

2026 PCAOB Reports: Good News/Bad News, Partly Sunny/Partly Cloudy, Glass Half Full/Glass Half Empty (Pick Your Metaphor)

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On August 13, 2026, the Public Company Accounting Oversight Board (PCAOB)* posted inspection reports for six of the largest accounting firms in the US.

As has been the case for years, valuation issues featured prominently in the PCAOB's findings; however, audit deficiencies declined from previous reports. Deficiency severity was inversely proportional to firm size, with the Big Four accounting firms performing better than the next tier of firms.

The most challenging industry for valuation was Oil and Gas, with untested estimates of proved & unproved reserves and unsupported projected cash flows cited in multiple cases at multiple firms.

A recurring theme in the reports was the failure to challenge significant management assumptions. This was seen in several contexts, including insufficient evaluation of contradictory market evidence; inadequate testing of the accuracy, completeness, relevance, and reliability of valuation model inputs; and cursory review of independent specialists and their methods.



In summarizing the PCAOB reports, one sees that the majority of valuation deficiencies involved a failure of the audit team to independently evaluate company-engaged specialists (whether in business valuation, reserve engineers, or actuaries), in tandem with inquiry-only procedures, questionably relevant industry benchmarking, and ignoring the subject company's valuation policy. The 2026 inspections indicate that the PCAOB continues to scrutinize and find weaknesses with goodwill impairment, business combinations, Level 3 investments, energy reserves, and other cash-flow-based measurements.

The irony is that while the use of third-party specialists is encouraged and preferred, problems with third-party specialists were noted when the specialists simply accepted management inputs without independent verification and when the specialists lacked appropriate experience. We want independent, third-party specialists (after all, they are specialists for a reason); we just want them to do their job.

For those employing third-party valuation firms, for auditors, and for the valuation firms themselves, the message is as follows: as in many contexts in life, "trust, but verify" is solid advice. The good news is that these issues are fixable; the bad news is that they are the same issues that have been seen before.

*The PCAOB is a nonprofit corporation established by Congress to oversee the audits of public companies in order to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports. The PCAOB also oversees the audits of brokers and dealers registered with the Securities and Exchange Commission, including compliance reports filed pursuant to federal securities laws.

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