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Via 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. 2026-005, Request for Public Comment on PCAOB Standard Setting

Dear Office of the Secretary:

Baker Tilly US, LLP ("Baker Tilly", "we" or "our") appreciates the opportunity to share our views and provide input on the PCAOB Release No. 2026-005, *Request for Public Comment on PCAOB Standard Setting* ("Request for Comment"). 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 strongly support the Board's mission to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports through high-quality auditing standards. We believe that effective standard setting should be disciplined, transparent, evidence-based, and informed by meaningful stakeholder engagement. New standards should be undertaken only when there is a demonstrated need to improve audit quality or auditor performance and when the expected benefits clearly justify the associated costs. In many circumstances, interpretive guidance, implementation support, or other non-authoritative communications may provide a more timely and effective response than new or significantly revised standards.

Rather than responding individually to each question in the Request for Comment, we have organized our comments into three overarching categories:

- Conceptual Framework and Approach to Standard Setting,
- Standard Setting and Research Priorities, and
- Changes Related to the SEC's Semiannual Reporting Proposal

A common principle underlies many of our recommendations: not every audit issue requires a new auditing standard. Before initiating a standard-setting project, the Board should first identify the root cause of the issue it seeks to address and then determine which regulatory tool is most likely to improve audit quality. Depending on the circumstances, the most effective response may be a new or revised auditing standard, interpretive guidance, implementation support, inspection focus, or enhanced stakeholder outreach. Selecting the least burdensome approach that effectively addresses the identified problem will promote durable standards, facilitate timely implementation, and allow the Board to focus its resources on projects that will have the greatest impact on audit quality.

Conceptual Framework and Approach to Standard Setting

We support the development and adoption of a conceptual framework to guide the PCAOB's standard-setting activities. Such a framework would provide greater consistency, transparency, and predictability in how projects are identified, prioritized, developed, and evaluated over time. A well-designed framework should remain durable regardless of changes in Board composition and should provide stakeholders with confidence that standard-setting decisions are based on established principles rather than changing priorities.

The framework should establish explicit criteria for identifying and prioritizing projects, drawing upon evidence from inspections and other oversight activities, investor needs, stakeholder input, and emerging risks. New standard-setting projects should be undertaken only when there is a demonstrated need to improve auditor performance or address emerging audit issues and when the expected benefits to audit quality clearly outweigh the associated implementation costs. It also should provide a consistent methodology for evaluating alternative approaches, including whether standard setting, interpretive guidance, implementation support, or other regulatory tools represent the most appropriate response. It may be beneficial for the PCAOB to look to conceptual frameworks employed by other domestic and international standard setters to leverage existing leading practices and expedite the development of its own framework.

A disciplined framework should also not presume that standard setting is the default response whenever an issue is identified through inspections, enforcement activities, or stakeholder feedback. Instead, the framework should require the Board to identify the underlying or root cause of the issue and evaluate the full range of available regulatory responses. In many circumstances, targeted implementation guidance, staff interpretations, enhanced inspections, or stakeholder education may improve auditor performance more effectively and more quickly than creating new auditing requirements.

Additionally, we encourage the PCAOB to strengthen coordination with other domestic and international standard setters throughout the standard-setting lifecycle. Early and ongoing collaboration with organizations such as the International Auditing and Assurance Standards Board (IAASB) and the AICPA Auditing Standards Board (ASB) can reduce unnecessary divergence, improve consistency, and lessen implementation costs. Where differences between PCAOB standards and other major auditing standards are considered necessary and justify the incremental cost of divergence, the Board should consider developing comparative implementation resources—such as crosswalks or appendices identifying substantive differences, the rationale for those differences, and the resulting auditor expectations.

We believe the following principles should underly any conceptual framework:

- **Transparent Due Process and Stakeholder Engagement**

  The Board's standard-setting process should be open and transparent. Additionally, meaningful stakeholder engagement should occur early and throughout the standard-setting process. Input from audit committees, investors, issuers, auditors, academics, regulators, and other interested parties should inform both the decision to undertake projects and the development of proposed requirements.

Stakeholders should have visibility into the rationale for projects, the evidence supporting proposals, alternatives considered, a thorough cost-benefit analysis, and how public comments influence the Board's final decisions. Public Board meetings should include substantive deliberations among Board members regarding the rationale for proposed projects, the evidence supporting the need for standard setting, significant policy decisions, alternatives considered, and the basis for final decisions. Board members openly discussing and debating significant policy decisions would improve transparency and increase confidence in the standard setting process.

The PCAOB should consider expanding the use of its advisory groups, such as the Standards and Emerging Issues Advisory Group, throughout the entire lifecycle of standard-setting projects, including as an input during project selection, problem definition, proposal development, evaluation of how to respond to public comments, implementation planning, and post-implementation evaluation. We also believe that the Board would benefit from the establishment of project-specific task forces and/or leveraging existing task forces in the ecosystem in situations when specialized expertise is needed. These groups could provide practical "real world" insight into implementation challenges, emerging technologies, industry-specific considerations, and other specialized areas.

- **Scalability**

  Scalability should remain a central consideration throughout every phase of the standard-setting process, including agenda prioritization, standard development, implementation support, and post-implementation review. The Board should carefully evaluate the impact of new requirements on firms outside the GNF or firms with smaller issuer audit practices while maintaining appropriate investor protections. Standards should be durable, appropriately justified, and scalable across firms and issuers of varying size and complexity.

Finally, we believe the Board's governance framework should reinforce appropriate roles among its various divisions. Inspection observations should appropriately inform future standard-setting priorities but should not effectively establish new auditing requirements through the inspection process. Questions regarding the interpretation or application of PCAOB standards should be resolved through a consistent consultation process involving the Office of the Chief Auditor (OCA). When OCA reaches an interpretation of existing standards based on complete and accurate facts, that interpretation should be consistently applied across all PCAOB divisions, including the Division of Registration and Inspections and communicated to stakeholders when determined to be beneficial more broadly to audit quality.

Standard-Setting and Research Priorities

We support the Board maintaining a disciplined and risk-focused standard-setting agenda that prioritizes projects capable of meaningfully improving auditor performance and audit quality. In establishing priorities, the Board should begin by identifying the specific problem to be solved, evaluating the evidence supporting the existence and significance of that problem, and considering the full range of available regulatory responses. As noted above, standard setting should not be viewed as the default solution. Rather, the Board should select the approach that is most likely to improve audit quality while minimizing unnecessary costs and implementation complexity.

The following summarizes Baker Tilly's views regarding the Board's current research and standard-setting priorities.

Summary of Standard-Setting and Research Priorities

Topic	Recommended Priority	Baker Tilly Perspective
Data and Technology	**High**	Focus on stakeholder outreach and interpretive guidance regarding the application of existing standards, including audits involving generative artificial intelligence (GenAI), before considering new standards.
Fraud	**Medium**	Support targeted modernization of AS 2401 to reflect changes in technology, business risks, and the audit environment.
Critical Audit Matters (CAMs)	**Low**	Do not believe changes to CAM requirements should be a near-term priority. Resources should focus on data and technology and projects more likely to improve auditor performance.
Noncompliance with Laws and Regulations (NOCLAR)	**Medium**	Support modernization but recommend beginning with a new concept release or proposal that reconsiders the project's objectives and scope.
Firm and Engagement Performance Metrics	**Low**	Do not support establishing new requirements. Costs would likely exceed benefits, and metrics presented without context may be misunderstood.
Auditor Independence	**Medium**	Support modernization and greater alignment with SEC and AICPA independence requirements while focusing on meaningful threats to auditor objectivity and impartiality.

Data and Technology

Technological innovation continues to reshape both financial reporting and audit execution. We encourage the Board to leverage existing advisory groups and stakeholder outreach to better understand these developments before initiating new standard-setting projects. The PCAOB should work with the Securities and Exchange Commission (SEC) to issue coordinated guidance that outlines the responsibilities of companies and their auditors. This would create a clearer distinction between the responsibilities of auditors and those of management such that auditor requirements do not effectively create new obligations for management or attempt to achieve broader objectives that are outside the PCAOB's remit.

In many instances, timely interpretive guidance will provide greater value than developing new auditing standards. We support the PCAOB issuing guidance explaining how existing standards apply to audits involving emerging technologies, including companies' use of GenAI in financial reporting processes as well as audit firms' use of GenAI-enabled tools. This principles-based approach would preserve flexibility, enable the Board to respond more quickly to technological developments, and reduce the risk that new standards become outdated shortly after issuance. This approach reflects the broader principle that evolving practice issues should not automatically result in new auditing standards where existing principles remain appropriate and can be effectively supplemented through timely guidance.

Fraud

We support the Board evaluating whether targeted amendments to AS 2401, *Consideration of Fraud in a Financial Statement Audit*, are appropriate to modernize the existing standard. Any revisions should build upon the current risk-based framework and minimize divergence with other auditing standards while addressing changes in business environments, fraud risks, technological developments, and evolving audit methodologies.

Critical Audit Matters

We do not believe changes to the Critical Audit Matters (CAM) requirements should represent a near-term standard-setting priority. The Board's limited resources would be better directed toward projects that have greater potential to improve auditor performance and audit execution.

Noncompliance with Laws and Regulations

We support modernizing PCAOB standards addressing the auditor's consideration of noncompliance with laws and regulations (NOCLAR). However, we continue to believe the Board's prior proposal would have significantly expanded auditor responsibilities beyond the auditor's expertise and blurred the appropriate distinction between management's responsibilities and those of the auditor.

Accordingly, if the Board decides to pursue this topic, we recommend beginning with a new concept release or proposal that fundamentally reconsiders the objectives and scope of the project while incorporating stakeholder feedback received on the prior proposal.

Firm and Engagement Performance Metrics

We continue to believe the PCAOB should not establish standards requiring firm or engagement metrics. While metrics may appear informative, they can easily be misunderstood or misused when presented without appropriate context. Moreover, we believe the costs associated with collecting, maintaining, validating, and reporting such metrics would substantially exceed any corresponding benefits to investors or other users of audit reports.

Auditor Independence

We encourage the Board to undertake a comprehensive review of its ethics and independence requirements in coordination with the SEC. Since the PCAOB adopted its existing rules, both the SEC and the AICPA have updated their independence frameworks. The PCAOB should evaluate whether its requirements continue to appropriately address meaningful threats to auditor objectivity and impartiality while eliminating unnecessary documentation requirements or technical provisions that do not meaningfully enhance investor protection.

Similarly, communications with audit committees should focus on information that supports effective oversight rather than requiring overly prescriptive disclosures that may distract from more meaningful discussions regarding audit quality, significant risks, and auditor independence.

Changes Related to the SEC's Semiannual Reporting Proposal

AS 6101 – Letters for Underwriters and Certain Other Requesting Parties

We previously provided comments regarding AS 6101 in connection with the SEC's Semiannual Reporting Proposal. We continue to believe AS 6101 currently accommodates auditors' ability to provide comfort letters under either quarterly or semiannual reporting frameworks and that the existing PCAOB standards remain operational without amendment.

AS 4105 – Reviews of Interim Financial Information

We previously provided observations regarding AS 4105 in connection with the SEC's Semiannual Reporting Proposal. We encourage the Board to coordinate any future consideration of interim review standards with the SEC's final rulemaking to ensure that any resulting changes are necessary, operational, and appropriately aligned.

Conclusion

We appreciate the Board's willingness to solicit broad stakeholder input as it evaluates its future standard-setting agenda. We encourage the PCAOB to adopt a disciplined, transparent, and evidence-based approach that focuses its resources on projects with the greatest potential to improve audit quality while preserving scalability, promoting consistency with other standard setters where appropriate, and maintaining clear distinctions between the responsibilities of auditors and management.

We thank you for the opportunity to present our views and appreciate your consideration. We would be pleased to discuss our comments or answer questions regarding the views expressed in this letter. Please address questions to Fred Frank, Principal in our Professional Practice Group, by e-mail at Fred.Frank@bakertilly.com or Kathie Hennessey, Managing Director in our Professional Practice Group, by e-mail at Kathie.Hennessey@bakertilly.com.

Sincerely,

Baker Tilly US, LLP

BAKER TILLY US, LLP