

March 20, 2026
By electronic submission

Demetrios Logothetis
Chairman
Public Company Accounting Oversight Board
1666 K Street NW, Suite 300
Washington, DC 20006-2803

Re: PCAOB Standard A Firm's System of Quality Control and Other Amendments to PCAOB Standards, Rules, and Forms

Dear Chairman Logothetis:

Congratulations on your appointment as Chair of the Public Company Accounting Oversight Board (PCAOB or Board). We would like to extend our best wishes to you and your fellow board members as you assume oversight of the PCAOB during an important and transformative period for audit quality, investor protection, and the continued evolution of the profession. We appreciate your collective commitment to public service and to the stewardship of the broader financial reporting ecosystem and global capital markets, and we look forward to continuing to engage with the Board.

The Center for Audit Quality (CAQ)¹ has long been of the view that a firm's system of quality control (QC system) is foundational to audit quality and that an effective quality control system is important to strengthening auditing practices and continuously improving audit quality. As such we have strongly supported the PCAOB's project to adopt *A Firm's System of Quality Control and Other Amendments to PCAOB Standards, Rules, and Forms* (QC 1000).

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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PCAOB QC Standard-Setting Project

The Board's quality control standard-setting project has represented one of the PCAOB's most significant firm-level regulatory initiatives. With QC 1000, the QC standards evolved from policy driven standards to an expectation for a system of quality management. Throughout the PCAOB's standard-setting project, the CAQ has consistently supported the Board's objective of strengthening audit quality through a more risk-based quality control framework. At the same time, we have emphasized the benefits to audit quality of closely aligning the PCAOB's QC requirements with international standards, highlighted the importance of scalability of the requirements to firms of all sizes, and raised constructive concerns regarding certain elements of the PCAOB's proposed, and ultimately final, requirements.

July 2025 Letter to the PCAOB

We submitted a letter to the PCAOB in July 2025.² In this letter, we expressed our continued support for the Board's objective of enhancing audit quality through QC 1000, while respectfully requesting a one-year deferral of the effective date and additional written, substantive implementation guidance. We noted that firms were undertaking significant efforts to design and implement new quality control systems consistent with QC 1000's risk-based framework, and that additional time would help promote a thoughtful, high-quality implementation rather than a compliance-driven approach. The Board's one-year deferral has proven to benefit the profession by providing firms time to carefully address various implementation matters resulting from the final QC 1000 standard.

Our letter also encouraged the Board to consider targeted amendments to the final standard, particularly with respect to differences between the international standards (ISQM 1) and QC 1000. Those differences have resulted in practical implementation challenges and highlighted the need for an analysis of the relative value of those differences to firms' overall systems of quality control. As firms continue to progress with implementation, we have developed additional insights informed by these ongoing efforts.

Examples of the significant differences between QC 1000 and ISQM 1 that continue to cause practical implementation challenges are as follows:³

1. External Quality Control Function (EQCF)

In its adoption of QC 1000, the PCAOB introduced a new role, the EQCF, required for firms that issue audit reports with respect to more than 100 issuers (paragraph .28). The EQCF requirement was never exposed by the PCAOB for public comment, and therefore

² See [comment letter](#).

³ Previously included in July 2025 letter.



it did not benefit from stakeholder input as part of the PCAOB rulemaking process. The CAQ raised several questions and concerns about this new requirement in our comment letter to the SEC on the final standard. While we acknowledge the PCAOB's effort to provide more clarity on the EQCF requirement through its comment letter to the SEC⁴ and other resources on the PCAOB website, challenges related to implementing this requirement remain.

The PCAOB has 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 of compliance.”⁵ However, this role differs from firms' existing advisory boards (if they have one) and often necessitates the hiring of new individuals, which takes time and significant resources,⁶ without evidence of a commensurate incremental benefit to overall quality control system monitoring over the existing requirements of ISQM 1.

In particular, some firms, especially mid-sized firms, are still in the process of recruiting and interviewing potential candidates for the EQCF role. The challenges that these firms face in recruiting a qualified candidate for the EQCF role, if they can recruit one at all, are different and more pronounced than for the largest firms. Specifically, some firms are finding that the pool of qualified individuals who are interested and free of conflicts and prohibitions from other arrangements to serve as an EQCF is fairly small. Therefore, some mid-sized firms have not yet been able to even identify potential candidates for the role. We encourage the Board to evaluate whether the EQCF role is necessary at all, or to permit greater flexibility in its fulfillment.

2. Documentation requirements

QC 1000 requires that documentation must be in sufficient detail to enable an experienced auditor to understand the design, implementation, and operation of the system of quality control, including the quality objectives, quality risks, quality responses, monitoring activities, remedial actions, and basis for the conclusions reached in the evaluation of the system of quality control (paragraph .83). Further, QC 1000 establishes a costly seven-year retention requirement for all documentation (paragraph .86). Alternatively, the ISQM 1 standard requires documentation of the design, implementation, and operation of responses that is sufficient to support the evaluation of the system by those assigned ultimate responsibility and accountability, allowing firms to tailor the volume of documentation to be retained

⁴ See [PCAOB comment letter to the SEC](#).

⁵ Ibid, page 16.

⁶ See [CAQ comment letter to the SEC](#).



based on the complexity of the firm’s QC system. ISQM 1 does not include the seven-year retention requirement as under QC 1000, deferring to firm judgment and the complexity of its QC system.

Based on the wording of QC 1000 and the Adopting Release,⁷ the nature and extent of documentation required to be retained related to a firm’s system of quality control is unclear, and appears to significantly expand under QC 1000 compared to ISQM 1. QC 1000 requires firms to maintain significantly more documentation than is required under ISQM 1 and necessitates new policies, processes, and for some firms, systems related to retaining documentation. These changes require additional resources and, in some cases, require coordination with vendors and technology providers as well as training individuals with roles in the QC system that are not familiar with the “experienced auditor” threshold. Additionally, the requirement entails significant costs and extensive effort related to systems adoption, maintenance, and data retention requirements for which the expectations are not fully clear. In response to feedback, the PCAOB stated in the Adopting Release that it continues to believe that the experienced auditor threshold is scalable and therefore, not overly burdensome for firms.⁸ We believe it is overly burdensome without a corresponding benefit for the firms’ systems of quality control.

3. Prescribed evaluation date

QC 1000 prescribes an annual evaluation date (September 30) for a firm to evaluate the effectiveness of its system of quality control, while ISQM 1 allows for the evaluation date to be based on the firm’s judgment. Several firms have used a different evaluation date for purposes of ISQM 1, but are now required to adjust the timing of quality control processes, such as evaluation and reporting processes, to support an evaluation as of the PCAOB’s mandated date. This has downstream effects throughout the firms, limits the scalability of the standard, poses substantial operational challenges, and increases the costs and time to comply with QC 1000 without commensurate benefits.

We previously raised these concerns about the PCAOB’s decision to prescribe an evaluation date in our comment letter to the PCAOB on the QC 1000 proposal. Now as firms continue to implement QC 1000, we are seeing that the prescribed evaluation date is particularly challenging for firms that operate in a global network that have intentionally selected an ISQM 1 evaluation date that aligns with their transparency

⁷ See [PCAOB Release 2024-005](#), page 283, which states “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.”

⁸ See [PCAOB Release 2024-005](#), page 286.



reporting requirements that follow their fiscal calendar year, and therefore, it may be especially challenging or impractical to change their ISQM 1 evaluation date without also changing their firm’s fiscal year end date or driving the need to issue and publish multiple transparency reports per year.⁹ As a result, those firms may need to have two different evaluation dates.

The PCAOB Adopting Release said that firms “would be free to change their evaluation date under other QC standards so that the evaluation dates coincide” with the US requirement, thereby minimizing the costs of having multiple evaluation dates without acknowledging the required transparency reporting timeline.¹⁰ Moving the QC system evaluation date takes time and, in many cases, requires coordination across a global network of firms, and various other regulatory bodies. It also places an unnecessary burden on network member firms for whom the PCAOB audit portfolio is often a small part of its overall book of business.

4. Evaluation framework

QC 1000 introduces a different framework for evaluating the firm’s system of quality control compared to ISQM 1. For example, QC 1000 introduces additional, prescriptive requirements, including (1) new requirements to evaluate whether similar deficiencies exist on other in-process and completed engagements when matters are identified as a part of the monitoring and remediation processes (paragraph .68d),¹¹ (2) differing evaluation thresholds for assessing effectiveness of remedial actions (paragraph .77)¹² which could result in different conclusions, as well as (3) a new evaluation of “major QC deficiencies.” Addressing each of these significant differences requires the design and

⁹ See Article 13 of Regulation EU No 537/2014 of the European Parliament and of the Council: “A statutory auditor that carries out the statutory audit of a public interest entity shall make public an annual transparency report at the latest four months after the end of each financial year.”

¹⁰ See [PCAOB Release 2024-005](#), page 246.

¹¹ “When an engagement deficiency exists, the firm should...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...”

¹² “Annually, the firm must 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 with no unremediated QC deficiencies; or
- b. Is effective except for one or more unremediated QC deficiencies that are not major QC deficiencies; or
- c. Is not effective (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.”



implementation of updated policies and processes; therefore, the necessity of these differences from ISQM 1 in light of the complexities they introduce should be strongly supported from a cost-benefit perspective.

5. Design-only Requirement

The design-only requirement of QC 1000 requires all firms registered with the PCAOB, even if they have not and do not plan to perform engagements pursuant to PCAOB standards (i.e., public company audits), to design a system of quality control in accordance with QC 1000. In most cases, these firms have already adopted ISQM 1. As raised during the PCAOB comment process, the design-only requirement is a challenge for certain smaller firms, including those that are part of a global network, who are registered with the PCAOB but do not perform any engagements in accordance with PCAOB standards.

We have previously raised concerns about the burden of the design-only requirement on smaller firms registered with the PCAOB.¹³ The PCAOB stated in the Adopting Release that “if ... a firm does not lead and does not plan to lead engagements or play a substantial role in engagements pursuant to PCAOB standards, then we believe that the firm should assess whether the costs of complying with the design requirement are commensurate with their perceived benefit of being registered with the PCAOB.”¹⁴

Our concerns have come to fruition as we have heard from certain of our member firms that this requirement has led some firms in their global network to begin the process of deregistering from the PCAOB.¹⁵ In other words, these firms have performed the assessment suggested by the PCAOB and determined that the costs in fact outweigh the benefits of registering with the PCAOB. Such deregistrations risk reducing the pool of PCAOB-registered firms with relevant local market expertise and specialized resources, which could, in turn, constrain auditor choice.

6. Roles and responsibilities

QC 1000 paragraph .12 specifies prescribed roles and responsibilities that must be assigned to a single individual in the firm. Each specified role cannot be split or shared by multiple individuals. Some of these roles, such as operational responsibility for the firm’s compliance with ethics and independence requirements (paragraph .12b),

¹³ See [CAO Comment Letter](#).

¹⁴ See PCAOB Release 2024-005, page 61.

¹⁵ We are not able to readily see on the PCAOB’s website the number of firm de-registrations, including both US and global network firms, over an applicable period of time. We encourage the PCAOB and SEC to evaluate how deregistrations have increased since QC 1000 was adopted in 2024.



combine responsibility for areas within a firm that are often overseen by two individuals given the differing skills and experience required to effectively oversee each area.

Requiring that only one individual hold both the ethics and independence role requires some firms to change their operational structure when the apparent benefit to do so is not clear. For some organizations, the requirement for the same individual to oversee ethics and independence may be illogical and could be disruptive to the business. In our prior comment letter on the QC 1000 proposal, we raised this same concern.¹⁶ In response, the PCAOB stated that firms can have multiple individuals or multiple layers of individuals supporting these roles but did not acknowledge that such an approach still requires changes to a firm's operational structure with a corresponding impact to operating costs.¹⁷

As firms have implemented QC 1000, the operational challenges discussed in our letter persist. We instead propose that the paragraph be revised to allow flexibility (e.g., for the role to be shared by two individuals if necessary or for the role to be split into separate roles).

Further, some international firms registered with the PCAOB utilize resources from outside their registered firm to perform certain of the functions specified in paragraph .12, such as the monitoring and remediation and ethics and independence roles. Some international firms 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 overall audit quality as it brings competent and experienced individuals with independence, objectivity, and 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," these arrangements would not satisfy the requirements of QC 1000. Requiring firms to identify appropriate resources within each network member firm requires extensive organizational changes and effort around the identification, education, and training of appropriate alternative personnel and is yet another example of a prescriptive requirement that is not scalable and lacks an identifiable benefit.

7. Automated independence system

QC 1000 paragraph .34a requires firms that issue audit reports with respect to more than 100 issuers to have an automated independence system. Some mid-sized firms do not currently have an automated independence system and are going through the process of selecting, procuring, and implementing an automated system. This process

¹⁶ See [CAQ Comment Letter](#).

¹⁷ See [PCAOB Release 2024-005](#), page 83.



takes time and is a change in practice that necessitates extensive resources, communication, employee training, and onboarding to the new system.

In our prior comment letter to the PCAOB on the QC 1000 proposal, we raised concerns about the threshold for the automated independence system, specifically that for mid-size firms that do not already have these systems in place, a significant investment would be required.¹⁸ The PCAOB stated in the Adopting Release that nine out of 14 annually inspected firms (at the time of the Adopting Release) already have an automated system in place, but gave minimal consideration to the impact of the required investment on the mid-size firms that do not already have such a system in place, without a substantive analysis of the incremental benefit to these firms' overall quality control system given the relative market capitalization of issuers audited.¹⁹

Our overarching message in our previous letter²⁰ was that modernization of the QC framework is important and supported, but successful implementation would benefit from clear implementation and interpretive guidance and targeted amendments. While we appreciate the one-year deferral and the increased dialogue with PCAOB staff we and our member firms have had since the July 2025 letter, the concerns we raised still require, as applicable, written, substantive interpretive guidance to enable the profession as a whole to benefit from a consistent understanding of the Board's expectations as well as amendments to the final standard to address costly and unnecessary differences between QC 1000 and ISQM 1.

Economic Costs

As noted throughout this letter, there are costs to implement QC 1000, particularly where its requirements diverge from ISQM 1. Firms already make substantial and sustained investments in their systems of quality control (SoQC). To understand the economic costs of implementing QC 1000, we obtained estimated cost data from certain of our member firms. Nine member firms collectively auditing 99.6% of U.S. market capitalization participated in our data request. Firms participating in this data collection all utilized different methodologies and assumptions for estimating their QC 1000 and ISQM 1 costs.

Certain of the firms were able to quantify their incremental ISQM 1 implementation and ongoing costs. Other firms were unable to quantify the incremental costs of ISQM 1 and as such provided the estimated costs of running their SoQC as a whole. For these firms, the cost to operate their respective SoQC is over half a billion dollars annually.

¹⁸ See [CAQ comment letter](#).

¹⁹ See [PCAOB Release 2024-005](#), page 357.

²⁰ See [CAQ Comment Letter](#).



For firms that were able to quantify the estimated incremental onetime and ongoing costs associated with adopting and maintaining an SoQC designed to comply with QC 1000, relative to the ongoing costs incurred as a result of adopting ISQM 1, the estimated incremental impact of QC 1000 is on average approximately 224% of the ongoing ISQM 1-related costs. In other words, the QC 1000 costs are proving to be, on average, more than 2 times the ISQM 1 specific costs for changes that we don't believe significantly contribute to audit quality. These costs are largely driven by the differences described above as well as the increased costs of monitoring associated with QC 1000.

Notwithstanding the fundamental differences between QC 1000 and the Sarbanes-Oxley Act, the PCAOB referred to the costs associated with SOX implementation in its adopting release as a reference for estimating the costs of adopting QC 1000.²¹ However, based on data collected from certain of our member firms, the average estimated onetime costs associated with adopting QC 1000 are approximately twice the PCAOB's estimated costs for companies to implement SOX,²² and the average estimated ongoing costs are approximately seven times the PCAOB's estimate,²³ with some firms estimating their on-going costs to be multiples of the PCAOB's estimate. As previously noted, these figures are based on estimates provided by individual firms, and reflect differences in the methodologies and assumptions used by the firms to calculate the costs. Please note that all costs collected were specific to these firms' US operations, and the associated costs would be larger if the firms' global operations were taken into account.

While these costs generally represent the firms with the largest issuer portfolios, the incremental costs could be disproportionately burdensome for firms with smaller issuer portfolios, particularly those serving the mid-cap and small-cap markets. These firms may need to absorb additional fixed compliance costs across a more limited engagement base, potentially materially increasing the per-engagement cost of compliance. As a result, the divergence of QC 1000 from international standards could create a structural economic impact that falls more heavily on firms with smaller issuer practices.

We look forward to engaging with the PCAOB and SEC on the concerns raised above, as well as additional areas of concern that may arise as firms continue to prepare to implement a standard as robust as QC 1000. Ongoing dialogue with the PCAOB and SEC around practical challenges and unintended consequences of the requirements in QC 1000 will be critical to a

²¹ While the PCAOB adopting release looks to SOX implementation data as a cost benchmark, this comparison does not take into consideration twenty plus years of structural and technological changes in the capital markets. Moreover, historical data suggests that initial SOX cost estimates significantly underestimated the true economic burden, making them a potentially unreliable proxy for estimating the costs to implement QC 1000.

²² Average of \$18.9 million compared to \$9.6 million in footnote 496, page 352 of [PCAOB Release 2024-005](#).

²³ Average of \$12.1 million compared to \$1.7 million in footnote 496, page 352 of [PCAOB Release 2024-005](#).



successful implementation and enable the PCAOB and SEC to address concerns in a proactive manner that will ultimately best support audit quality.

We would be pleased to discuss our comments or answer questions regarding the views expressed in this letter. Please address questions to Dennis McGowan (dmcgowan@thecaq.org), Vanessa Teitelbaum (vteitelbaum@thecaq.org), or Star Yuan (syuan@thecaq.org).

Sincerely,

A handwritten signature in black ink that reads "Dennis J. McGowan".

Dennis J. McGowan, CPA
Vice President, Professional Practice
Center for Audit Quality

cc:

PCAOB

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