

## SEC Approves New PCAOB Quality Control Standards

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### THE NEW STANDARD

On September 9, 2024, the Securities and Exchange Commission (the SEC) voted 3-2 to approve the Public Company Accounting Oversight Board's (PCAOB) new quality control standard, QC 1000, *A Firm's System of Quality Control*, which will require all registered public accounting firms to identify specific risks to their practices and design a quality control system that includes safeguards against such risks. Registered firms that perform engagements under PCAOB standards will be required to implement and operate the designed quality control system, to monitor and resolve ineffective controls, and to complete an annual evaluation of the quality control system and report the results of the assessment, certified by key firm personnel, to the PCAOB.

Additionally, registered accounting firms that issue audit reports for more than 100 issuers annually will be required to establish an external quality control function comprised of one or more persons who are independent with respect to quality control matters.

The new requirements will go into effect on December 15, 2025.

### RATIONALE FOR STANDARD

The SEC has noted that it has observed “concerning indications that registered firms’ quality control systems are inadequate to ensure the high level of audit quality necessary for investor protection.”<sup>[1]</sup> The new quality control standards create accountability for audit firms by requiring firms to complete a risk assessment process and monitor and remediate any weaknesses found during required annual evaluations of the firms’ quality control systems and related reporting. The SEC believes that this will improve audit quality and protect investors by facilitating the consistent preparation and issuance of informative, accurate, and independent audit reports.

### KEY TAKEAWAYS

Two SEC commissioners—Hester Peirce and Mark Uyeda—voted against the new standards, arguing that the SEC should have taken more time to consider the issues before approving the standards and that the requirements will be costly to auditors and issuers, similar to the costs and challenges that arose from the internal control audit

requirements of Section 404(b) of the Sarbanes-Oxley Act of 2002.<sup>[2]</sup> Public companies and their audit committees should be prepared for a potential increase in audit-related fees as auditors implement these requirements.

The U.S. Chamber of Commerce, the Center for Audit Quality, and the Big Four accounting firms objected to the new standard, particularly the external quality control function, in comment letters to the SEC, and the Chamber threatened to sue if the SEC adopted the standard without cost-benefit analysis, so the new standard may yet be challenged in court.<sup>[3]</sup>

The SEC has also paid particular attention to audit rules in recent months, approving three important rule changes related to auditors' responsibilities, use of technology-assisted data analysis in audits, and auditor liability.<sup>[4]</sup>

Winston's Capital Markets and Securities Law Watch will continue to monitor challenges to the new standard and the SEC's positions on public company audit quality and will post additional updates as they become available.

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[1] See Securities and Exchange Commission Adopting Release No. 34-100968, p. 9.

[2] See [Commissioner Uyeda's Dissenting Statement](#) and [Commissioner Peirce's Dissenting Statement](#).

[3] See [U.S. Chamber Comments on PCAOB Proposed Rules on A Firm's System of Quality Control and Related Amendments to Standards](#).

[4] See [SEC Chief Accountant Issues Statement on Public Company Audit Quality](#).  
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