

May 30, 2023

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

Re: PCAOB Rulemaking Docket Matter No. 049

Deloitte & Touche LLP (“D&T”) appreciates the opportunity to respond to the request for comments from the Public Company Accounting Oversight Board (the “PCAOB” or the “Board”) on PCAOB Release No. 2023-001, *Proposed Auditing Standard – General Responsibilities of the Auditor in Conducting an Audit and Proposed Amendments to PCAOB Standards* (the “proposed standard”, “proposed AS 1000”, or “the Release”).

## *Overview*

We recognize and appreciate our responsibilities under the Sarbanes-Oxley Act to protect investors and further the public interest together with other stakeholders in the financial reporting ecosystem, including management, audit committees and regulatory bodies. We support the Board’s ongoing efforts to modernize and clarify its standards. We also support the combination of the general principles and responsibilities into one standard (proposed AS 1000) and the proposed acceleration of the documentation completion date to reduce the maximum period for the auditor to assemble a complete and final set of audit documentation from 45 days to 14 days.

While the Board has indicated that it intends to modernize the foundational standards rather than impose new requirements on auditors or significantly change the existing requirements of PCAOB standards, certain proposals and the removal of existing language, taken together, may suggest a change in the existing auditing standards. In certain cases, the PCAOB may need to undertake additional auditing standard-setting projects which we stand ready to participate in and work together with other stakeholders to advance. These projects will also enable the opportunity for further public comment and input.

As proposed, public accounting firms will need time to sufficiently implement a final standard, including to make necessary changes to audit policies, procedures, trainings and technology. As such, we suggest the Board consider an effective date no sooner than two years after the approval by the U.S. Securities and Exchange Commission and based on a financial statement year-end (e.g., for audits of financial statements for fiscal years ending on or after December 15).

In the remainder of this letter, we offer constructive suggestions about certain proposed changes.

### *Elimination of Existing Clarifying Language*

The updates to the general principles and responsibilities that involve the removal of explanatory or contextual language may result in less clarity than that provided by the existing standards about the role and responsibilities of auditors, including as they relate to important fundamental concepts that are crucial for users of the financial statements to understand. As a result, inconsistency in implementation may ensue.

### Reasonable Assurance

The auditor's report highlights the requirement that "the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud." While proposed AS 1000.14 retains a brief discussion of the meaning of "reasonable assurance," without the additional context provided by the existing explanatory language in current paragraphs AS 1015.10 - .13, we believe that proposed AS 1000.14 could create confusion for users of the financial statements. The proposed elimination of the existing clarifying language could also result in ambiguity as to whether a new level of assurance, beyond reasonable assurance but less than absolute assurance, is expected.

We therefore suggest that the Board retain the following within proposed AS 1000:

1. The language in AS 1015 that explains that absolute assurance is not attainable and why a properly planned and performed audit may still not detect a material misstatement, including, in particular, the language in AS 1015.10 that states "Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud."
2. The language in AS 1015.13 that states that "the auditor . . . not [being] an insurer and . . . [the] . . . report [not constituting] a guarantee," as well as the language that 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 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)."
3. The language in AS 1001.02 that states "The auditor has no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by errors or fraud, that are not material to the financial statements are detected."

### Role of the Auditor in the Financial Reporting Ecosystem

In streamlining the foundational standards, we note the proposed standard eliminates most of the discussion of management's role in financial reporting. We believe it is important to describe the auditor's role and responsibilities in context of the financial reporting ecosystem as a whole; therefore, we suggest that the substance of the text of current AS 1001.02 and .03 relating to the respective responsibilities of management and the auditor (applicable to both a financial statement audit and an ICFR audit) be retained

and included in the proposed standard. However, we agree with the Board's observation on pages 13 and 14 of the Release that the reference in AS 1001.03 to the auditor drafting financial statements should not be included in any new standard, given that it is inconsistent with auditor independence requirements.

### *Auditor's Responsibility to Evaluate Whether the Financial Statements Are "Presented Fairly"*

The proposed standard appears to extend the requirements related to the auditor's responsibility to evaluate whether the financial statements are fairly presented. Currently the auditor's conclusion about fair presentation is made based on the financial reporting framework, in the context of materiality.

#### Misleading to a Reasonable Investor

Both US GAAP and IFRS are fair presentation frameworks which permit additional disclosures that depart from the requirements of the applicable financial reporting frameworks when compliance with an accounting principle would result in misleading financial statements. While departures are permitted, material departures only occur in extremely rare circumstances and would result in a qualified opinion in accordance with AS 3105 *Departures from Unqualified Opinions and Other Reporting Circumstances*.

The addition of footnote 17A to proposed AS 2810.30 and proposed AS 2810.30A may suggest the need for a framework beyond the financial reporting framework for the auditor to conclude whether the financial statements are "misleading to a reasonable investor". These additions are linked to an existing registrant's requirement to consider the requirements of SEC Rule 12b-20 when preparing the annual report. In extending SEC Rule 12b-20 as an auditor responsibility, the proposed standard suggests that the auditor is required to make a legal judgment which is outside of the applicable financial reporting framework.

The proposal does not specify the nature or content of a framework beyond the financial reporting framework to be used by the auditor to evaluate what is "misleading to a reasonable investor". Without such a framework, there may be inconsistent application. If the Board determines additional guidance with respect to "fair presentation" is warranted, we recommend that the Board initiate a new project to develop a framework in collaboration with other stakeholders, including the SEC, FASB, IASB and IAASB, and the project would provide an opportunity for public comment.

#### Disclosures

AS 2815.01 currently requires that the auditor's report contain an opinion as to whether the registrant's financial statements present fairly, in all material respects, "an entity's financial position, results of operations, and cash flows." Proposed paragraph 2810.30A, when discussing the auditor's evaluation of fair presentation, would add the registrant's "disclosures" to this list. We agree that the auditor's evaluation of fair presentation should include the financial statement accompanying notes, however we assume the release is not intending to expand the auditor's responsibilities beyond the financial statements and accompanying notes to all other information, including MD&A disclosures, in the annual report. This would be inconsistent with AS 2710.04, which states "The auditor's responsibility with respect to information in a document does not extend beyond the financial information identified in his report, and the auditor has no obligation to perform any procedures to corroborate other information contained in a document." Therefore, we suggest that the Board clarify that the term "disclosures," in this context,

is intended to address only disclosures contained in the footnotes included in the registrant's financial statements.

If a broader formulation of "disclosure" is intended, we believe the prior "other information" project should be added back to the Board's standard-setting agenda and any potential expansion of the auditor's obligations be considered as part of that project.

#### Removal of "Range of Acceptable Alternatives"

AS 2815.04 currently states that the auditor's opinion on whether the financial statements are presented fairly should be based on the determination of, among other matters, whether 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." Eliminating this language in the proposed standard may suggest that the auditor, in evaluating whether the financial statements are fairly presented, is no longer able to take into consideration that there may be a range of acceptable alternatives, including when the financial reporting framework (e.g., US GAAP) may allow accounting alternatives. We therefore suggest that the Board retain the concept of a range of "acceptable alternatives" in proposed AS 2810.30A.

#### Note to Proposed AS 2810.31

On page 30 of the Release, the Board states "We are not proposing to retain the remaining paragraphs in AS 2815 because the paragraphs contain no requirements and are explanatory in nature." The proposed standard therefore does not include the first sentence of AS 2815.06: "Generally accepted accounting principles recognize the importance of reporting transactions and events in accordance with their substance." We believe this language provides important context for the requirement in the note to proposed AS 2810.31 for the auditor to evaluate whether the substance of transactions or events differs materially from their form, and therefore that it should be included in proposed AS 2810. The proposed standard also changes the auditor's responsibilities from what is currently required in AS 2815.06 by replacing "consider" with "evaluate" and, similar to our prior point regarding proposed 2810.30A(a), a framework is not provided for the auditor to use in performing this evaluation. We believe "consider" should be retained in preference to "evaluate." We also suggest that the note (together with the additional clarifying language and amendments) be relocated to proposed AS 2810.30A to provide better context.

#### *Professional Judgment*

AS 1001.05 currently states that the "independent auditor must exercise his judgment in determining which auditing procedures are necessary in the circumstances to afford a reasonable basis for his opinion . . . His judgment is required to be the informed judgment of a qualified professional person." The proposed standard eliminates this language and changes the definition of professional judgment to "applying relevant training, knowledge, and experience to make informed decisions and reach well-reasoned conclusions 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." The inclusion of 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 as creating a strict liability requirement in PCAOB auditing standards without the necessary consideration of the reasonableness of the auditor’s consideration when exercising their professional judgment in conducting the audit. We recommend that the existing (and longstanding) definition of “professional judgment” in AS 1001.05 be retained and the reference to “applicable professional and legal requirements” be removed from the definition of professional judgment.

### *Professional Skepticism*

We strongly agree that professional skepticism is an important part of exercising due professional care in conducting an audit and, accordingly, remains essential to the performance of high-quality audits. The existing definition of professional skepticism is grounded in the critical assessment of audit evidence. We are concerned that the expansion of the concept to “information related to the audit” rather than “audit evidence” introduces uncertainty, including as to how the auditor would be expected to apply the requirements in the sub-points to the overall requirement in proposed AS 1000.11. “Information related to the audit” is not used elsewhere in the PCAOB auditing standards, nor is there a framework available to auditors to determine what would be considered “information related to the audit” and therefore within the scope of this requirement. AS 1105 defines audit evidence as “all the information, whether obtained from audit procedures or other sources, that is used by the auditor in arriving at the conclusions on which the auditor's opinion is based.” PCAOB AS 1105 therefore only provides requirements and guidance related to audit evidence and does not include the concept of “information related to the audit.” Expanding the application of that term beyond audit evidence may therefore expand the obligations of the auditor in a way that would create inconsistency in practice. We recommend that the Board revert this requirement from “information related to the audit” to “audit evidence.”

In addition, while current AS 1015.09 states that “[t]he auditor should not be satisfied with less than persuasive evidence because of a belief that management is honest,” the Board intends to replace that language with the requirement that professional skepticism includes “not relying on evidence that is less than persuasive.” This requirement is a change from existing standards from “not being satisfied” to “not rely” and appears to be more restrictive in that it would preclude the auditor from placing any reliance on anything less than completely persuasive evidence, even in combination with other, persuasive evidence. In practice (and consistent with the requirements of existing PCAOB auditing standards), an auditor does not often rely on a single piece of audit evidence but rather objectively evaluates the culmination of audit evidence, and whether it supports or contradicts management’s assertions, to reach a conclusion as to whether the related risk is reduced to an acceptably low level. For example, inquiry is an important audit procedure to obtain audit evidence that, by itself, would not provide sufficient appropriate audit evidence. However, when coupled with evidence obtained from other audit procedures such as inspection and confirmation, it could produce audit evidence that, collectively, is sufficiently persuasive. This proposed change therefore represents a potentially significant change to the existing standards. We suggest that the Board align more closely to the original language of current PCAOB auditing standards to emphasize that the concept of professional skepticism has not changed fundamentally.

### *Board-Issued Guidance and Rulemaking Releases*

Footnote 26 of the proposed standard defines “applicable professional and legal requirements” as being inclusive of “Board-issued guidance and releases that accompany the rules and standards of the Board.”

The proposed standard is not sufficiently clear as to what would be considered “Board-issued guidance and releases” in the context of the associated requirement in the note to paragraph 15 of proposed AS 1000 to take into account relevant guidance applicable to the audit. Further clarification is necessary to determine which releases the auditor “take[s] into account” (e.g., only the final adopting releases for prospectively adopted auditing standards and rules of the Board) and what would constitute Board-issued guidance (e.g., whether staff guidance would be included in this category).

Before implementing this requirement, we recommend the Board take up a new project to define more clearly “Board-issued guidance and releases that accompany the rules and standards of the Board,” including, as necessary, the codification of prior releases, to clarify what the Board intends by this language. Such a project should include an opportunity for public comment, consistent with the Board’s standard-setting process.

### *Audit Documentation*

The expected extent of audit documentation related to certain areas of the proposed standard is ambiguous, and as a result could lead to inconsistency in practice. For example, paragraph AS 1000.11e indicates that the auditor’s exercise of professional skepticism includes consideration of potential bias on the part of the auditor. The proposed standard does not provide guidance related to the nature and extent of expected audit documentation related to the auditor’s consideration of its own bias, if any. As another example, it is not clear if additional documentation related to assessment of competency for each member of the engagement team in correlation to assigned work is expected, or if the existing documentation captured and retained as part of the system of quality control (e.g., learning courses taken, independence) is sufficient.

### *Applicable Professional and Legal Requirements*

Consistent with our feedback provided on proposed QC 1000, *A Firm’s System of Quality Control*, the definition of “applicable professional and legal requirements” includes the phrase “other applicable statutory, regulatory, and other legal requirements,” which should be clarified. As currently drafted, this phrase could be read broadly as a wide range of laws and regulations that do not directly bear on the conduct of audit engagements (e.g., Occupational Safety and Health Administration laws), and, thus, would be inconsistent with the focused statutory mission of the PCAOB to oversee the audits of public companies and broker-dealers for the protection of investors.

### *Effective Date*

We ask the Board to consider an effective date “for audits of financial statements for fiscal years ending on or after December 15” no sooner than two years after the approval by the U.S. Securities and Exchange Commission, instead of the proposed effective date of June 30 in the year after approval by the SEC, to provide firms with sufficient time to:

- Implement technology enhancements or solutions for the change in archive timing from 45 days to 14 days. While we fully support this change, we acknowledge that, as noted in the Board’s economic analysis, there is diversity across global networks in the systems used to archive audit documentation, and insufficient time to deploy enhanced systems may lead to an unsuccessful implementation.

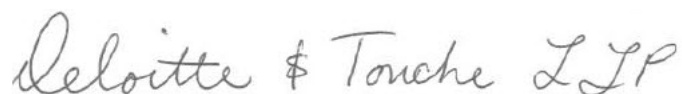
- Address changes arising from the requirement, if retained as proposed, for the auditor to “take into account” the “Board-issued guidance and releases that accompany the rules and standards of the Board.” Public accounting firms would need sufficient time to fully incorporate the “Board-issued guidance and releases that accompany the rules and standards of the Board” within audit methodologies. Public accounting firms would also need time to develop guidance and train personnel on how to demonstrate compliance with the new requirement.
- Implement the enhanced requirements for documentation and supervisory and review responsibilities. In addition, our proposed effective date aligns with the approach taken by the PCAOB for other recently issued auditing standards. As currently proposed, audits of financial statements with fiscal years ending around June 30 in the year after approval by the SEC may have difficulty in effectively implementing certain requirements, and public accounting firms may not have sufficient time to train personnel on the enhanced requirements.

While we are supportive of the interconnectivity between proposed QC 1000 and proposed AS 1000, given the number of conforming amendments within proposed AS 1000 with proposed QC 1000, we recommend that the PCAOB consider an effective date for proposed AS 1000 that does not precede the implementation date of proposed QC 1000.

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We appreciate the opportunity to provide our perspectives on these important topics. While the potential benefits of the proposed standard are significant, careful consideration of the matters and concerns raised in our comments is necessary, as these are complex and challenging topics. We look forward to engaging constructively with the Board and other stakeholders to provide our perspectives and experiences to facilitate the issuance of final PCAOB auditing standards that will enhance audit quality. If you have any questions or would like to discuss these issues further, please contact Christine Davine at (202) 879-4905, Jennifer Haskell at (203) 761-3394, or Emily Fitts at (203) 423-4455.

Yours sincerely,

A handwritten signature in cursive script that reads "Deloitte & Touche LLP".

Deloitte & Touche LLP