding Item 1.2 to read as follows:

Item 1.2 Change to the *Evaluation Date*

a. Indicate, by checking the box corresponding to this item, whether the Firm is filing this Form QC to report a change to the Firm's *evaluation date*;

b. State the Firm's new *evaluation date*; and

c. Briefly describe the Firm's rationale for making the change.

VI. Form QC is amended by revising Items 2.2, 2.3, and 2.4 to read as follows:

Item 2.2 Overall Conclusion on the Effectiveness

Indicate, by checking the applicable box, the Firm's conclusion on whether, as of the *evaluation date*, the Firm's QC system:

a. Is effective in achieving the reasonable assurance objective; or

b. Is effective in achieving the reasonable assurance objective except for unremediated *QC deficiencies* that have a severe but not pervasive effect on the design,

implementation, and operation of the QC system (and do not render the QC system not effective); or

c. Is not effective in achieving the reasonable assurance objective.

Item 2.3 Reporting on Unremediated *QC Deficiencies*

If, as of the *evaluation date*, the Firm has any unremediated *QC deficiencies*, provide the number of unremediated *QC deficiencies*:

Note: For purposes of Items 2.3 and 2.4, an unremediated *QC deficiency* is one for which remedial actions that completely address the *QC deficiency* are not fully (i) implemented as of the *evaluation date* and (ii) tested and found effective as of the date Form QC is due under QC 1000.79 (or, if earlier, the date Form QC is filed).

Item 2.4 Reporting on an Unremediated *QC Deficiency*

a. Provide a description of the unremediated *QC deficiency*.

b. Indicate, by checking all boxes that apply, the area(s) the unremediated *QC deficiency* relates to:

1. Roles and responsibilities
2. The firm's risk assessment process
3. Governance and leadership
4. Ethics and independence
5. Acceptance and continuance of engagements
6. Engagement performance
7. Resources
8. Information and communication
9. Monitoring and remediation process
10. Evaluation of and reporting on the QC system
11. Documentation

c. Furnish, as a correspondingly numbered item in Exhibit 2.4, the following:

1. The *quality objective(s)*, or requirement(s) of QC 1000, to which the unremediated *QC deficiency* relates.

2. The Firm's basis for determining it was a *QC deficiency* as of the *evaluation date*.

3. A summary of the remedial actions taken and planned to be taken to address the *QC deficiency*, as well as the timing and the status of such actions, including a summary of the actions taken or to be taken by the Firm to address the risk that the *QC deficiency* resulted or could result in significant engagement deficiencies.

VII. Form QC is amended by rescinding Item 2.5.

VIII. Form QC is amended by revising Item 3.2 paragraphs 1 and 3(b) and Notes 1 and 2 to read as follows:

Item 3.2 Certification of the Report on the Evaluation of the Firm's QC System

* * *

1. I have reviewed this report on Form QC on the evaluation of [Firm]'s quality control system (QC system) as of [evaluation date], [year];

* * *

3. [The Firm's other certifying officer(s) and] I [are/am] responsible and accountable for [Firm]'s QC system as a whole and have:

* * *

(b) Evaluated the effectiveness of the Firm's QC system and presented in this report [my/our] conclusions about the effectiveness of the QC system as of [evaluation date], [year]; and

* * *

Note 1: Other than the insertion of the Firm name, the name and role of the signing individual, and the *evaluation date*, Exhibits 3.2.a and 3.2.b must be in the exact words contained in this instruction.

Note 2: If more than one individual is identified in Item 3.1.a or Item 3.1.b, Exhibits 3.2.a or 3.2.b, as the case may be, must be signed by each such individual. If the same individual is

identified in Items 3.1.a and 3.1.b, he or she may sign a single certificate indicating both capacities.

* * *

IX. Form QC is amended by revising Exhibit 2.4, deleting Exhibit 2.5, and revising Exhibit 3.2.b under Part VII to read as follows:

PART VII - EXHIBITS

To the extent applicable under the foregoing instructions or the *Board's rules*, each Form QC must be accompanied by the following exhibits:

Exhibit 2.4 Reporting on an Unremediated *QC Deficiency* in Item 2.4

* * *

Exhibit 3.2.b Certification of the Report on the Evaluation of the Firm's QC System by the individual(s) assigned operational responsibility and accountability for the Firm's QC system as a whole

Note: Where an exhibit consists of more than one document, each document must be numbered consecutively (e.g., Exhibit 3.2.a.1, Exhibit 3.2.a.2, etc.), and the firm must provide a list of the title or description of each document comprising the exhibit.

APPENDIX 3 – AMENDMENTS TO PCAOB FORMS 1 AND 2

In connection with the amendment of QC 1000, *A Firm's System of Quality Control*, the Board is adopting related amendments to Form 1 and Form 2.

I. Form 1 is amended by revising General Instruction 1 to read as follows:

1. The definitions in the *Board's rules* apply to this form. Italicized terms in the instructions to this form are defined in the *Board's rules*. See Rule 1001.

II. Form 1 is amended by revising General Instruction 3 to read as follows:

3. In addition to these instructions, the *rules* contained in Section 2 of the *Board's rules* govern applications for registration. Please read these *rules* and the instructions carefully before completing this form.

III. Form 1 is amended by rescinding Item 4.2 of this Form.

IV. Form 2 is amended by rescinding Item 3.1A of this Form.

APPENDIX 4 – TECHNICAL AMENDMENTS TO OTHER PCAOB STANDARD (AS 2101)

In connection with this rulemaking, the Board is adopting technical amendments to AS 2101, *Audit Planning,* to delete references to a rescinded standard.

The Board is amending *AS 2101*, *Audit Planning*, as follows:

I. AS 2101 is amended by revising footnote 4H to paragraph .06H to read as follows:

[4H] *See* AS 2301.05(a), which describes making appropriate assignments of significant engagement responsibilities.

II. AS 2101 is amended by revising footnote 8 to paragraph .09 to read as follows:

[8] *See, e.g*., AS 1201.06, which describes how to determine the extent of supervisory activities necessary for proper supervision of engagement team members. *See also* AS 1201.08-.15, which further describe procedures to be performed by the lead auditor with respect to the supervision of the work of other auditors, in conjunction with the required supervisory activities set forth in AS 1201.

III. Appendix A to AS 2101 is amended by revising footnote 4 to paragraph .A4 to read as follows:

[4] *See* paragraph .05a of AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*, which describes making appropriate assignments of significant engagement responsibilities.