

May 30, 2023

Ms. Phoebe Brown
Office of the Secretary
Public Company Accounting Oversight Board
1666 K St, NW
Washington, DC 20006-2803

PCAOB Release No. 2023-0001, March 28, 2023: Proposed Auditing Standard – General Responsibilities of the Auditor in Conducting an Audit and Proposed Amendments to PCAOB Standards

Dear Secretary Brown and PCAOB Board Members:

Johnson Global Accountancy is pleased to submit its comments on the new proposed standard AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*.

Johnson Global Accountancy’s mission is to be the most innovative and technically excellent advisory firm at the intersection of companies, auditors, and regulators, which improves investor decision-making confidence. We serve a diverse group of audit firms ranging from single office firms to more complex regional firms and the top 20 firms. We help firms interpret, respond, and comply with global auditing and financial reporting standards and regulatory requirements, including those standards set by the PCAOB. Our team of financial reporting quality advisors helps prepare firms to perform high-quality audits using innovative tools with a shared commitment to implement effective policies, procedures, and controls. We also provide firms with integrated software and service solutions to help them comply with audit quality standards.

Overall, we support the PCAOB’s objective to streamline, clarify and modernize the general requirements and responsibilities of auditors. Making the standards easier to read, understand, and apply, would enhance the performance of quality engagements and overall firm audit quality.

The proposal’s scope and guidance are generally clear, and consolidating foundational standards related to reasonable assurance, due professional care, professional skepticism, independence, competence, and professional judgment into one new single standard serves to clarify and simplify the requirements for auditors.

We have considered the Board’s questions and are providing comments based on our experience and work with PCAOB-registered firms worldwide.

Professional Judgement, Proposed AS 1000, paragraph 12

Paragraph 12 explicitly requires auditors to exercise professional judgment. It explains that professional judgment “involves applying relevant training, knowledge, and experience to make informed decisions, and reach well-reasoned conclusions about the course of actions 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.” Professional judgment is a foundational audit principle referenced in other existing standards, and we agree that describing professional judgment

here is important. We support this description and requirement and its consistency with the IAASB and AICPA definitions.

We, however, encourage the Board to add more explanatory material to this section. In our work, we have heard auditors express the need for more clarity about the degree of documentation necessary to demonstrate their reasoned judgment. While many frameworks exist, and firms have issued their own frameworks, we believe that adding a framework to the standard will assist in developing skills and clarity in this area for all auditors. In addition, consolidating guidance in one place for auditors will further the Board's objective to streamline, clarify and modernize the standards.

Audit Documentation, Proposed AS 1215, paragraph 15

The proposal proposes to accelerate the date for completing audit documentation from 45 days to 14 days. It further notes that in practice, there is a wide range of archiving periods amongst firms – everything from as short as two days to as long as 45 days. We agree that best practice would require engagement teams to archive their documentation as close to the opinion date as possible. An efficient and effective project management process would support this acceleration and be a key audit quality driver.

However, we understand that the accelerated archiving date would require certain firms to change their workflows and that certain smaller firms would incur additional costs, at least in the short term. Coupled with existing talent shortages, we are concerned about the impact of this change on the smaller firm sector and encourage the Board to reach out to these firms for additional research. We also agree that setting one archiving date for all firms is preferable; we encourage the Board, however, to provide the smaller firm sector with a more extended period to comply with the proposed standard.

We also note that the proposal does not articulate why the Board selected 14 days for archiving over another number of days. It would be helpful to expand the discussion and basis for this period.

The Board further notes that this date would differ from the 35 days provided to file the Form AP. The Form AP Rules state that “the Firm should document in its files the method used to estimate hours when actual audit hours are unavailable and the computation of total audit hours on a basis consistent with AS 1215, *Audit Documentation*. Under AS 1215, the documentation should be in sufficient detail to enable an experienced auditor, having no previous connection with the engagement, to understand the computation of total audit hours and the method used to estimate hours when actual hours were unavailable.” This would seem to suggest that the Form AP 35-day deadline should also be reduced to be commensurate with the 14-day documentation completion date deadline. We encourage further study here on selecting the number of days and simplifying the requirements.

Consistency with IAASB and AICPA Standards

The proposed standard aligns in many respects with the comparable IAASB and AICPA standards. There remain, however, some differences with respect to language as illustrated in the PCAOB's March 28, 2023 “Comparison of Proposed AS 1000 with ISA 200 and AU-C 200”.

Similar to our comments on the proposed QC 1000, *A Firm's System of Quality Control*, we recommend that the Board carefully consider whether these differences are necessary and will align with the Board's objective to streamline and clarify the standards.

We are concerned that these differences continue to amplify ambiguity, complexity for firms operating in multi-jurisdictions and will further strain resources and the ability to focus on audit quality. We encourage the Board to keep differences, other than those due to legal frameworks, to a minimum.

Professional Qualifications of the Auditor, Proposed AS 1000, paragraphs 4-8

Independence and ethics

We support the Board's proposal to bring forward to AS 1000 the existing requirements in AS 1005, *Independence*, and the proposal to express more directly the auditor's obligation to comply with the PCAOB's independence rules and standards and the SEC's independence criteria.

As noted in the proposal, the independence requirements are vast – they are included within the standards, incremental changes made by the PCAOB since 2003, and the rules and regulations of the SEC. Accordingly, while we support the additions here, we encourage the Board to consider clarifying and consolidating all the independence requirements, including providing FAQs to assist firms in complying with this basic tenet of the audit profession.

Competence

Replacing "adequate technical training and proficiency" in AS 1010, *Training and Proficiency of the Independent Auditor*, with "competence" is clearer and aligns with the proposed QC 1000, *A Firm's System of Quality Control*. Nevertheless, the section could use additional supporting guidance as to what components of competence mean. The proposal refers to academic education, professional experience in accounting and auditing with proper supervision and training, including accounting, auditing, independence, ethics, and other relevant continuing education. These terms are also somewhat vague; additional examples and clarification would be helpful.

Due Professional Care, including Professional Skepticism, Proposed AS 1000, paragraphs 9-11

Professional skepticism includes a critical assessment of information in the audit. Proposed paragraph 11 states that the auditor's exercise of professional skepticism includes:

- a. *Objective evaluation of evidence obtained in an audit (including information that supports and corroborates management's assertions regarding the financial statements or internal control over financial reporting and information that contradicts such assertions), and consideration of the sufficiency and the appropriateness (i.e., relevance and reliability) of that evidence;*
- b. *Remaining alert to conditions that may indicate possible misstatement due to error or fraud;*
- c. *Not relying on evidence that is less than persuasive;*
- d. *Not assuming that management is honest or dishonest; and*
- e. *Consideration of potential bias on the part of management and the auditor.*

We find the above unclear and would encourage the Board to revise the language to be more direct and highlight that auditors should be neutral in their evaluation – that means evaluating evidence that both supports assertions and evidence that does not. Consider separating paragraph 11.a into two parts as follows:

Objective evaluation of evidence obtained in an audit (including information that supports and corroborates management's assertions regarding the financial statements or internal control over

financial reporting and information that contradicts such assertions) and consideration of the sufficiency and the appropriateness (i.e., relevance and reliability) of that evidence.

Objective evaluation of evidence includes information that (1) supports and corroborates management's assertions regarding the financial statements or internal control over financial reporting, and (2) information that comes to the attention of the auditor that contradicts management's assertions regarding the financial statements or internal control over financial reporting.

In addition, proposed paragraph 11 would be more straightforward if it were to require the auditor to be neutral in their assessment more directly.

We appreciate the opportunity to provide our comments and support the PCAOB's efforts to simplify and modernize auditing standards. We would be pleased to discuss our comments with you at your convenience. Please direct any questions to Jackson Johnson, President (jjohnson@jgacpa.com) or Geoffrey Dingle, Managing Director (gdingle@jgacpa.com). They may be reached at (702) 848-7084.

Sincerely,

A handwritten signature in cursive script that reads "Jackson Johnson".

Johnson Global Accountancy