



National Association of State Boards of Accountancy

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Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street NW
Washington, D.C. 20006-2803

Via e-mail: comments@pcaobus.org

Re: PCAOB No. 2026-001: Request for Public Comment – PCAOB Strategic Priorities

Dear Members of the Public Company Accounting Oversight Board (PCAOB):

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to comment on the PCAOB's Request for Comment – *PCAOB Strategic Priorities*. NASBA's mission is to enhance the effectiveness and advance the common interests of State Boards of Accountancy (State Boards) that regulate all Certified Public Accountants (CPAs) and their firms in the United States and its territories, which includes all audit, attest and other services provided by CPAs. State Boards are charged by law with protecting the public.

In furtherance of that objective, NASBA offers the following comments.

Comments on 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?

NASBA commends the current board in its efforts to seek feedback from stakeholders to help inform and guide the development of the PCAOB's 2026-2030 strategic plan (Strategic Plan).

With more detailed commentary offered in response to the specific questions in the Request for Comment below, NASBA recommends the following as strategic priorities for the PCAOB over the next two to five years:

- Consider the impact of audit firms participating in alternative practice structures (APS) on audit firm quality control, as well as whether there is sufficient transparency of such non-CPA ownership to all the stakeholders in the financial reporting process;
- Increase the rigor and level of scrutiny associated with the PCAOB's review and approval of firm registration applications which grant them the privilege to conduct audits of public registrants;

- Accelerate the modernization of PCAOB standards;
- Redirect audit quality inspection focus on the preventative measures of firms within their systems of quality control versus an engagement deficiency model; and
- Continue focus on identifying and monitoring emerging technologies, including consideration of the need for standard-setting in the use of some technologies.

As the PCAOB moves forward in the development of its Strategic Plan, NASBA encourages the PCAOB to look for opportunities to collaborate and utilize the resources of NASBA and its member State Boards in oversight of the public accounting profession.

One such area for collaboration is one of increasing focus and importance to State Boards - private equity investment in accounting firms. When private equity investors become closely aligned with CPA firms through APSs, complex relationships emerge that may threaten both actual and perceived independence. These APS structures may involve shared ownership, common investors, affiliated entities, or financial relationships that are not obvious to clients, the public or regulators due to the lack of visibility into the underlying agreements.

To ensure that the public and public investors are adequately informed and protected, NASBA believes that additional guidance is needed for the disclosure of APS ownership percentages as well as the disclosure of affiliated APS entities (common ownership). Full transparency regarding the parties involved in an APS arrangement is critical not only to financial statement users but also to other stakeholders with responsibilities for understanding the closeness of the relationship between the auditor and the auditee/client, such as audit committees. Consideration should be given as to whether standards, such as the required communications with audit committees, should be amended or enhanced regarding ownership and network relationship information with respect to a firm's independence.

Acknowledging that the independence standards and firm ownership disclosure requirements may not be solely within the purview of the PCAOB, NASBA believes further collaboration and involvement with other U.S. standard-setting/regulatory bodies is necessary to arrive at a solution that will provide clear, accessible information about firm ownership and service boundaries in order for the public to make informed decisions about professional services.

With regard to the PCAOB's firm registration process, NASBA encourages the PCAOB to apply a greater level of stringency in the process of registering firms for public practice to ensure that they have the capability to conduct audits in accordance with PCAOB and other professional standards. Members of our State Boards who are involved in the discipline of firms involved in both failed audits and/or failed PCAOB inspections have observed that a number of these firms did not possess the required capabilities to conduct audits in compliance with PCAOB and other professional standards. It is in the public interest that firms conducting audits of public companies possess the requisite skills to conduct those audits.

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 (QC1000)?

In light of the PCAOB's new quality control standard (QC 1000), NASBA recommends that inspections include the appropriate rigor around a firm's quality control/management system. Having inspectors focused on reviewing a firm's process and documentation for identifying specific risks to audit quality and the designed responses to address them will help ensure that firms, in turn, are diligent in their risk analyses and assessments and view a well-established quality control system as a critical quality-enabling tool (versus a "check-the-box" compliance). An appropriately designed and communicated process to understand what the firm is doing to assess specific risks to audit quality, and in turn design, implement and evaluate policies and procedures to mitigate the identified risks will add value to any quality control criticisms Part II findings.

In relation to the aforementioned concerns regarding APS and private equity investment in accounting firms, non-CPA minority ownership has long been permitted within CPA firm structures. However, regulatory requirements governing firm ownership impose important limitations. Most states' laws mandate that a majority of a CPA firm's ownership—both in terms of equity and voting rights—be held by licensed CPAs. These legal provisions restrict the extent to which non-licensees and passive investors can hold an ownership interest in a CPA firm. As a result, private equity investors often structure their involvement in CPA firms through APSs which allow for investment in the non-attest side of the firm's business while ensuring that attest services remain under the control and oversight of licensed CPAs.

State legislatures charge State Boards with regulating licensed CPAs and CPA firms performing attest engagements. However, State Boards often lack jurisdiction over unlicensed private equity firms and non-attest entities, resulting in exposure and potentially even harm to stakeholders/public for recourse in the event of an audit failure of an attest firm involved in an APS.

NASBA remains concerned that the terms of the customarily utilized administrative/shared services agreement between the attest firm and the non-attest firm within an APS structure may put undue pressure on the attest firm in ways that can impair independence, objectivity and/or quality control. It is not clear how having an attest firm that has no employees or resources but "leases" partners, employees and resources from the non-attest entity allows the firm to operate independently. This concern is elevated when one considers that those personnel are compensated based on the non-attest entity's determination of compensation levels. Further, when strategy and other decision-making is occurring at the non-attest entity with influence by the private equity investor in some way, it becomes unclear how reliance can be placed on the assertion that the attest firm partners remain responsible for decisions regarding attest clients, attest engagements, quality control, risk management and attest firm personnel.

NASBA recommends the PCAOB ensure that an appropriate number of firms participating in APSs are selected as part of the inspection process and consider an appropriately tailored approach to those inspections versus a non-APS entity. Specifically, the PCAOB should consider how private

equity investors, other upstream entities with influence over the non-attest entity and the non-attest entity impact and interact with the attest firm in areas such as governance, leadership, compensation/incentives, and tone at the top.

3. What inspection information would be most useful to stakeholders, and how could inspection reporting be enhanced under a quality control-focused inspection program?

NASBA believes there would be value to enhanced linkage of the Part I deficiencies to the firm's system of quality control and providing more transparency as to the root cause of the deficiencies. Part I deficiencies should be discussed more directly in context of the firm's quality control system to understand whether the response to an identified risk was not properly designed and/or operating effectively within that system considering the Part I deficiencies noted.

4. What standard-setting projects should the PCAOB pursue?

NASBA has not identified specific areas or topics that are higher priorities than others for the PCAOB standard-setting projects. However, NASBA supports the continued modernization of the PCAOB standards.

In the United States, we have a revolving door where private companies go public – and then sometimes become private. As a result, auditors must perform audits under differing standards between the PCAOB and U.S. Generally Accepted Auditing Standards (GAAS), and in some cases also the International Standards on Auditing (ISA).

NASBA acknowledges the responsibility and capability of the PCAOB to set independent standards for public companies. To accelerate the modernization of the PCAOB standards, NASBA recommends introducing a process that would effectively leverage GAAS as a starting point. The AICPA Auditing Standards Board has a well-established process for reviewing and updating GAAS on a regular basis as well as a long-standing strategic objective to converge its GAAS with the ISAs. Additionally, the AICPA Audit and Attest Standards staff have prepared AU-C Appendix B, *Substantive Differences Between the International Standards on Auditing and Generally Accepted Auditing Standards*, to highlight substantive differences between GAAS and the ISAs and the rationale.

Starting with GAAS as the basis for standard setting would provide efficiencies for the modernization project. Any matter that is unique to public companies in the United States could be addressed with incremental requirements or deviations, as deemed necessary. The harmonization in auditing practices and reducing the differences between U.S. and global standards helps avoid confusion and potential misapplication by the CPA/auditor and aids in enforcement from a regulatory perspective. Consistency among standard setters is in the public interest.

5. How can the PCAOB achieve greater alignment of its auditing standards with international auditing standards?

See response to question 4 above.

6. In what ways should the PCAOB consider deploying technology, including AI, to help further its investor protection mission?

NASBA encourages the PCAOB to continue to leverage technology, including Artificial Intelligence (AI), where appropriate to help further its investor protection mission. NASBA believes expanded or enhanced use of AI for analyzing the vast amount of data received regarding public companies and their audits could unlock actionable insights such as identifying a specific industry risk or determining that a specific company is an outlier on a particular metric. Likewise, leveraging technology could assist in analyzing data and enhancing the PCAOB's risk-based inspections. For example, a variety of analyses could be performed on hours for an office location by engagement, such as the amount of time spent on pre-engagement planning, review by partner, etc.

Further, NASBA supports the PCAOB in its continuation to identify and monitor emerging technologies and acknowledges there are many emerging technology trends such as AI enabled tools and agents, blockchain, digital assets including cryptocurrency and cybersecurity advancements. These technologies exhibit characteristics that present opportunities for increased quality, effectiveness and efficiency but also raise new and different challenges and risks to be managed. NASBA and State Boards consider the use of AI by preparers as well as auditors as a key trend and question whether there should be some standard setting around when the use of AI is appropriate and what quality management/control considerations should be in place for its use.

7. How can the PCAOB enhance transparency with its stakeholders?

NASBA commends the PCAOB in its recent outreach efforts and resources to smaller firms and practitioners. The support to help smaller firms understand and comply with PCAOB standards and rules enhances audit quality and protects investors.

PCAOB inspection reports are issued for individual firms to assess compliance with standards, but they are also public documents of high interest to investors, audit committees and regulators/State Boards. In enhancing transparency with stakeholders related to inspection reports, NASBA recommends consideration to a contextual findings synopsis or dashboard that could quickly inform on issues of significance to the regulatory review to help focus on key take-aways/findings, what they really mean and why they matter. Efforts to make it easier to understand the real issues around audit quality and those matters that require follow-up would be helpful not only to State Boards but also audit committees.

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We appreciate the opportunity to comment on the PCAOB Strategic Priorities.

Very truly yours,

Nicola Neilon

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