



May 30, 2023

Office of the Secretary  
Public Company Accounting Oversight Board  
1666 K Street, N.W.  
Washington, DC 20006-2803

**RE: PCAOB Rulemaking Docket Matter No. 049**

Dear Madam Secretary:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB's) proposed auditing standard, *General Responsibilities of the Auditor in Conducting an Audit*, and other proposed amendments to PCAOB standards included in PCAOB Release No. 2023-001.

We support the objectives of the proposal to streamline and clarify general principles and the responsibilities of auditors and to provide a more logical presentation, which would enhance the useability of the standards by making them easier to read, understand, and apply. We believe it is important for investors and other stakeholders to understand the role of auditors and have confidence in the quality of the auditors' services; clear and well-organized standards can help promote this understanding.

We agree that "a modernized standard may enhance investors' and audit committees' awareness and understanding of the auditor's responsibilities."<sup>1</sup> We are concerned, however, that some of the proposed changes — such as the proposed deletion of long-standing explanations of existing, pervasive concepts in today's PCAOB standards — could have the unintended consequence of causing confusion about the objectives and limitations of an audit engagement delivered under today's PCAOB standards. We offer recommendations to help in addressing this concern.

We fully support the Board's objectives of providing clarity to investors and audit committees about the foundational standards, particularly because our work is performed under the oversight of independent audit committees and our reporting is to the board and shareholders.

***Reaffirming the auditor's public interest role within the existing legal framework***

We appreciate the Board's desire to emphasize the auditor's public interest role in the proposing release for the foundational standards. Given the statement in the proposing release that "[t]he proposed standard and related amendments are designed to streamline and clarify general principles and responsibilities of auditors and provide a more logical presentation,"<sup>2</sup> we do not believe that the Board intends to alter the existing regulatory or legal landscapes, in particular the legal relationship between auditors and investors. There is a robust body of case law around the auditor's relationship to investors, and Congress has carefully considered the responsibilities of the various market participants in passing securities laws, including specifying burdens of proof where reliance is an element of the claim or lack of reliance is a potential affirmative defense.

As the proposing release notes, the PCAOB does "not have evidence that auditors are systematically confused about the meaning of the general principles and responsibilities or that the foundational

<sup>1</sup> PCAOB Release No. 2023-001, page 46

<sup>2</sup> PCAOB Release No. 2023-001, page 5



standards as they are in effect today are insufficiently robust to support high-quality audits, when applied appropriately.”<sup>3</sup> Yet, certain language within the proposed standard introduces new ambiguities regarding the auditor’s obligations to investors (such as the proposed requirement in paragraph .15 for the auditor to “keep in mind their role in protecting investors”), without any accompanying guidance in the proposal or the release. This leaves unclear how to reconcile an advocacy concept such as “protection” with auditor independence concepts of being “without bias” and “impartial” for the “general public” – which includes present and potential investors.<sup>4</sup> If the language is retained, we believe it would be necessary to develop and propose appropriate new performance, reporting, and documentation requirements.

Accordingly, after thoughtful consideration, we recommend the Board remove the requirement in proposed paragraph .15 and replace it with a statement such as the following: “**Audits conducted in accordance with PCAOB standards are intended to meet the needs of investors and add to investor confidence in financial reporting by contributing to the reliability, completeness, and timeliness of such reporting.**” Such a statement could be included in paragraph .01 of AS 1000 or in the text of the final release, since this concept flows throughout the general principles and responsibilities of the auditor when conducting an audit.

### ***Fair presentation***

Under existing PCAOB standards, auditors have a responsibility to evaluate whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework. We agree auditors should look to the requirements of the SEC for the company under audit with respect to the accounting principles applicable to that company.

However, it is not clear to us that the reference to SEC Rule 12b-20 of the Securities Exchange Act of 1934 in proposed footnote 17A in proposed AS 2810 is appropriate in this context. Under the Rule, the requirement for registrants is “[i]n addition to the information expressly required to be included in a statement or report, there shall be added such further material information, if any, as may be necessary to make the required statements, in the light of the circumstances under which they are made not misleading.”

This is an overarching disclosure requirement addressing the total mix of information disclosed **by the registrant** to the market. Rule 12b-20 is not specific to the subset of disclosures contained within the financial statements. Suggesting that this concept is an element of the auditor’s evaluation of fair presentation is not appropriate.

The auditor’s responsibilities for disclosures are more tailored. In accordance with AS 2815,<sup>5</sup> the auditor’s opinion that financial statements “present fairly” an entity’s financial position, results of operations, and cash flows in conformity with an applicable financial reporting framework is based on the auditor’s judgment as to whether:

- the accounting principles selected and applied have general acceptance;
- the accounting principles are appropriate in the circumstances;

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<sup>3</sup> PCAOB Release No. 2023-001, page 36

<sup>4</sup> AS 1005, *Independence*, paragraphs .02-.03

<sup>5</sup> AS 2815, *The Meaning of “Presents Fairly in Conformity with Generally Accepted Accounting Principles,”* paragraph .04



- the financial statements, including the related notes, are informative of matters that may affect their use, understanding, and interpretation;
- the information presented in the financial statements is classified and summarized in a reasonable manner, that is, neither too detailed nor too condensed; and
- the financial statements reflect the underlying transactions and events in a manner that presents the financial position, results of operations, and cash flows stated within a range of acceptable limits, that is, limits that are reasonable and practicable to attain in financial statements.

In forming an opinion on whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework, the auditor considers not only the specific disclosure requirements of the applicable financial reporting framework but also the underlying objectives and principles of those standards.

The proposed rule seems to suggest that there could be some principle other than Generally Accepted Accounting Principles (GAAP) that the auditor should apply to make these judgments. Under SEC rules and guidance, however, any override of GAAP presentation is presumed to be misleading.<sup>6</sup>

As a result, in setting out the additional auditor responsibilities in paragraph .30A of proposed AS 2810<sup>7</sup> coupled with the view on page 30 of the proposing release,<sup>8</sup> the PCAOB appears to have created an untenable potential conflict between existing SEC rules and guidance and PCAOB standards that needs to be addressed. Expanding the outer boundary of the auditor's responsibilities by essentially removing the anchor<sup>9</sup> of the applicable financial reporting framework and suggesting auditors could override management's well-reasoned judgments would be a significant change in practice. In our view, the proposal would essentially result in an individual auditor being required to "stand in the shoes" of management and their disclosure counsel and assess whether, notwithstanding the extensive information and disclosures required by GAAP and SEC requirements, a registrant's financial statements should contain different or additional information in order not to be misleading. Establishing additional auditor responsibilities would create an ambiguous obligation at risk of inconsistent application and susceptible to criticism with hindsight bias. If there are potential deficiencies in a particular registrant's disclosures that are not addressed by the applicable financial reporting framework, it is the SEC and FASB that should take appropriate action, such as through the comment letter process or by revising the requirements, rather than requiring the auditor to determine what those incremental presentation requirements or disclosures should be through the auditor's fair presentation evaluation.

We recognize that other major capital markets, such as the UK, have taken other approaches on this point and permit or even require the company to **override the applicable financial reporting framework** to present in the company's or the auditor's view a "true and fair" view,<sup>10</sup> but that is not the approach that the SEC has established.

<sup>6</sup> See Regulation S-X Rule 4-01(a)(1); see also SEC Division of Corporation Finance, Financial Reporting Manual, Section 1410.

<sup>7</sup> AS 2810, *Evaluating Audit Results*

<sup>8</sup> See paragraph .30A of proposed AS 2810, and page 30 of PCAOB Release No. 2023-001, which states that "the amendments would clarify that the auditor's obligation concerning the fairness of the financial statements extends beyond compliance with the applicable financial reporting framework."

<sup>9</sup> Paragraph .03 of AS 2815 states "The independent auditor's judgment concerning the "fairness" of the overall presentation of financial statements should be applied within the framework of generally accepted accounting principles. Without that framework, the auditor would have no uniform standard for judging the presentation of financial position, results of operations, and cash flows in financial statements." This concept was omitted in the proposed amendments to AS 2810.

<sup>10</sup> See the UK Financial Reporting Council publication, *True and Fair*, available at <https://www.frc.org.uk/getattachment/fo8eecd2-6e3a-46d9-a3f8-73f82c09f624/True-and-fair-June-2014.pdf>. This publication notes that "[F]air presentation under IFRS is equivalent to a true and fair view" but explains that, among other



To the extent the PCAOB views the auditor’s responsibilities more broadly than those of reporting on whether the financial statements comply with the applicable financial reporting framework, we would embrace a fulsome discussion of the various policy alternatives, incorporating our comparative experience from practicing in different jurisdictions. We believe this question would necessarily require due process, in coordination with the SEC, to minimize unintended consequences across the multi-party financial reporting system in the US.

***Reasonable application of the extension of due professional care and professional skepticism***

We support in principle the extension of the need to exercise due professional care to all matters related to the audit. The Board should consider reasonable application of the extension of the concepts of due professional care and professional skepticism that takes into account the nature of the matter (including whether or not the matter is directly related to the auditor’s opinion). To this end, absent substantive changes in the performance standards to address inherent limitations, the PCAOB should retain language from existing standards that provides an accurate context, for example:

- paragraph .10 of AS 1015,<sup>11</sup> which notes that an audit conducted in accordance with PCAOB standards may not detect a material weakness in internal control over financial reporting or a material misstatement to the financial statements;
- paragraph .11 of AS 1015, which notes that, even with good faith and integrity, mistakes and errors in judgment can be made; and
- paragraph .13 of AS 1015, which notes that the subsequent discovery that either a material misstatement, whether from error or fraud, exists in the financial statements or a material weakness in internal control over financial reporting does not, in and of itself, evidence (a) failure to obtain reasonable assurance, (b) inadequate planning, performance, or judgment, (c) the absence of due professional care, or (d) a failure to comply with PCAOB standards.

We agree that professional skepticism is an important part of exercising due professional care in conducting an audit. However, it is unclear how the PCAOB envisages the auditor performing a “critical assessment” of information related to the audit. While the auditor can critically assess audit evidence using AS 1105,<sup>12</sup> there is not an overarching framework for critically assessing the totality of information related to the audit. Accordingly, we are concerned the proposed change is ambiguous and could extend further than is necessary to support the auditor’s overall responsibilities and the PCAOB’s objectives. We recommend the PCAOB retain the existing reference to a “critical assessment of audit evidence” in paragraph .10 of the proposed standard, as this is already supplemented by the requirement in paragraph .11 and the overarching responsibility to exercise due professional care in relation to all matters related to the audit (including the preparation of Form AP).

To the extent the Board believes it is important that that the auditor’s requirements related specifically to the preparation of Form AP go beyond exercising due professional care (as would be required under paragraph .09 of proposed AS 1000) and extend to performing a critical assessment of information used in

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things, the FRC expects preparers, those charged with governance, and auditors to provide additional disclosures when compliance with an accounting standard is insufficient to present a true and fair view, and to use the true and fair override where compliance with the standards does not result in the presentation of a true and fair view.

<sup>11</sup> AS 1015, *Due Professional Care in the Performance of Work*

<sup>12</sup> AS 1105, *Audit Evidence*



the preparation of Form AP and other reports to regulators, we suggest that the Board consider how best to address this through separate rulemaking. Doing so would also enable the Board to revisit whether it is appropriate that any error in Form AP, regardless of materiality, requires the form to be amended, unlike any other aspects of public company reporting. In our view, this position results in unnecessary costs without incremental value to investors and other stakeholders.

We are also concerned that paragraph .11 of the proposed standard sets out new and unclear obligations for auditors to consider their own potential biases and potentially seek contradictory evidence. The proposing release explains that, in exercising professional skepticism, the auditor would consider the auditor's own bias that could affect the auditor's own judgments. It states that the auditor could mitigate such bias by being aware of "confirmation bias," considering alternatives provided by others, and seeking contradictory information as evidence.<sup>13</sup> AS 1105 requires the auditor to plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for his or her opinion. However, extant PCAOB standards do not require the auditor to explicitly seek out contradictory information as evidence.

Rather than setting out new expectations in the text of the proposing release that auditors seek contradictory information as evidence, we believe the PCAOB could accomplish its same goals by looking to changes made to the AICPA standards as part of the AICPA's audit evidence project, for example:

- paragraph 8 of AU-C section 330,<sup>14</sup> which requires the auditor to design and perform further audit procedures whose nature, timing, and extent are based on, and are responsive to, the assessed risks of material misstatement at the assertion level and in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory; and
- paragraph A27 of AU-C section 200,<sup>15</sup> which provides guidance about how unconscious or conscious auditor biases may affect the auditor's professional skepticism and professional judgment. We believe this guidance is consistent with the various academic studies referred to in the proposing release, but that making that guidance more accessible to auditors would be beneficial. Additionally, we note that the firm's system of quality control may also establish quality responses designed to mitigate potential auditor biases.

### ***Application of the concept of due professional care to engagement partners***

The PCAOB's explanations of how the concept of due professional care applies to engagement partners is valuable for auditors. In places, however, we are concerned that the language in paragraph .09 of the proposed standard may be viewed as conflicting with other PCAOB standards or may be ambiguous as to how due professional care is expected to be exercised. For example, this paragraph notes that due professional care includes appropriately assigning responsibilities to, and supervising, engagement team members. However, paragraph .04 of AS 1201<sup>16</sup> permits the engagement partner to seek assistance from appropriate engagement team members (which may include engagement team members outside the engagement partner's firm) in fulfilling his or her responsibilities pursuant to that standard, including supervisory responsibilities. We recommend that the guidance explaining how due professional care

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<sup>13</sup> PCAOB Release No. 2023-001, page 24

<sup>14</sup> AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*

<sup>15</sup> AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*

<sup>16</sup> AS 1201, *Supervision of the Audit Engagement*



relates to engagement partners in paragraph .09 of proposed AS 1000 be clarified to better align with AS 1201.

As another example, page 22 of the proposing release notes that, as part of exercising due professional care, the engagement partner assigns activities to engagement team members that adequately match their levels of competence. Neither AS 1201 nor AS 2101<sup>17</sup> explicitly require the engagement partner to do so. Rather, these standards are focused on taking into account the nature, timing, and extent of resources necessary to perform the engagement and the knowledge, skill, and ability of each engagement team member in determining the extent of supervision necessary.

We are therefore concerned that the proposing release sets out incremental expectations beyond what is expressly required by the professional standards and may not be practicable (for example, in the case of a multilocation audit). We do not believe changes to AS 1201 or AS 2101 are necessary or appropriately supported in the proposing release.

If the PCAOB believes that it is necessary to further specify and strengthen the responsibilities of engagement partners, we suggest that a separate project be undertaken and consideration be given to recent enhancements to International Auditing and Assurance Standards Board (IAASB) and AICPA standards,<sup>18</sup> which were intended to reinforce the need for quality management at the engagement level and complement their standards relating to firms' systems of quality management.

Finally, we support the inclusion of Note 2 to paragraph .05 (c) of AS 1201 to clarify that the engagement partner must review sufficient documentation as the individual primarily responsible for the engagement and its performance, and we believe this is consistent with current practice. The firm's policies and procedures assist the engagement partner in exercising professional judgment in determining the nature and extent of documentation to review, including when the audit is a multilocation audit.

### ***Consideration of professional judgment***

We support in principle the Board's intention to describe professional judgment in proposed AS 1000, as we also recognize that it is a "general principle and responsibility" of auditors, who exercise professional judgment throughout the audit. We also support the Board's stated intention that, by including a reference to applicable professional and legal requirements in the proposed definition of professional judgment, the Board "is not intend[ing] to create a new requirement."<sup>19</sup> Nonetheless, the PCAOB's proposed definition of professional judgment, by including the clause "such that the audit is planned and performed, and the report or reports are issued, in accordance with applicable professional and legal requirements," could be interpreted to do just that, by imposing a new strict liability requirement in PCAOB auditing standards. In other words, paragraph .12 of proposed AS 1000 would consider any deficiency in an auditor's compliance with applicable professional and legal requirements to be, by default, a failure to exercise appropriate professional judgment. But evaluation of professional judgments requires an assessment of the reasonableness of an auditor's determinations, analyses, and evaluations to be considered contemporaneously with the information available at that time. An auditor's judgment should not be susceptible to future challenge based simply on whether a factfinder later determines that applicable professional or legal requirements were not met. Reasonable observers may disagree regarding whether

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<sup>17</sup> AS 2101, *Audit Planning*

<sup>18</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*, and SAS 146, *Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards*

<sup>19</sup> PCAOB Release No. 2023-001, page 26





applicable standards were complied with while agreeing that the matter in question was within the purview of the auditor's professional judgment.<sup>20</sup>

We therefore recommend the Board consider the following revisions to paragraph .12 of proposed AS 1000, which retains certain concepts of the existing definition of "professional judgment" in paragraph .05 of AS 1001<sup>21</sup> (language to be deleted is ~~struck through~~; language to be added is underlined):

.12 The auditor must exercise professional judgment, which involves applying relevant training, knowledge, and experience in determining which auditing procedures are necessary in the circumstances to make informed decisions and reach well-reasoned conclusions and afford a reasonable basis for the issuance of the auditor's report about the courses of action that are appropriate in the circumstances such that the audit is planned and performed, and the report or reports are issued, in accordance with applicable professional and legal requirements.

### ***Relevant guidance applicable to the audit***

We appreciate the PCAOB clarifying that auditors should take into account relevant guidance applicable to the audit, including releases accompanying the standards and rules of the Board. As part of its standard-setting process, the Board may issue multiple documents over a period of time setting out its intent in relation to proposed standards, including concept releases and proposing releases. The Board's view may evolve based on public comment, the passage of time, or for other reasons, making it impractical to suggest that release text in proposals should necessarily be considered relevant guidance.

Accordingly, to facilitate auditors' appropriate consideration, it would be helpful for the PCAOB to codify and clearly delineate all relevant guidance in the accompanying release to the final standards, as previous discussions may have been superseded as a result of cumulative changes made to the proposed standards. We recommend the Board amend the proposed requirement in footnote 26 of proposed AS 1000 to describe that "Relevant guidance includes PCAOB auditing interpretations, Board-issued guidance, and releases accompanying the final standards and rules of the Board" (language to be added is underlined).

For example, the material in the *Discussion of Proposal* section of the proposing release could be restructured in a manner similar to the application and other explanatory material as presented in the AICPA and IAASB standards. Revising the manner in which relevant guidance is presented would also afford stakeholders a better opportunity to comment on this guidance during the rulemaking process. In contrast, we would not consider matters discussed in the *Economic Analysis* section of the proposing release to represent relevant guidance applicable to the audit that auditors would need to take into account.

### ***Effective date***

While a number of changes in the proposed standard are intended to clarify but not change the auditor's responsibilities, the proposal to accelerate the documentation completion date would likely require changes to firms' methodologies, electronic audit tools, and audit software. If the SEC approves the final

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<sup>20</sup> See paragraphs .A27-A31 of AU-C section 200 (describing "professional judgment" and noting in particular that "[t]he exercise of professional judgment in any particular case is based on the facts and circumstances that are known by the auditor. Consultation on difficult or contentious matters during the course of the audit, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm . . . assists the auditor in making informed and reasonable judgments.").

<sup>21</sup> AS 1001, *Responsibilities and Functions of the Independent Auditor*



standard before the end of calendar year 2023, we recommend a final standard be effective for audits of financial statements for periods beginning on or after December 15, 2024, to allow ample time for this transition.

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We appreciate the opportunity to provide input and would be pleased to continue a dialogue with the Board and its staff. Please contact Brian Croteau at [brian.t.croteau@pwc.com](mailto:brian.t.croteau@pwc.com) regarding our submission.

Sincerely,

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

PricewaterhouseCoopers LLP