Crowe LLP
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May 30, 2023

By email: comments@pcaobus.org

Ms. Phoebe W. Brown
Office of the Secretary
PCAOB
1666 K Street NW
Washington, DC 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 049: *Proposed Auditing Standard – General Responsibilities of the Auditor in Conducting an Audit and Proposed Amendments to PCAOB Standards* (PCAOB Release No. 2023-001)

Dear Ms. Brown:

Crowe LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or "the Board") proposed auditing standard, Auditing Standard (AS) 1000, *General Responsibilities of the Auditor in Conducting an Audit*, (AS 1000) and other proposed amendments ("the proposal").

General Observations

Reasonable assurance, due professional care, professional skepticism, independence, competence, and professional judgment ("the general principles and responsibilities") are foundational to the audit and support high-quality audits. We support the stated objectives of the proposal to streamline and clarify the general principles and responsibilities of auditors and to provide a more logical presentation in order to enhance the useability of the standards by making them easier to read, understand, and apply.

We also agree that the general principles and responsibilities are currently generally understood by auditors and investors. We are concerned, however, that certain proposed changes eliminate important information about the role and responsibilities of the auditor. These changes may, over time, erode that understanding of the general principles and responsibilities. Without this vital information in the standards, investors and other stakeholders will have less transparency about the role and responsibilities of the auditor, such that the proposed standards may exacerbate the audit expectations gap.

Additionally, we are concerned that certain proposed changes that are intended to clarify the requirements may inappropriately expand the auditor's role and responsibilities, leading to confusion about the scope of the audit. Auditors play a vital role in the financial reporting ecosystem by providing investors and other financial statement users an independent opinion on a company's financial statements and, if applicable, internal control over financial reporting. Other parties, however, play equally important roles in financial reporting, including management, the audit committee, and regulators. It is important that the PCAOB does not, through a project to clarify and streamline existing responsibilities, expand the role and responsibility of the auditor in a manner that may obscure the responsibilities of other parties in the financial reporting ecosystem.

Included below are comments on specific aspects of the proposal.

Specific Areas of Comment

General Principles and Responsibilities

We believe it is in the best interest of investors and other stakeholders that the auditing standards are clear and understandable regarding the responsibilities of the auditor and the level of assurance provided by an auditor's report, including the potential limitations of an auditor's report. While we support the Board's objective of clarifying the existing standards and using plain language in the proposed standards, the proposed elimination of certain language from the existing standards may have the effect of reducing the level of transparency about the role and responsibilities of the auditor.

Specifically, our concerns relate to the proposed changes regarding reasonable assurance and due professional care.

Reasonable assurance

We support the Board's proposal to retain the description of reasonable assurance from AS 1015 as a high level of assurance and the statement that the auditor is able to obtain reasonable, but not absolute, assurance. These concepts are vital to understanding reasonable assurance, the role of the auditor, and the scope of the auditor's report.

We have concerns, however, regarding the elimination of some of the descriptive language currently provided in AS 1015 paragraphs .10 through .13. Those paragraphs provide critical information to investors and others about the scope of an audit and potential limitations of an auditor's report. The removal of this language may also reinforce and exacerbate the audit expectation gap. In particular, we strongly encourage the Board to retain the following existing statements:

- "…an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States) may not detect a material weakness in internal control over financial reporting or a material misstatement to the financial statements." (AS 1015.10)

- "The nature of most evidence derives, in part, from the concept of selective testing of the data being audited, which involves judgment regarding both the areas to be tested and the nature, timing, and extent of the tests to be performed. In addition, judgment is required in interpreting the results of audit testing and evaluating audit evidence. Even with good faith and integrity, mistakes and errors in judgment can be made. Furthermore, many accounting presentations contain accounting estimates, the measurement of which is inherently uncertain and depends on the outcome of future events. The auditor exercises professional judgment in evaluating the reasonableness of accounting estimates in significant accounts and disclosures based on information that could reasonably be expected to be available through the date of the auditor's report. As a result of these factors, in the great majority of cases, the auditor has to rely on evidence that is persuasive rather than convincing." (AS 1015.11)

- “Because of the characteristics of fraud, a properly planned and performed audit may not detect a material misstatement. Characteristics of fraud include (a) concealment through collusion among management, employees, or third parties; (b) withheld, misrepresented, or falsified documentation; and (c) the ability of management to override or instruct others to override what otherwise appears to be effective controls…Collusion may cause the auditor who has properly performed the audit to conclude that evidence provided is persuasive when it is, in fact, false…an auditor may not discover the existence of a modification of documentation through a side agreement that management or a third party has not disclosed. Finally, management has the ability to directly or indirectly manipulate accounting records and present fraudulent financial information by overriding controls in unpredictable ways." (AS 1015.12)

- “Since the auditor's opinion on the financial statements or internal control over financial reporting is based on the concept of obtaining reasonable assurance, the auditor is not an insurer and his or her report does not constitute a guarantee. Therefore, 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 exists 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 the standards of the Public Company Accounting Oversight Board (United States).” (AS 1015.13)

Retaining this language will benefit investors and other stakeholders by making the standard more transparent about the role and responsibilities of the auditor, including certain inherent limitations of an audit. It can help reduce information asymmetry by providing all parties a clear understanding of what reasonable assurance means in the context of the audit and the auditor’s report. As such, we recommend that the Board retain the statements identified above in a final AS 1000.

Due professional care

The concept of due professional care is described in AS No. 1015, *Due Professional Care in the Performance of Work,* (AS 1015) through reference to a 1932 legal treatise, *Cooley on Torts*. We understand the Board’s intention is to clearly and concisely describe the concept of due professional care. We believe, however, that certain information in the reference to *Cooley on Torts* provides valuable context regarding what investors and other stakeholders can expect of an auditor in the performance of an audit, which is good faith and integrity but not infallibility. This additional description provides investors and other stakeholders with information that may be important to their understanding of the role of the auditor. As such, we recommend the Board retain this information in the description of due professional care in a final standard.

Proposed Introduction to AS 1000

A high-quality audit benefits investors, who may rely on the objective and independent opinions on the company's financial statements and, if applicable, internal control over financial reporting (ICFR), in making investment decisions. As noted in the release accompanying the proposal, "A properly conducted audit and related auditor's report enhance the confidence of investors and other market participants in the company's financial statements and, if applicable, ICFR." We take our responsibility to the investing public seriously. We are committed to the highest standards of audit quality to support the integrity of the capital markets and work to enhance audit quality for the benefit of investors.

Investor protection, however, can include many elements beyond the audit, and investors may have differing views on what should be done to protect their interests. Accurate financial reporting, high-quality audits, and effective regulation all play an important part in investor protection. While the auditor plays a critical role, other parties – such as management, the audit committee, and capital market regulators – are also vitally important to investor protection. As such, it is important that the auditing standards appropriately communicate the auditor's specific role. As currently drafted, paragraph .01 of proposed AS 1000 is not sufficiently transparent about the auditor's role in investor protection. We recommend the Board refine paragraph .01 to reflect the role of the auditor in the capital markets more appropriately:

> Auditors have a fundamental obligation to ~~protect investors through the preparation and issuance of~~ prepare and issue informative, accurate, and independent auditor's reports~~, and that obligation governs the auditor's work under~~ in accordance with the standards of the PCAOB. An audit primarily benefits investors, who rely on the audit to provide an objective and independent opinion on whether the company's financial statements are presented fairly and, if applicable, on the effectiveness of the company's internal control over financial reporting. A properly conducted audit and the related auditor's report enhance the confidence of investors and other market participants in the company's financial statements and, if applicable, internal control over financial reporting.

Proposed Amendments to AS 2810

In the release, the Board indicates that they are incorporating requirements from AS 2815, *The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles,"* (AS 2815) into AS 2810, *Evaluating Audit Results,* (AS 2810) "for a more logical presentation of requirements" that include "an important clarification of the auditor's existing responsibilities." The Board does not give an indication of an intent to change the requirements in the release; however, Proposed AS 2810.30A, along with the related statements in the release accompanying the proposal, specifies that the auditor's judgments concerning the fair presentation of the financial statements go beyond conformity with the applicable financial reporting framework. We do not agree with the statement in the release that this is a clarification of the auditor's existing responsibilities; rather, this appears to be an expansion of the auditor's role. We are concerned that these proposed changes inappropriately expand the auditor's responsibilities, as well as introduce potential inconsistency.

Currently, AS 2815.03 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*" (emphasis added). The auditor's judgment of the "fairness" of the presentation of the financial statements must be in the context of the applicable financial reporting framework. Without that context, there will be a lack of consistency in how auditors evaluate the presentation of financial statements and correspondingly, a lack of clarity for investors and other users about each individual auditor's judgments.

Additionally, if the auditor's evaluation of fair presentation is not grounded in the applicable financial reporting framework, the roles of management and the auditor may become obscured. If the auditor applies his or her own, unique perspective of what is necessary to achieve fair presentation, the auditor may be determining the presentation of the financial statements and identifying disclosures – in effect, the auditor may be preparing aspects of the financial reporting. In those instances, the auditor will not be able to apply impartial or objective judgments. The link to the applicable financial reporting framework is necessary to guide the auditor's judgments and evaluations – as well as establish requirements for management – so that the auditor is able to provide an independent opinion.

We recommend that the PCAOB base the auditor's responsibilities for evaluating the fair presentation of the financial statements in the applicable financial reporting framework and retain the important language from AS 2815.03. This will provide necessary guidance for auditors in exercising their responsibilities under the standards as well as context for investors and others in understanding how the auditor conducted the work.

Information Related to the Audit

While proposed AS 1000 retains the concept of professional skepticism largely in the same form as it is described in AS 1015, the PCAOB proposed to replace the term "audit evidence" with "information related to the audit" such that professional skepticism would include:

> "…a critical assessment of information related to the audit."

We have concerns about this proposed change, and recommend the Board use the term "audit evidence" in a final standard. While the term "audit evidence" is well defined, the phrase "information related to the audit" does not have a clear or developed definition. As a result, there will likely be confusion or inconsistency in what information is considered related to the audit. Additionally, the proposed standard is not clear as to what a "critical assessment of information related to the audit" would entail. AS 1105, *Audit Evidence,* guides the auditor's assessment of audit evidence such that the auditor's assessment will encompass the relevance and reliability of the audit evidence. There is no corresponding existing framework to assess information related to the audit. Without a framework or standard to guide the auditor's assessment of information related to the audit, there is likely to be inconsistency in the auditor's assessment and a resulting lack of transparency for users of the auditor's report.

Relevant Guidance

The note to paragraph .15 in the proposed standard directs the auditor to take into account relevant guidance applicable to the audit, which includes auditing interpretations, Board-issued guidance, and releases accompanying the standards and rules of the Board. While we agree that the auditor should take into account relevant guidance applicable to the audit, we have concerns about the proposal to include the releases that accompany Board standards and rules in this requirement.

The Board's releases often contain a significant amount of information that can be useful in understanding the requirements of a standard or a Board rule. That information, however, is not organized or presented in a manner that would allow the auditor to identify the applicable guidance. Given the current form of the Board's releases, we have concerns about the practicality for auditors to consistently identify all relevant guidance for each Board standard and rule. Additionally, as there can be multiple releases related to a single standard and not all information is included in subsequent releases, auditors will need to evaluate each release related to a particular standard in order to identify the related guidance. This evaluation will be a significant undertaking for each firm that maintains its own methodology. While the Board's economic analysis acknowledges that firms will incur costs related to updating their methodologies and conducting training, we emphasize that it will be a substantial effort for firms to review and analyze the releases that accompany 20 years of standard-setting and rule-making activities.

We recommend that the Board revise its releases to clearly identify the information that is considered authoritative to facilitate consistent application of that guidance by auditors, including identifying such information from releases previously adopted by the Board.

Engagement Partner's Responsibility to Exercise Due Professional Care

Proposed AS 1000 would make the engagement partner's responsibility to exercise due professional care more specific. Among the clarifications, the proposed standard directs engagement partners to determine "that significant judgments and conclusions…are appropriate…" The release states that the proposed clarifications leverage existing requirements for planning and performing an audit and references AS 1220, *Engagement Quality Review*, when discussing the requirements related to significant judgments and conclusions. To improve the clarity of the standard and drive consistency in its application, we recommend including a footnote to AS 1220 in proposed AS 1000.09.

Competence

The note to paragraph .07 of proposed AS 1000 states:

> Competence includes knowledge and expertise in accounting and auditing standards and SEC rules and regulations relevant to the company being audited and the related industry or industries in which it operates.

While we agree that the auditor should possess special skill in auditing and accounting, we have concerns with the expectation that the auditor is also an expert in SEC rules and regulations and the issuer's relevant industry. Given that auditors are not securities attorneys or industry experts, it may be difficult to comply with this note without adding certain specialists or experts to the engagement team. We would expect, however, the auditor to have a sufficient understanding of SEC rules and regulations and the industry in which the company being audited operates. We encourage the PCAOB to revise this note to reflect that competence includes "…knowledge of relevant SEC rules and regulations and the issuer's industry."

Effective Date

We noted the PCAOB's proposed effective date of June 30th of the year after SEC approval. As this could be as little as six months, we are concerned about the ability to implement the changes in proposed AS 1000 and other proposed amendments. Certain changes will take a significant amount of time to implement. For example, if the Board does not make any changes to clarify or refine the proposed requirement that Board-issued releases are authoritative, firms will need to review 20 years of standard-setting and rule-making releases to identify guidance to incorporate in their respective methodologies and conduct training on those changes. As another example, in order to comply with a reduced timeframe to complete all documentation, firms will need sufficient time to modify their technologies. Firms may also need to revise their staffing models to allow engagement teams time to finalize any documentation in a shorter timeframe. In order to allow sufficient time to implement the new standard thoroughly and thoughtfully, we encourage the PCAOB to allow for at least 12 months for implementation.

In addition to allowing firms sufficient time to conduct the implementation activities, we recommend the PCAOB set an effective date that would correspond with the beginning of an audit period (e.g., effective for audits of financial statements for fiscal years ending on or after December 15). It is not practical to implement certain changes – such as the requirement to demonstrate who performed and reviewed work or the requirement to consider Board releases as guidance – in the middle of an audit. By setting the implementation date as of the beginning of an audit period, it will be clear which principles and responsibilities apply for that particular audit.

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We appreciate the opportunity to share our perspectives on the Board's proposed auditing standard and proposed amendments. We would be pleased to discuss our comments with the Board or its staff. If you have any questions, please contact Matthew Schell or Kyle Owens.

Sincerely,

Crowe LLP

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