



August 7, 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. 051, Amendments to PCAOB Auditing Standards related to a Company's Noncompliance with Laws and Regulations

Dear Secretary Brown:

CohnReznick LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or Board) Release No. 2023-003, *Proposed Auditing Standard – Amendments to PCAOB Auditing Standards related to a Company's Noncompliance with Laws and Regulations* (the "Proposed Standard").

CohnReznick is the 15th largest accounting firm in the US, with origins dating back to 1919. While our domestic and international capabilities (including through our Nexia International membership) allow us to serve a broad array of clients, we are a significant provider of services to the smaller and middle market. Our desire is that our feedback will provide perspectives on the impact that the Proposed Standard might have on audits of small and medium-sized entities.

In addition to our overall observations below, we respond to some of the specific questions on which the PCAOB is seeking comment in the Appendix to this letter.

OVERALL RESPONSE

We are supportive of efforts to improve audit quality overall, including in regard to an auditor's consideration of noncompliance with laws and regulations. While certain specific elements of the Proposed Standard are appropriate, overall, we feel the approach being taken will have significant unintended consequences to auditors, the efforts of the PCAOB, and investors. We believe the Proposed Standard, as currently written, should not be adopted.

Positive aspects

- **Reemphasis on appropriate risk assessment**

We are supportive of efforts to improve audit quality overall, including in regard to an auditor's consideration of noncompliance with laws and regulations, in particular paragraphs .06a.2)-.3) and .06b. These paragraphs clarify important considerations about management's processes and direct auditors to make informed risk assessments. We believe appropriate risk assessment is the critical foundation upon which the audit responses are built.

When Board Member Duane DesParte indicates the proposal “strengthen[s] requirements during risk assessment and throughout the audit to identify, assess and respond to risks of material financial statement misstatement associated with noncompliance,” these aforementioned paragraphs come to mind.

Negative aspects

- **Direct and Indirect**

The Proposed Standard, through moving away from the distinction between direct and indirect, will erode audit quality by distorting the responsibilities of the auditor and create a focus on the “possible” versus the “probable,” which will not protect investors. We believe targeted improvements to AS 2401 and AS 2405 along with additional nonauthoritative guidance through publications such as PCAOB Spotlight will improve audit quality.

- **Purpose of an Audit**

There are many standard setting projects underway, and we have a concern that piecemeal changes that significantly expand the responsibilities of the auditor can have a negative effect on audit quality and on investors.

- **Alternative Level of Service**

An audit, as currently known to investors, is part of the foundation of the financial reporting system. To avoid confusion among audit committees and investors, elements of the Proposed Standard may be appropriate as an attestation engagement, and we encourage the PCAOB to develop this concept while also considering if this is more the domain of attorneys instead of auditors.

We have specific comments in response to certain questions in the Appendix to this letter.

We also propose an alternative path forward to standard setting overall that we feel will help ensure high-quality audits and serve the public interest. See “Alternative Path Forward” section below in this letter.

ALTERNATIVE PATH FORWARD

Need for Collaboration with Other Standard Setters, Including AICPA and IAASB

We recommend the PCAOB consider that the dual standard setter structure in the United States creates two issues that could erode audit quality.

- The difficulties encountered and resources used by firms in complying with PCAOB standards, American Institute of Certified Public Accountants (AICPA) AU-Cs, and International Auditing and Assurance Standards Board (IAASB) International Standards on Auditing (ISAs). By having to maintain different or overlapping methodologies, the resources of firms, from staff through partner level, both at the engagement team and in the national office level, are pulled away from the pure concept of performing high-quality audits.
- The lack of robust collaboration between standard setters (the PCAOB, the AICPA Auditing Standards Board (ASB), and IAASB) impedes brainstorming and information sharing that would benefit audit quality. Many of the same risks of material misstatement in private companies affect public companies and vice versa.

In order to serve the public interest, we recommend the PCAOB consider:

- 1) converging PCAOB standards with ISA/US GAAS, or even reimplementing updated US GAAS as promulgated by the ASB for the audits of public companies, and
- 2) seeking a board seat on the ASB to maintain appropriate continuing involvement in standard setting and continue serving the public interest by contributing its knowledge and observations to standard setting.

Benefits of a Reimplementation of US GAAS for Public Company Audits

Audit quality and the public interest are served by the reimplementation of US GAAS for public company audits for multiple reasons:

In particular, audit quality and the public interest will be served by:

- Robust and focused PCAOB involvement in the AICPA's activities. The PCAOB's involvement as a board member of the ASB would help further prioritize efforts aimed at facilitating audit quality. This approach would result in having additional resources focused on research, analysis, and other data-driven audit quality-oriented matters. This would help alleviate the resource-related challenges that arise from having to develop and maintain different sets of standards, many of which have common overarching objectives and principles.
- A universal set of updated and fit-for-purpose standards. Public company audits would gain the benefit of one robust set of updated standards geared for both a US and international environment at a time of growing globalization and cross border financial reporting. We believe that the provisions in US GAAS are generally "fit-for-purpose" for audits of public entities. As such, we suggest that these standards be used as a baseline for auditing and that the rationale for incremental requirements be expressly highlighted.
- Increased time and focus on audit quality. Reducing the amount of time and effort that firms of all sizes spend addressing the nuanced, and nonsubstantive, differences between PCAOB and US GAAS will free up resources to focus on the more substantive and complex audit matters that are relevant to achieving high-quality audits.
- Increase in talent mobility. Minimizing the differences in the standards that apply to audits of financial statements of companies in the US and around the world will drive more consistent application of the standards across firms. This will help accommodate inter-firm mobility and address resource constraints and pressures, particularly during a period where CPAs numbers at all levels are dwindling.

If you have any questions concerning our comments or would like to discuss any of our responses or recommendations in more detail, please feel free to contact Steven Morrison, Partner, National Director of Audit, at steven.morrison@cohnreznick.com or Erik De Vries, Audit Quality Group, at erik.devries@cohnreznick.com.

Yours truly,



APPENDIX – SPECIFIC RESPONSES TO SELECT QUESTIONS

5. Are the objectives for proposed AS 2405 sufficiently clear? If not, how should the objectives be clarified?

As described in the introduction of the Proposed Standard, misstatement can arise when violations of “all laws and regulations” occur. Accordingly, the first objective would, as Board Member Christina Ho notes, require auditors “identify all the laws and regulations applicable to the public company.” We believe such a requirement is impractical. It is even noted on a posting on a Library of Congress blog by a then-employee that the ability to estimate the number of federal laws in force is “nearly impossible.”¹ We believe the concept of direct and indirect should be retained. We also point to the IAASB’s ISAs, applicable to foreign listed companies, and AICPA’s US GAAS which note “the auditor is not responsible for preventing noncompliance and cannot be expected to detect noncompliance with all laws and regulations.”² We believe this is an important concept which should be explicitly incorporated into the objectives.

10. Is the proposed requirement for auditors to assess and respond to the risks of material misstatement due to noncompliance with laws and regulations sufficiently clear? If not, why not?

We believe the proposed requirements, as currently proposed, go beyond a financial statement audit to a compliance attestation or even performing a management function. As such, we believe the proposed requirements introduce substantial confusion and uncertainty.

36. Are there other communications the auditor should make (for example, to the PCAOB or other regulatory body, investors, other stakeholders)? If so, what should those communications include and who should those communications be made to?

Consistent with the auditor’s responsibility to render an opinion on the financial statements, we do not believe auditors should make other communications outside of the audit report, except as otherwise required by law.

65. The Board also requests comment on the potential unintended consequences of the proposal on competition in the market for audit services. How and to what extent could competition be affected by the proposal? How would smaller firms be affected? Would audit fees be meaningfully affected by the proposal? Would the availability of qualified auditors in the market be meaningfully affected by the proposal?

Because of our concern about firms’ practical ability to implement the standard, we believe it will not be cost effective to implement and will significantly increase the cost of performing an audit, especially for small/medium firms. Further, we believe the standard will require significantly expanded use of specialists. The largest global network firms may have sufficient in-house resources, but most other firms will need to engage third parties at higher costs. Increasing costs could lead to further consolidation of the number of firms providing audit services to public companies and reduced competition. As a result, we believe that audit fees will rise and increase the cost of capital markets participation.

¹ Call, Jeanine. "How Many Federal Laws Are There?" *In Custodia Legis - Law Librarians of Congress*, Library of Congress, 12 Mar. 2013, blogs.loc.gov/law/2013/03/frequent-reference-question-how-many-federal-laws-are-there/.

² ISA 250.04 and AU-C 250.04.