

# PCAOB changes could reshape accounting malpractice risk

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APRIL 15, 2026

On December 15, 2026, a transformative series of new and amended rules issued by the Public Company Accounting Oversight Board (PCAOB) — the organization Congress created to regulate auditors of public companies in the wake of Enron — is scheduled to take effect. The new and amended PCAOB rules are widely viewed as the most significant overhaul of the regulations governing registered public accounting firms since the Sarbanes-Oxley Act of 2002.

This article focuses on one of the core reforms — the requirement that audit firms implement risk-based quality control systems — and its implications for negligence claims against auditors by stakeholders in public companies.

## The essential function of auditors in U.S. financial markets

Auditors perform an essential function in U.S. financial markets by auditing and issuing audit opinions on the financial statements of public companies. Stakeholders in public companies, including lenders and equity investors, often review and rely on a company's audited financial statements in deciding, among other things, whether to make or continue to hold an investment in the audited company.

The PCAOB's current quality control standards were developed by the American Institute of Certified Public Accountants before the PCAOB was established. These interim standards, adopted in 2003, set forth general requirements for audit firms to establish quality control systems.

Given the significant changes in the auditing environment since that time — including the evolving use of technology, the increasing participation of other firms and outside resources in engagements, and the growing role of firm networks — the PCAOB determined that comprehensive modernization was necessary.

## The newly required risk-based quality control systems — QC 1000

The PCAOB's new quality control rule — QC 1000 (<https://bit.ly/4sTfjLF>) — will require PCAOB registered audit firms to implement risk-based quality control systems and report annually on their effectiveness.

Audit firms will have to establish “quality objectives,” identify “quality risks” to achieving those objectives, and design “quality responses” to address those risks (see PCAOB Release No. 2024-005, May 13, 2024, <https://bit.ly/4HJu67>).

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To do that, QC 1000 will require audit firms to assign specific individuals to be “accountable for the design, implementation, and operation of the firm's QC system” and to “certify the firm's report to the PCAOB on its annual evaluation of the QC system” (QC 1000 ¶¶ .14-.15, <https://bit.ly/3POskb4>).

One of QC 1000's most consequential provisions requires large audit firms — i.e., those that audit more than 100 issuers — to establish an External Quality Control Function (EQCF) (QC 1000 ¶ .28, <https://bit.ly/4bnCLEj>). The EQCF must engage individuals who are not part of the firm's management and who independently evaluate whether the firm's internal quality control system is functioning effectively.

A review of a firm's EQCF would be triggered if the audit firm concluded that its quality control systems were not effective or had significant deficiencies. The EQCF would then evaluate the reasonableness of the firm's conclusions and its remediation plans in the form of a formal report.

## The implications of QC 1000 for negligence claims against auditors

“When quality control systems operate effectively, quality audits follow, and investors are better protected,” stated former PCAOB Chair Erica Y. Williams upon the adoption of QC 1000 (PCAOB News Release, May 13, 2024, <https://bit.ly/4d65SEh>).

While robust quality control systems are designed to improve audit quality, they do not eliminate the possibility of negligent audits. The documentation and reporting requirements under QC 1000 may provide stakeholders with additional evidence when pursuing negligence claims against auditors.

QC 1000 will not change the applicable standards of conduct but is likely to make negligence claims against auditors easier to prove.

Under the current interim standards, audit firms are not required to file annual reports with the PCAOB concerning the effectiveness of their quality control systems, nor are they required to certify such evaluations. QC 1000 changes this by requiring firms to generate annual evaluations and detailed documentation of their quality control processes. This paper trail — including reports on quality objectives, identified risks, and remediation efforts — could provide valuable evidence for stakeholders seeking to prove an auditor's negligence.

A firm's certified annual evaluation may identify deficiencies in quality control systems that contributed to an audit failure. Quality-control-related documents may show that the firm identified an audit quality risk but failed to address it adequately.

EQCF reports could be particularly useful to plaintiffs alleging negligent reporting as pre-litigation, contemporaneous expert critiques of an audit firm's practices. Such reports may be even more persuasive to a jury than critiques leveled by the PCAOB in inspection or disciplinary reports because plaintiffs will be able to argue that the audit firm's very own independent reviewer identified the deficiencies at issue.

For plaintiffs' counsel, these internal admissions could prove invaluable. In closing arguments, an attorney may tell the jury:

*"Don't take my word for it: the defendant auditor admitted its own negligence."*

The discoverability of quality-control-related documents is likely to be contested as to whether they are protected by attorney-client privilege. Audit firms may claim that the documents were

created to facilitate legal advice. There are contrary arguments, however, that quality-control-related documentation qualifies as ordinary business records as required by regulatory standards and, therefore, cannot be privileged.

QC 1000 may improve audit quality on average but will also require audit firms to generate internal documentation that could serve as evidence in negligence claims. The discoverability of that documentation is likely to be litigated as the case law continues to develop.

### QC 1000's uncertain future

The PCAOB adopted QC 1000 on May 13, 2024, and the Securities and Exchange Commission (SEC) approved it on September 9, 2024.

The Big Four auditing firms (Deloitte, PwC, EY, and KPMG) raised significant objections to QC 1000 in comment letters (<https://bit.ly/4uLUSTv>) to the PCAOB and the SEC.

Although QC 1000 effective date was originally set for December 15, 2025, the PCAOB postponed it by one year to December 15, 2026. In announcing the delay, the PCAOB stated that its decision was based on the fact that firms "encountered implementation challenges" that were "insurmountable within the previously established timeframe." (PCAOB News Release, Aug. 28, 2025, <https://bit.ly/4rGc6ON>).

Such lobbying efforts will no doubt continue in 2026 and are likely to find a receptive audience in the Congress and the current Administration.

The House Financial Services Committee voted in April 2025 to advance legislation that would have abolished the PCAOB entirely (see Bill Myers, "In the Loop: PCAOB goes 'back to basics' (again)," Private Funds CFO, Feb. 2, 2026, <https://bit.ly/4IDXH42>).

Although the PCAOB survived, its budget was significantly reduced for 2026 (see SEC Chairman Paul S. Atkins, Statement on PCAOB 2026 Budget, Jan. 22, 2026, <https://bit.ly/3NBTvFl>).

QC 1000 is likely to have significant implications for auditor malpractice claims, but it is not yet in force.

### About the authors



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This article was first published on Reuters Legal News and Westlaw Today on April 15, 2026.