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August 7, 2026

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. 2026-005: Request for Public Comment – PCAOB Standard Setting**

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 Standard Setting*. 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. Do you believe that the PCAOB should focus our standard-setting and research activities in areas discussed in the table above? 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 above that the PCAOB should prioritize?

NASBA believes the PCAOB should prioritize standard-setting and research activities based on the degree to which an issue presents a risk to audit quality, investor protection, the public interest, and effective regulatory oversight. The PCAOB should also consider information obtained through its inspections and enforcement activities when identifying priorities. Such information may help the PCAOB distinguish between deficiencies arising from outdated or unclear standards and those resulting from inadequate implementation of appropriate requirements.

Among the areas identified in Table 1 of the Request for Comment, NASBA believes data and technology, auditor independence, and fraud warrant particularly high priority. The rapid expansion of artificial intelligence (AI) and other technology-enabled audit tools creates both significant opportunities and risks. At the same time, fraud and independence remain fundamental to the credibility of the audit function and should continue to receive substantial attention.

NASBA supports research and standard-setting activities addressing the use of AI and other emerging technologies by both preparers and auditors. The use of AI may affect risk assessment, internal controls, the nature and reliability of audit evidence, documentation, supervision and the exercise of professional judgment and skepticism.

The PCAOB should distinguish between matters that can initially be addressed through timely staff guidance and matters requiring enforceable standards. Guidance may be appropriate to address rapidly developing practices, but fundamental requirements concerning governance, validation, human oversight, documentation and responsibility for AI-assisted audit procedures should ultimately be incorporated into PCAOB standards.

Standards or guidance should make clear that the auditor remains responsible for the audit procedures performed and conclusions reached, regardless of whether an AI-enabled tool is developed internally, obtained from a third party or approved at the firm level. Auditors should understand the purpose and limitations of the tool, evaluate the integrity and completeness of the data used, corroborate significant outputs and retain sufficient documentation to permit inspection and regulatory review.

NASBA supports modernization of the PCAOB's ethics and independence standards but cautions that the project should not be limited to eliminating provisions that overlap with SEC Rule 2-01 of Regulation S-X. NASBA recommends that the PCAOB expand the scope of its auditor independence project to address developments in firm structures, ownership arrangements, financing transactions, and alternative practice structures (APS).

As discussed in NASBA's response to PCAOB's Strategic Priorities Request for Comment, APS arrangements may involve shared ownership, common investors, affiliated entities, shared personnel and administrative services agreements that are not transparent to investors, audit committees or regulators. The PCAOB should evaluate whether its existing independence standards adequately address the substance of those relationships, including the potential influence of outside investors over firm governance, partner compensation, resource allocation, and business strategy.

APSs are not solely a business-model issue - they raise questions about auditor objectivity, control, accountability, and the ability of regulators to identify the parties responsible for conduct that may impair independence.

NASBA supports treating fraud as a priority because it goes directly to audit quality, auditor credibility, and public protection.

As the PCAOB considers revisions to AS 2401, *Consideration of Fraud in a Financial Statement Audit*, NASBA encourages the PCAOB to leverage the significant work already performed by the

AICPA Auditing Standards Board (ASB) in its recent fraud standard-setting project. The ASB's proposal reflects extensive research, stakeholder outreach, and careful consideration of revisions made by the International Auditing and Assurance Standards Board (IAASB) in ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* (2025**)**. Beginning with the ASB's work would allow the PCAOB to benefit from an established foundation that has already evaluated convergence with the international standard while considering the U.S. auditing environment. The PCAOB could then assess whether additional or modified requirements are warranted to address the unique characteristics of audits of issuers and broker-dealers, U.S. securities laws, and observations from its inspection and enforcement activities.

NASBA believes firm and engagement performance metrics should be assigned a lower priority unless the PCAOB can demonstrate that particular metrics provide reliable and meaningful indicators of audit quality. Public reporting of metrics could impose significant costs and produce unintended consequences if the information is not comparable, is susceptible to manipulation, or is interpreted without appropriate context. Before proceeding to rulemaking, the PCAOB should determine whether identified metrics meaningfully advance investor protection and the public interest and whether the expected benefits justify the costs.

With respect to critical audit matters, NASBA supports targeted research but does not believe a decline in the average number of reported critical audit matters alone establishes a need for standard setting. The PCAOB should first use its inspection information and other evidence to determine whether auditors are failing to report matters that meet the definition of a critical audit matter or whether the decrease reflects improved implementation, changes in issuer circumstances, or more focused application of the standard.

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 above? If yes, what specifically should the PCAOB focus on in each of these areas?

NASBA does not have any views not previously shared regarding the scope and objectives of potential standard setting or research in areas discussed in the table.

3. In areas where you believe issuing staff guidance would be preferable to amending PCAOB standards, what matters should guidance specifically address?

NASBA believes the choice between staff guidance and standard setting should be based on the nature of the issue and the source of the identified problem.

Staff guidance may be appropriate when the underlying standards remain conceptually sound, but questions have arisen regarding their application to new facts, technologies, or transactions. Guidance can be issued more promptly and may be useful when an issue is developing rapidly. It should clarify existing responsibilities, provide illustrative examples, and reinforce the continued applicability of foundational auditing principles.

Standard setting is more appropriate when existing requirements contain substantive gaps, are no longer fit for purpose, or do not provide an enforceable basis for consistent auditor performance.

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, used of internal auditors)? If the standards were to be updated on an individual basis, which standards should we prioritize?

NASBA continues to support the accelerated modernization of the PCAOB's remaining interim standards. A significant number of standards addressing fundamental audit responsibilities remain substantially in the form adopted more than two decades ago. Although individual projects involving fraud, noncompliance with laws and regulations, going concern and other topics may warrant immediate attention, NASBA recommends that the PCAOB establish and publish a comprehensive modernization plan that identifies the standards to be reviewed, the expected project sequencing and timelines for completion. Such a plan would promote transparency, facilitate stakeholder participation and help ensure that standards keep pace with changes affecting public companies.

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?

The length of a comment period should consider several factors, such as the length and complexity of the proposal; the significance of the contemplated changes; the number of standards and related rules affected; the extent to which stakeholders must consult with committees, boards or other governing bodies; and whether the proposal is based on a previously exposed standard.

The PCAOB should specifically consider the meeting cycles of State Boards and other public bodies as well as smaller firms and investors. Short comment periods may prevent those organizations from evaluating proposals through their established public processes and obtaining the approvals necessary to submit meaningful responses.

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?

NASBA has no specific recommendation on effective dates or the range of time needed to implement a new standard – although the qualitative factors included in our response to Question 5 above related to length of comment period should also be considered in the determination of effective dates for new standards. Effective dates should provide a reasonable amount of time for firms to revise methodologies, technology, training and quality control/management systems.

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?

Economic benefits, costs, competitive effects, scalability, and unintended consequences should be considered throughout the standard-setting process. At the project prioritization stage, the PCAOB should focus primarily on the significance of the risk to investors and public; evidence obtained through inspections and enforcement; and whether existing standards are unclear, outdated or incomplete. More detailed cost-benefit and competitive effects analyses should occur as the PCAOB develops specific alternatives and drafts proposed requirements.

NASBA supports consideration of the effect of new standards on smaller firms and encourages the PCAOB to continue providing implementation resources and outreach for smaller firms because such assistance promotes compliance and audit quality.

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?

NASBA supports continued research and focus of the PCAOB on the use of AI in audits. Staff guidance could serve as an immediate bridge in explaining how existing requirements apply while the PCAOB concurrently determines whether additional standard setting is needed.

Guidance should address the auditor's responsibility for procedures performed using AI-enabled tools; the reliability, completeness and relevance of data used by those tools; documentation of how the tool was used and how its output affected audit judgments; the nature and extent of human review and supervision; and the risks of overreliance, automation bias, and inaccurate or fabricated output.

9. In light of rapid advancements in data and technology, including AI, are there additional matters the PCAOB should consider addressing?

NASBA has no recommendation on additional matters to address at this time.

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?

NASBA has not identified specific areas of the PCAOB's current standards that are not fit for purpose in an AI environment at this time.

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 comment provided on the Strategic Priorities RFC, what questions should be specifically addressed through either guidance or standard setting?

As noted in our response to PCAOB's Strategic Priorities Request for Comment, NASBA identified blockchain, digital assets and cryptocurrency as emerging areas warranting attention given the increasing use and the potential for public harm. Matters involving access, ownership, control, valuation, existence, rights and obligations, custody, and assets held through third parties present significant and evolving audit risks.

As with AI, staff guidance could address current questions/issues more quickly while research proceeds on standard setting.

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?

NASBA supports the development of a conceptual framework for PCAOB standard setting, provided that the framework remains firmly grounded in the PCAOB's statutory investor-protection and public interest mandate. Its key advantages include promoting consistent standards that are derived from a cohesive set of fundamental concepts and reducing political bias. A disadvantage is the substantial time and resources needed to develop a framework.

13. What qualitative characteristics should be considered when developing PCAOB standards that could be included in a new framework?

The framework should establish clear and transparent criteria for identifying and prioritizing projects, including evidence from inspections, enforcement matters, emerging risks, changes in practice and the age or continuing relevance of existing standards. Some qualitative characteristics to consider when developing PCAOB standards include investor and public interest relevance; clarity and understandability; enforceability; and scalability without diminishing audit quality.

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?

The framework should not become an additional procedural layer that delays necessary action. It should function as a practical decision-making tool and should be integrated into project selection, research, development of alternatives, exposure, consideration of comments, adoption, implementation, and post-implementation review.

15. The PCAOB conducts economic analysis and gather stakeholder input, both before and after our standard take effect. Should a conceptual framework include criteria or factors for evaluating economic benefits, costs, competitive effects, and unintended consequences? If so, what criteria should be considered for inclusion?

Economic benefits, costs, competitive effects, and unintended consequences should be included in the conceptual framework, but they should be evaluated together with investor protection and public interest considerations. A standard should not be rejected merely because compliance entails costs when the requirement is necessary to address a significant audit quality risk.

16. Should a conceptual framework address alignment of PCAOB standard with those of other standards setters?

The conceptual framework should address alignment with other standard setters. Alignment should be a rebuttable objective. The PCAOB should avoid unnecessary differences but retain or develop different requirements when justified by U.S. law, the public company environment, investor needs, or evidence from PCAOB oversight.

17. What topics should be the highest priority for alignment and why? Should alignment with IAASB standards be given higher priority than alignment with standard of other standard setters and why?

NASBA supports greater alignment among PCAOB, IAASB, and AICPA/ASB standards when alignment is consistent with investor protection and the PCAOB's statutory responsibilities. Greater alignment can reduce complexity and confusion, limit misapplication, and improve the ability of State Boards and other regulators to evaluate auditor conduct consistently.

The PCAOB should not establish a presumption that IAASB standards automatically receive priority over standards of other standard setters. The ASB has already evaluated many IAASB requirements through the lens of the U.S. legal and practice environment and documents significant differences and the reasons for them. That work may provide the PCAOB with an efficient starting point.

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)?

NASBA encourages the PCAOB to consider alignment not only prospectively but also as part of its review of remaining interim standards.

For future projects, it should monitor the agendas of other standard setters and engage early enough to avoid unnecessary divergence. For existing standards, the PCAOB should identify material differences and determine whether those differences remain justified.

19. Should the PCAOB establish formal means to work collaboratively with other standard setters, such as seeking to develop certain projects jointly?

NASBA supports formal and regular collaboration with other standard setters, including early communication regarding project scope, research, terminology, and anticipated differences.

Collaboration may be particularly effective in the development of nonauthoritative guidance and implementation materials. For example, where another organization has already issued guidance on digital assets, the PCAOB should consider working with that organization or issuing only the incremental guidance necessary for PCAOB audits.

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?

NASBA has not identified any other reasons for potential divergence than those identified in the Standard Setting Request for Comment document; however, NASBA encourages the PCAOB to document the reasons when the PCAOB diverges from another standard setter. Transparency concerning the rationale for differences would assist auditors, State Boards, investors, and other stakeholders and would help demonstrate that differences reflect legitimate public interest considerations.

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)?

Alignment may benefit smaller firms over time by reducing the number of differing requirements and methodologies they must maintain. However, a transition to newly aligned standards may impose disproportionate initial costs on firms that do not belong to global networks or already use methodologies based on international standards.

The PCAOB should consider phased effective dates, scalable implementation support, illustrative materials, and adequate transition periods to address any impact on smaller firms.

22. Under AS 6101, auditors may provide negative assurance regarding subsequent changes in specified financial statement line items as of a date less than 1135 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?

NASBA supports the PCAOB's consideration of the matter but does not have a recommendation at this time.

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We appreciate the opportunity to comment on PCAOB Standard Setting.

Very truly yours,

Nicola Neilon　　　　Daniel J. Dustin

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