

Answers to Questions in the Proposed Rulemaking – the following are comments in response to questions listed in P.C.A.O.B. Rulemaking Docket Matter No. 049, AS 1000, "Proposed Auditing Standard – General Responsibilities of the Auditor in Conducting an Audit, and Proposed Amendments to P.C.A.O.B. Standards". This single commenter has read the text of this guidance, also known as P.C.A.O.B. Release No. 2023 – 01 (March 28, 2023), and P.C.A.O.B. Rulemaking Docket Matter No. 049. This proposed standard would reorganize and consolidate an older group of standards adopted by the Board in April 2003. The proposed standard addresses the general responsibilities of the auditor, as narrated in the guidance and reviewed below, in the conduct of an audit in accordance with the standards of the P.C.A.O.B. This commenter considers it a great privilege to comment on the proposed standard and to provide feedback hereby. Questions and answers are as follows :

1. Are the general principles and responsibilities described in the proposal appropriate for audits performed under PCAOB standards? Are there additional principles or responsibilities that are fundamental to the conduct of an audit under PCAOB standards that merit inclusion in the proposed standard and amendments? If so, what are they and how should they be addressed? **Answer :** This commenter believes the principles and responsibilities described in the proposal for audits performed under PCAOB standards are appropriate insofar as the objectives of the auditor are concerned along with auditor qualifications. On the subject of competence, due professional care, professional skepticism and the evaluation and sufficiency of audit evidence, the PCAOB should additionally consider addressing in this proposed standard the relevance and reliability of audit evidence and information per AS 1105. At present concerning relevance of audit information with respect to financial statement assertions, and the reliability of such information and evidence, proper care, evaluation and judgment are needed to determine what constitutes quality, material audit evidence and the requirements for such evidence starting with designing, planning and performing audit procedures. Audit evidence must be appropriate and sufficient, and of a quality that is relevant and reliable in order to support financial statement assertions and the auditor's opinion. Relevance as a concept is the relation between the financial statement assertion and the control being tested, and reliability has to do with the source of the audit evidence and the way or ways in which it is obtained. In audit testing, an internal control must be relevant to the related assertion and the information being tested must be preferably from an independent and knowledgeable, reliable source. As much should be included in this proposed auditing standard if the Board decides to examine these additional considerations.

2. Is the approach to reorganize and consolidate the general principles and responsibilities appropriate? If not, why not? **Answer:** The approach of the Board to reorganize and consolidate the general

principles and responsibilities of the auditor is entirely appropriate provided that, as intended, the reorganization of the general principles and responsibilities coordinates properly with its underlying assumptions, with the audit assertions, overall financial accounting concepts such as accrual, periodicity, matching and conservatism, etc.; and the basic principles of internal control and the assessed risks of the audit.

3. Are the objectives of the auditor in the proposed standard appropriate? If not, what changes to the objectives are necessary and why? **Answer:** The objectives of the auditor in the proposed standard are appropriate as documented for reasonable assurance about whether the financial statements are free of material misstatement, reasonable assurance as to the existence of material weaknesses in internal control, and communication and conformity with applicable and professional legal requirements.

4. Are the proposed requirements related to auditor independence clear and comprehensive? If not, why not? **Answer:** The proposed requirements related to auditor independence are clear and comprehensive including the independence considerations set out by the S.E.C. that emphasize independence overall in fact and appearance throughout the audit and the professional engagement period.

5. Are the proposed requirements related to ethics clear and comprehensive? If not, why not? **Answer:** The proposed requirements related to ethics are clear and comprehensive including the ethics rules and requirements of the PCAOB. These include Part 5 of the PCAOB Auditing and Related Professional Practice Standards and Section 3 thereof.

6. Are the proposed requirements related to the auditor's competence clear and comprehensive? If not, why not? **Answer:** The proposed requirements related to the auditor's competence are clear and comprehensive insofar as these encompass adequate training and experience; knowledge, skill and ability that enable the auditor to perform assigned activities in conformity with professional and legal requirements and the firm's procedures. That this is a qualitative measure reflects the consideration of the Board of the overall experience of the auditor.

7. Are the proposed requirements and related descriptions of the general principles (i.e., reasonable assurance, due professional care, professional skepticism, and professional judgment), clear and comprehensive? If not, why not? **Answer:** The proposed requirements and related descriptions of the general principles are clear and comprehensive. The narrative on the general principles is in understandable standard American English.

8. Are the general principles and responsibilities appropriate in light of the availability of electronic audit tools and the use of audit software by both larger and smaller firms? If not, what changes should be made? **Answer:** The general principles and responsibilities are appropriate given the availability of electronic audit tools and the use of audit software by both large and small firms. These are clear insofar as the general principles and responsibilities of the auditor are addressed in the foundational standards – AS 1001, AS 1005, AS 1010, and AS 1015, as these include reasonable assurance, due professional care, professional skepticism, independence, competence, and professional judgment that are necessary to the audit regardless of electronic tools and audit software.

9. Is the proposed requirement for the auditor to take into account relevant guidance such as PCAOB auditing interpretations, Board-issued guidance, and releases accompanying the standards, amendments, and rules of the PCAOB appropriate? If not, why not? **Answer:** The proposed requirement for the auditor to take into account relevant guidance such as PCAOB auditing documentation as it accompanies standards, amendments, and rules is appropriate. PCAOB documentation and guidance over the course of an audit will increase auditor effectiveness and efficiency as an authoritative resource.

10. Are the proposed amendments to clarify the meaning of “present fairly” appropriate? If not, why not? **Answer:** The proposed amendments to clarify the meaning of “present fairly” are appropriate, especially insofar as “present fairly” means the financial statements are appropriately stated with the right information (not misleading), the financial statements adhere to a proper accounting framework in their disclosures, and there is proper recognition and measurement of transactions in the disclosures. “Present fairly” in this proposed standard also includes appropriate materiality considerations.

11. Are the proposed clarifying amendments related to engagement partner responsibilities appropriate? If not, why not. **Answer:** The proposed clarifying amendments related to engagement partner responsibilities that include supervision and engagement review are appropriate. This is especially important as the proposed standard aligns supervision and review responsibilities with due professional care, competence, proper judgment, audit planning, communication; significant findings, judgments and conclusions, engagement review and others that add up to the engagement partner’s final responsibility for the audit.

12. Are the proposed clarifying amendments related to audit documentation appropriate? If not, why not? **Answer:** The proposed clarification in the proposed standard related to audit documentation is appropriate. Audit documentation is the basis for the review of the audit work product, and provides the engagement partner and other reviewers with a record of the planning and performance, and other aspects of the audit. This is especially important in the evaluation of judgments and conclusions made and documented during the audit and concerning other matters such as staff training and competence, audit procedures, and client retention.

13. Is the proposed amendment to accelerate the documentation completion date by reducing the maximum period of time to assemble a complete and final set of audit documentation for retention from 45 days to 14 days from the report release date appropriate? If not, why not? **Answer:** The proposed amendment to accelerate the audit documentation completion date by reducing the maximum period of time to assemble a complete and final set of audit documentation for retention from 45 days to 14 days is appropriate insofar as financial statement preparers, users, investors and other stakeholders have an interest in audit efficiencies and in as timely a completion of the audit as possible including the more timely release of the financial statements for review by end users and investors, and other financial stakeholders. The proposed amendment also invites the responsibilities of the audit supervisor to further exercise due professional care related to supervision and review of audit materials and work product, and further clarifies the role of the auditor in evaluating whether the

financial statements “present fairly” the financial condition, revenues and expenses and cash flows of the examined entity. This change will also enable P.C.A.O.B. inspection of the work product of the audit in a more timely manner, result in earlier issue of audit inspection reports, and would reduce the possibility of improper alteration or inappropriate changes to the audit documentation. Less time to assemble the audit work product also allows for cost efficiencies in the completion of the audit field work, document assembly, review and so on, that is time – dependent insofar as audit costs are concerned. Less time to assemble and complete the audit work product will also result in cost and time efficiencies of the firms’ audit software and other utilities. These narrative points in the proposed standard indicate there are greater benefits, including enhancing audit quality and protecting investors, in shortening the time required to complete the audit work papers and work product than in allowing for as much as a month longer than is presently called for in the audit completion process.

14. Would firms have difficulty complying with the requirements of AS 1215.16 when filing Form AP within 35 days of the audit report being filed with the SEC in light of the proposed requirement to assemble a complete and final set of audit documentation for retention within 14 days? If so, what are the difficulties? How should the PCAOB address them? **Answer:** Presumably, audit information, details, and documentation added after the audit completion date is of lesser quality than the work product assembled and reviewed, etc., before or at the date of audit completion. Audit documentation and work product that is material to the audit and that is added after the completion date can undermine the objectivity and integrity of the a priori completed audit work product. Information or details submitted related to Form AP after the issuance of the auditor’s report, if significant or materially negative to the audit can undermine the integrity of the completed work product. [This is also dependent] upon obligations of due professional care and due diligence. The Form AP deadline is important in this situation as the completion of the audit is thirty – five days officially before Form AP is due. The Board should use its discretion and judgment in evaluating the nature and quality of the audit papers submitted for accuracy, consistency and completeness, timeliness and given other related considerations; and evaluate as well the timeliness and completeness of Form AP as submitted.

15. Does the size of a firm or type of engagement affect the time necessary to assemble a complete and final set of audit documentation? If so, please describe which sizes of firms or types of engagements may need additional time and what period of time should be required? **Answer:** This commenter believes overall that the size of the firm or type of engagement will typically not affect the time necessary to assemble a complete and final set of audit documentation. This commenter believes the financial condition of the entity under examination, the tone of management, the general competence of the audit team, and the condition of internal controls over financial reporting are more determinative of the amount of time needed, if additional time is needed, to complete the audit and finalize the audit documentation. If an entity is in a shoddy financial position or the tone of management is un – cooperative in the audit, and in other situations adverse to the proper and timely completion of the audit work product, especially if the entity is comparatively large in size, e.g., in measuring its assets, the engagement may need additional time for completion, and the additional period of time necessary under the circumstances should be at the discretion of the Board.

16. Are the amendments to the general principles and responsibilities described in the PCAOB’s attestation standards appropriate? Should other relevant amendments be made to the PCAOB’s

attestation standards? If so, what are they? **Answer:** This proposed standard reaffirms as appropriate the general principles and responsibilities (reasonable assurance, due professional care, professional skepticism, independence, competence, and professional judgment) to ensure a proper foundation for audit work and audit quality. The general principles and responsibilities as narrated in four separate standards, AS 1001, AS 1005, AS 1010, and AS 1015, will be integrated into and superseded by a single standard, AS 1000. This provides a single source of reference for the audit team and engagement partner insofar as their fundamental responsibilities in the conduct of the audit are concerned. These changes in guidance reflect changes in the overall audit environment (now reflecting additional independence requirements, changes to audit requirements, and changes in audit technologies), eliminate outdated and specious language in the standards, and are consistent with Board – issued standards to streamline and to clarify audit standards in alignment with Board – issued guidance; and to make the standards more logical, more understandable and easier to read and to apply.

17. Are the amendments to the general principles and responsibilities described in AS 4105, Reviews of Interim Financial Information, appropriate? Should other relevant amendments be made to AS 4105? If so, what are they? **Answer:** This commenter believes the general principles and responsibilities as described in AS 4105 are appropriate as these establish standards and objectives, and provide guidance on the nature, timing and extent of audit procedures to be performed by an accountant in the review of interim, selected quarterly and financial information of an entity. The preceding should be conducted as a financial statement examination by an independent accountant that includes certain quarterly certifications of internal control over financial reporting.

18. We request comment generally on the baseline for evaluating the economic impacts of the proposed standard. Are there additional factors we should consider? If so, what are they? Is there any evidence that auditors are failing to understand their obligations under today's standards, or that the standards set insufficiently robust expectations and obligations associated with the performance of an audit? If so, please explain. **Answer:** An audit in accordance with P.C.A.O.B. foundational standards and the general principles and responsibilities as outlined in this proposed standard will increase the overall quality and transparency of the financial statement audit. The general principles and responsibilities will be integrated into the audit firms' methodologies, published guidance and other technical tools : There is no evidence that audit personnel at audit firms are unclear or uncertain about the meaning of the proposed guidance (AS 1000.) The role of the proposed guidance is to simplify and to make the principles and responsibilities more easily understood and applied, resulting in audits that are of higher quality, more robust, more transparent, effective and efficient. Studies show that audited financial statements that are more transparent and readable, among other positive traits, result in higher valuations for stock companies. This commenter is aware of the financial and operational scale and scope of different audits and knows that while some financial statement audits with microeconomic considerations are more monetarily expensive and require a greater degree of examination than others, the overall time and effort required to conform with this proposed standard will not weigh down the expenses of the entity in a comparative sense, nor will conformity with the proposed standard in these matters prove arduous for audit firms.

19. We request comment generally on the analysis provided above regarding the need for the proposal. Should we consider any additional arguments, academic studies, or sources related to the need for

standard setting? If so, please specify. **Answer:** This commenter, given the analysis provided above regarding the need for the proposed standard, is not aware of any additional arguments, academic studies, or sources related to the need for the proposed AS 1000. The guidance proposed in AS 1000 in fact and appearance does improve the audit quality, effectiveness and efficiency, robustness, transparency, and other positive traits highlighted in the proposed standard that should be required in an audit environment as changed as it is at present. AS 1000 by nature will assumedly not tangibly increase the scale of audit work, but will integrate in a proper compliance narrative the needed guidance for the general principles and responsibilities and other rules for necessary conformity with auditing standards in an audit environment that has markedly changed in its use of methodologies, firm processes and new technologies.

20. Are there additional potential benefits and costs that should be considered? If so, what are they? Please provide relevant data or other reference information. **Answer:** This commenter is not aware of any additional benefits to the proposed standard, nor any additional costs. This commenter views the proposed standard as potentially greatly increasing audit quality given its simplicity, comprehensibility and transparency.

21. We request comment generally on the potential unintended consequences of the proposal. Are there potential unintended consequences that we should consider? If so, what responses should be considered? **Answer:** This proposed guidance could indeed increase audit costs due to its emphasis on independence considerations. These might include additional documentation and narrative in the audit work product that would otherwise be marginal in the time and effort expended on independence questions and related documentation. This commenter does not view the proposed standard as having potential unintended consequences for auditors and audit firms given its coherent and comprehensive, understandable narrative and format.

22. Are there any other economic impacts we did not describe above that are relevant for consideration? If so, please specify. **Answer:** There might be some measures of economic utility of the conduct of the audit that could show themselves in the implementation of this proposed standard, such as time and effort given the various facets of the new guidance and lack of familiarity of audit teams with the proposed guidance, though this cannot be significant overall. It is also entirely possible that audit efficiencies will increase given the audit team competence requirements and the transparency [and simplicity] of the proposed guidance.

23. What academic studies or data should the Board consider in evaluating the potential benefits and costs of the proposed requirements? Please provide citations and other reference information for such studies and data. **Answer:** This commenter is not aware of any present or proposed studies nor research the Board should consider in evaluating the potential benefits and costs of the proposed requirements. Some constructive research might have a place in examining whether or not the nature of the Board's examinations of audit firms and the Boards enforcement actions will change as the result of the new requirements.

24. The Board requests comment generally on the analysis of the impact of the proposal on EGCs. Are there reasons why the proposal should not apply to audits of EGCs? If so, what changes should be

made so that the proposal would be appropriate for audits of EGCs? What impact would the proposal likely have on EGCs, and how would this affect efficiency, competition, and capital formation? Please specify. **Answer:** This commenter is aware that the nature of EGC's and the microeconomics of EGC's are different from other entities. This commenter believes the annual audit standards should be the same for EGC's and for other entities, though in the publication of interim information, the disclosures of EGC's, per the discretion of the Board, should be derivative probably more of selected financial information than the requirements for interim information from larger entities. The reason for this is the scale of EGC's is many times much less than even many small issuers under P.C.A.O.B. requirements and the relative costs of audited financial statements are greater than at other, larger entities.

25. Would requiring compliance on June 30 the year after approval by the SEC present challenges for auditors? If so, what are those challenges, and how should they be addressed? **Answer:** A uniform deadline for the required compliance on June 30 the year after approval by the SEC might invite uniform operational and methodological, technical changes from a number of audit firms. This presents a marginal monetary and human capital challenge of keeping up with standards as faced by audit firms and the related expenditures for new compliance measures in the conduct of audits themselves. This challenge probably can best be addressed by the audit firms internally.

By,

Thomas H. Spitters, C.P.A.

Thomas H. Spitters, C.P.A. – tom.spitters@hotmail.com – (415)800-4499
San Francisco, CA 94104