



## Proposed Auditing Standard – General Responsibilities of the Auditor in Conducting an Audit and Proposed Amendments to PCAOB Standards

Issued 30 May 2023

ICAEW welcomes the opportunity to comment on the PCAOB's *Proposed Auditing Standard – General Responsibilities of the Auditor in Conducting an Audit and Proposed Amendments to PCAOB Standards* published by the PCAOB on 28 March 2023, a copy of which is available from [this link](#).

For questions on this response, please contact the ICAEW Audit and Assurance Faculty at [tdaf@icaew.com](mailto:tdaf@icaew.com) quoting REP 46/23.

This response of 30 May 2023 has been prepared by the ICAEW Audit and Assurance Faculty. Recognised internationally as a leading authority and source of expertise on audit and assurance issues, the faculty is responsible for audit and assurance submissions on behalf of ICAEW. The faculty has around 19,000 members drawn from practising firms and organisations of all sizes in the private and public sectors.

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## GENERAL POINTS AND ANSWERS TO SELECTED QUESTIONS

1. We welcome the opportunity to comment on the PCAOB's proposed auditing standard on the general responsibilities of auditors and related amendments. Framing auditor activities in a holistic manner has value and we congratulate the PCAOB on these proposals. They bring together a number of important, overarching issues relevant to the audit and the length of the standard at just 8 pages is commendable.
2. We support the proposed reduction from 45 days to 14 days for file assembly. For many, probably most, firms it will make little difference as their internal policies have required a much shorter closedown period for some time now. The 45-day limit was set when paper files were the norm, and while all firms will need to amend audit methodologies and software to comply with the proposals, only a few should need to change current practices. Other auditing standard-setters seem likely to consider whether to follow the PCAOB's lead with a view to enhancing discipline to improve audit quality.
3. However, we do not support the removal without replacement of the material on the limitations of an audit. It is critical that reasonable assurance is properly understood by investors. None of the material on the limitations of an audit that has been removed is out of date or irrelevant. Regardless of how unpalatable some of this material may appear to some, the limitations are real. Eliminating references to the limitations will not eliminate the limitations. The removal of the references can also be construed, rightly or wrongly, as representing a potentially major change of substance or regulatory direction. We do not believe that this is the intention, but the issue has caused significant concern.
4. Investors and audit regulators need to understand the limitations of an audit. While auditing standards may not be the right home for them, their removal without replacement to somewhere accessible to investors risks creating unrealistic and inappropriate expectations. The descriptions of the limitations of an audit are widely accepted globally and are reflected in ISA 200 on the auditor's general responsibilities. If they are not reinstated, they should be moved somewhere equally authoritative.
5. Absent a statement in the audit report similar to the statement in ISA 700 which requires auditors to note that reasonable assurance is not a guarantee that an audit will always detect a material misstatement, investors are in the dark.
6. We support the inclusion of requirements relating to professional ethics, auditor reporting and audit documentation within AS 1000. These are not covered in ISA 200 but are included elsewhere within IAASB and IESBA standards.
7. Other than the general observations on the proposals above, we comment only on the specific questions that follow.

### ***Question 1 – additional principles or responsibilities that are fundamental to the conduct of an audit under PCAOB standards that merit inclusion***

8. There appear to be no equivalents to paragraphs 20 to 23 of ISA 200 in proposed AS 1000. These cover a prohibition on reporting compliance with the ISAs where that is not the case in full, the need to comply with all of an ISA where relevant, and the need to perform additional procedures beyond those required specified by ISAs if necessary. These requirements protect investors by helping maintain the integrity of auditing standards. We suggest that the PCAOB consider whether these protections, limited though they are, might usefully be incorporated in AS 1000 to the extent that they are not already covered here or elsewhere.
9. Maintaining the integrity of all standards seems likely to become increasingly important globally as sustainability reporting develops, and unregulated providers of audit services enter the market for reporting on sustainability issues.

**Question 7 – reasonable assurance**

10. Page 37 of the consultation notes the following: *AS 1015 describes reasonable assurance with additional discussion of limitations of an audit. We did not retain the descriptions of the limitations; rather we discussed how reasonable assurance can be obtained.*
11. We do not believe that the removal of the description of the limitations of an audit in the proposed standard will help protect investors, who must understand what reasonable assurance is not, as well as what it is. We support the discussion of how reasonable assurance is obtained, but absent a discussion of limitations, investors risk being inadvertently misled by the PCAOB's auditing standards.
12. The limitations of an audit no longer described appear to include paragraphs .11 - .13 of AS 1015. These state, among other things, that:
- a properly planned and performed audit may not detect a material misstatement;
  - mistakes and errors in judgment can be made;
  - the measurement of accounting estimates is inherently uncertain and depends on the outcome of future events;
  - in the great majority of cases, auditors have to rely on evidence that is persuasive rather than convincing;
  - collusion may cause auditors who have performed audits properly to conclude that evidence is persuasive when it is false. Auditors are not trained as experts in the authentication of documentation, nor are they expected to be;
  - auditors may not discover the existence of side agreements that management or third parties have not disclosed;
  - auditors are not insurers and the audit report is not a guarantee. The subsequent discovery that a material misstatement exists in the financial statements does not of itself constitute evidence that the audit was defective.
13. All of these statements remain true. If they were not, audits would be fundamentally different and would require so much time and work that they would be impracticable and unaffordable. It is important that these statements are retained, if not in auditing standards, then somewhere accessible to investors, to prevent unrealistic expectations of audit arising. Investors will not be well served by the replacement of these important, if unpalatable, facts with the very limited description in paragraph .14 which states only that reasonable assurance is obtained by reducing audit risk to an appropriately low level through the application of due professional care, including by obtaining sufficient appropriate audit evidence – particularly given that reasonable assurance is described as a high level of assurance in the same paragraph.
14. Similar material has been retained in paragraphs A47 to A54 of ISA 200, and in the auditor's report under ISA 700 (Revised). AS 3101 does not contain a similar statement.
15. Furthermore, we find it curious that analogous statements do appear to have been retained in the related proposed amendments to AS 2401: Consideration of Fraud in a Financial Statement Audit (para .12), AT Section 601: Compliance Attestation (para .31) and AT Section 701: Management's Discussion and Analysis (para .29).
16. We urge the PCAOB to re-instate paragraphs .11 - .13 of AS 1015 in their entirety either in this standard, or somewhere equally authoritative and accessible to investors.

**Question 10 – proposed amendments to clarify the meaning of ‘present fairly’**

17. We congratulate the PCAOB on the proposed amendments to AS 2810 clarifying the meaning of fair presentation. In many jurisdictions, including the UK and the USA, auditors have long been required to use their judgement in determining whether fair presentation has been achieved, above and beyond compliance with the specific requirements of the relevant accounting framework. Accounting frameworks themselves have also long required this. However, auditors need regulatory support in this area.
18. Resistance to going beyond compliance with specifics is entrenched and it is important that auditors have support for judgements based on the substance over form argument. It is also important that the PCAOB acknowledges that the amount of detail provided is critical to fair presentation.
19. It has long been acknowledged that true and fair is equivalent to fairly presents. The UK’s FRC issued *True and Fair* in 2014 but many aspects of true and fair/fair presentation remain highly relevant. This publication gives examples of UK companies that have provided additional disclosures beyond those required by law or regulation to give a true and fair view. The best-known example of this is the additional disclosure of alternative earnings per share, to provide a complete picture of performance.
20. Examples more relevant to the USA, provided by the PCAOB, would encourage auditors to be firmer on the need for different policies or additional disclosures where necessary. We believe that the issue will be increasingly important as sustainability reporting rapidly becomes more widespread in the coming years.

**Question 11 – clarifying amendments related to engagement partner responsibilities**

21. It is invariably the case that the engagement partner is assisted in the performance of his or her duties and we support the proposed amendments to ASs 1201, 1215 and 2101 clarifying obligations attached to the engagement partner’s general duty of due professional care. However, the PCAOB should acknowledge that the responsibility for the audit opinion in practice is, and should continue to be, the responsibility of the firm as a whole, in addition to the personal responsibility of the engagement partner, as embedded in law and regulation.

**Question 13 – proposed amendment to accelerate the documentation completion date by reducing the maximum period to assemble audit documentation from 45 to 14 days from the report release date**

22. We have no objections to the acceleration of the file assembly date from 45 days to 14 days. We understand that in practice, many firms routinely aim to assemble documentation within a few days of audit completion, so this will have little effect in most cases. Audit regulators should nevertheless be cognisant of the efforts made by any firms that do have to make changes of substance to comply with this enhanced requirement.
23. These changes will affect the global operations of SEC registrants and the PCAOB is a global leader in auditing standard-setting. The proposed reduction seems likely to affect audits globally.

**Question 14 – compliance with AS 1215.16 when filing Form AP within 35 days of the audit report being filed with the SEC in the light of the proposed requirement to assemble audit documentation for retention within 14 days**

24. Delays in filing form AP are less likely to be associated with the reduction in the time period for the assembly of audit documentation than they are with difficulties communicating with other auditors, which is a separate issue. Firms should focus on file assembly before they consider form AP. It would be helpful for the PCAOB to provide guidance on audit-related activities that are permissible after the assembly of the audit file.

***Question 15 – size of a firm or type of engagement affecting the time necessary to assemble audit documentation***

25. Regulatory caution is important when raising the bar, to ensure that the gap in terms of performance standards between firms currently supervised by the PCAOB, and those that are not but may aspire to be, does not become too great and effectively closes the door to new entrants to the market. Concerns that this may be happening in jurisdictions outside the USA are growing.