

## Impending Quality Control Standards Pose Risks For Auditors

By **Kelly Bossard and Mike Plotnick** (July 31, 2025, 5:44 PM EDT)

Once a stable cornerstone of the business world, the public accounting profession is now grappling with a perfect storm of business challenges.

Accounting firms have been subject to mounting pressures, including significant regulatory oversight from various agencies (e.g., Public Company Accounting Oversight Board, U.S. Securities and Exchange Commission, state boards of accountancy); talent, recruiting and retention struggles; private equity transactions that have changed business models and the competitive landscape; and increasing adoption of artificial intelligence initiatives to stay competitive.

Now, new quality control standards add yet another significant challenge to the public accounting profession that will increase costs, potential liability and regulatory scrutiny for accounting firms.

For almost three decades, quality control standards have largely remained unchanged and were virtually the same for firms providing services to publicly traded and private clients in the U.S.[1] However, beginning Dec. 15, 2025, all public accounting firms with a practice in the U.S. will need to comply with new standards aimed at strengthening each firm's quality control, or QC, system.

If a firm is serving U.S. public clients, the PCAOB's QC 1000 is applicable; if a firm is serving U.S. private clients, the American Institute of Certified Public Accountants' Statement on Quality Management Standards, or SQMS, 1 is applicable.

While there are certain differences between these new quality control standards,[2] both are relatively similar, complex and lengthy. The PCAOB and AICPA have published hundreds of pages of standards and related implementation guidance. Adopting and applying these new requirements is no small undertaking.

### Key Components of the New QC Standards

Both the historical and new quality control standards were designed to provide accounting firms with reasonable assurance that the firm and its personnel comply with professional standards and applicable legal and regulatory requirements. The historical standards required firms to establish policies and procedures related to certain areas.[3] However, the guidance was high-level with little specificity.



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Now, the recently adopted standards include more specific guidance and contain new additional mandates including:

- A risk-based approach tailored to each firm;
- Increased responsibilities for monitoring and remediating quality control deficiencies;
- Emphasis on accountability and firm governance; and
- A robust annual evaluation of the firm's QC system.

### **New Standards Increase Individual Liability for Firm Personnel**

Now that the PCAOB appears to have survived being rolled into the SEC under the One Big Beautiful Bill Act,[4] questions remain about potential regulatory enforcement of QC 1000. Although there is potential liability for auditors under SQMS 1, regulatory enforcement of QC 1000 is likely the largest potential risk for individual auditors under the new QC standards.

While firms will likely face regulatory scrutiny, as under currently existing QC standards, QC 1000 presents a significant shift from current PCAOB QC standards with respect to the potential for individual liability. The current PCAOB QC standards generally impose direct responsibilities on firms, not on individuals.

Previously, individuals could be found liable only for directly and substantially contributing to a firm's QC violation, but could not be found to directly violate a PCAOB QC standard. That is, for an individual to be liable for a QC failure, a regulator first needed to prove primary liability by a firm.

Under the new standard, however, individuals with responsibility for parts of a firm's QC system can be found directly liable for violating QC 1000. QC 1000 requires firms to assign its personnel to specific responsibilities within a firm's QC system. Importantly, the new standard requires that all personnel involved with the firm's QC system act with due professional care, including by exercising professional skepticism.[5]

Because of the standard's specific requirement to act with due care, and the need for firms to assign individuals to QC roles, individuals likely have an increased risk of liability with respect to QC roles.[6] Thus, an individual with specifically assigned responsibilities under QC 1000 related to a firm's QC system who acts negligently in that role, either by action or omission, could be subject to regulatory enforcement liability.

In addition to the likely increase in primary individual liability, the new QC standard may also lead to additional secondary liability for individuals who contribute to a firm's violation of the standard.

Because of a recent change to PCAOB Rule 3502, on the "responsibility not to contribute to violations," which lowers the scienter standard for secondary liability to negligence, individuals may also face increased liability for contributory violations.[7]

Regulators, however, will still need to prove that an individual acted recklessly or intentionally to obtain heightened sanctions, including a bar, suspension or a civil penalty in excess of \$169,700, for a violation of the new QC standard. Lesser sanctions, however, including lower penalty amounts, could be imposed for negligent violations of the standard.

The extent of regulatory enforcement of QC 1000 remains an open question. Because the SEC approved QC 1000 on party lines during the Biden administration, it remains unclear how the SEC and PCAOB, under the oversight of new SEC leadership and impending new PCAOB leadership, will seek to enforce QC 1000.

In any event, unless new PCAOB and SEC leadership repeal QC 1000 or pass new quality control standards — both of which are unlikely — auditors should be mindful of the potential for liability with respect to assigned quality control roles.

### **Expected Costs of Implementing These New Standards**

Firms will likely expend significant costs to implement these new quality control standards. The actual costs will vary by firm, but it is expected to be significant for most, if not all, firms.

The PCAOB's adopting release includes a relevant data point in this regard — it discusses the results of a PCAOB survey of five global network firms related to resources that these firms devoted to the adoption of the International Standard on Quality Management, or ISQM, 1, which became effective Dec. 15, 2022. This data is relevant since many of the themes and concepts in ISQM 1 are similar to those in QC 1000 and SQMS 1.

The PCAOB's survey found that, on average, each of these five large global network firms devoted approximately 650 full-time employees (approximately 145 of which were partners) leading up to the adoption of ISQM 1.[8] While midsize and smaller firms are expected to devote less effort and expense to compliance, the actual cost for any particular firm will not be cheap, and it is likely that much of these costs will be passed along to the firms' clients.

### **Emphasis on Accountability and Governance**

QC 1000 and SQMS 1 both explicitly note that the firm's CEO or other highest-ranking executive is ultimately responsible for the firm's QC system.[9] Both standards also require firms to assign operational responsibilities — including compliance with ethics, independence, monitoring and remediation — to specific firm personnel with the appropriate experience, competence, authority and time to fulfill their assigned responsibilities.[10]

Firms will also be required to establish a direct line of communication between those individuals assigned operational responsibilities and the individual with ultimate responsibility.[11]

Both standards also recognize that a firm's governance and leadership are key components of a firm's QC system since they establish the environment that supports that firm's QC system. In this regard, both standards state that firms should, among other things: (1) establish a commitment to quality that is communicated and promoted by firm leadership; (2) define leadership responsibility and hold leadership accountable for quality; and (3) plan, obtain and allocate resources in a manner that is consistent with the firm's commitment to quality.[12]

QC 1000 includes an incremental governance requirement that is not present in SQMS 1. If a firm audited more than 100 issuers during the prior calendar year, "the firm's governance structure should incorporate an oversight function for the audit practice that includes at least one person who is" external to the firm to exercise "independent judgment with regard to matters related to the" QC system.[13] This requirement is significant and is expected to affect the top 10 to 15 firms in the U.S.

## **Risk-Based Approach**

Both standards recognize that the firm's risk assessment process is one of the primary components of a firm's QC system. In this regard, firms will be required to design and implement a risk assessment process to establish quality objectives, identify and assess quality risks, and implement responses to address these quality risks.[14]

When applying this risk-based approach, firms should consider the nature and circumstances of the firm, its engagements, and other relevant information.[15] Accordingly, a firm will need to tailor its QC system to fit the firm and consider things, such as, the size and complexity of the firm, the types and variety of engagements it performs, the types of companies that it serves, and whether it is a member of a network of firms.

## **Broader Responsibilities for Monitoring and Remediating Deficiencies**

Both QC 1000 and SQMS 1 recognize a firm's monitoring and remediation process is another core component of a firm's QC system and should inform the firm's risk assessment process. These standards require firms to establish this process to: (1) provide relevant, reliable and timely information about the design, implementation and operation of the firm's QC system; (2) perform a root-cause analysis of identified deficiencies; and (3) timely remediate identified deficiencies.[16]

As noted in the PCAOB's adopting release, the "risk assessment process, coupled with a detailed monitoring and remediation process, form a feedback loop designed to foster a proactive approach to QC that drives continuous improvement." [17]

## **Annual Evaluation and Reporting**

QC 1000, SQMS 1 and ISQM 1 all require firms to perform annual evaluations of the QC system's effectiveness. Such annual evaluations should conclude, as of the evaluation date, in one of three ways: (1) the QC system is effective with no unremediated quality control deficiencies; (2) the QC system is effective except for one or more unremediated deficiencies; or (3) the QC system is not effective.[18]

While SQMS 1 does not preclude firms from sharing the results of its annual evaluation with external parties, there is no requirement to publicize or share its evaluation.[19] QC 1000, on the other hand, requires that firms report annually to the PCAOB on a new nonpublic Form QC the results of its QC system evaluation on or before Nov. 30 each year.[20]

## **Conclusion**

The new quality control standards represent a new era for the accounting profession. While these standards are designed to elevate accountants' performance, they will likely pose collateral consequences, including increased individual liability and additional compliance costs to an industry already grappling with considerable challenges in recent years.

Accounting firms that are not prepared to adopt these new QC standards need to act now. And, firms' clients should prepare for much of these compliance costs being passed through in the form of increased accounting and auditing fees.

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[1] In 1997 the AICPA adopted quality control standards. Shortly after the Sarbanes-Oxley Act created the PCAOB in July 2002, the agency adopted, as its interim quality control standards, the AICPA's 1997 quality control standards.

[2] The PCAOB issued a document titled "Comparison of Proposed QC 1000 with ISQM 1 [International Standards] and SQMS 1" that is available here: [https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket046/comparison-of-proposed-qc-1000-with-isqm-1-and-sqms-1---11.17-final.pdf?sfvrsn=bea4137b\\_7](https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket046/comparison-of-proposed-qc-1000-with-isqm-1-and-sqms-1---11.17-final.pdf?sfvrsn=bea4137b_7).

[3] The historical QC standards required firms to have quality control policies and procedures that addressed the following areas: a) Independence, Integrity, and Objectivity, b) Personnel Management, c) Acceptance and Continuance of Clients and Engagements, d) Engagement Performance, and e) Monitoring. QC 20.07.

[4] Elimination of PCAOB can't remain in budget bill, Senate official rules, by Bryan Strickland, Journal of Accountancy (June 20, 2025).

[5] See QC 1000.10. International QC standards, IQSM 1 and SQSM 1 do not have this requirement written into the standard. See Comparison of Proposed QC 1000 with ISQM 1 and SQSM 1 at 10 (Nov. 18, 2022).

[6] See A Firm's System of Quality Control and Other Amendments to PCAOB Standards, Rules, and Forms, Rel. No. 2024-005 (May 13, 2024), at 85 ("QC 1000 creates a framework in which an individual's failure to discharge prescribed responsibilities could give rise to individual liability without regard to whether primary violations were committed by another.").

[7] The PCAOB's amendment to Rule 3502 was approved by the SEC by a 3-2 vote, with two dissenters, Commissioners Peirce and Uyeda, who are now in the majority party at the Commission. It remains to be determined whether potential new leadership at the PCAOB, with approval from the Republican-led SEC, will seek to repeal the amendments to Rule 3502 that lowered the liability standard.

[8] PCAOB Release No. 2024-005 at pg. 318-322. Those firms that already implemented ISQM 1 should be able to leverage that effort and reduce their costs to comply with QC 1000 and SQMS 1.

[9] QC 1000.11 and SQMS 1.20.

[10] QC 1000.12 and SQMS 1.20-.21.

[11] QC 1000.13 and SQMS 1.22.

[12] QC 1000.25 and SQMS 1.29.

[13] QC 1000.28.

[14] QC 1000.08 and SQMS 1.09.

[15] QC 1000.09 and SQMS 1.11.

[16] QC 1000.59-.60 and SQMS 1.36 and .43.

[17] PCAOB Release No. 2024-005 at pg. 338.

[18] QC 1000.77 and SQMS 1.54-55.

[19] SQMS 1 A.217-A.220.

[20] QC 1000.79.