

Comments on PCAOB RELEASE NO. 2023-003

The Release states “that improving auditing standards can: (1) protect investors from the resulting harm of noncompliance with laws and regulations when the effect of such noncompliance has a material effect on the financial statements.” To obtain that protection the Release expands identification of noncompliance beyond those that have a “direct and material” effect on the financial statements.

This expansion of the auditor’s responsibility with respect to noncompliance of issues not direct to the financial statements is “ **a bridge too far.**” It should not go forward for the following reasons:

1. The expansion takes the auditor into areas for which they are not trained—into professions they are not qualified. Hiring lawyers is not a solution. In all assertions of noncompliance there will be lawyers on each side. Will the auditor also need to hire JUDGES?

2. Auditors have enough difficulty dealing with noncompliance that have a direct and material effect on financial statements. In fact auditors do not do a great job with this responsibility because the noncompliance is designed to be hidden from the auditor. Adding more responsibility will only give investors the illusion of more protection. Also another pocket from which to seek damages.

3. The Release acknowledges the proposed expanded responsibility will result in substantially increased audit fees. I believe that is an understatement ! Fees will increase because of additional time and effort expanded on the audit to do the thing already indicated in the Release. It will also reflect the cost of lawyers and others that will be deemed to be needed. Finally, the fees based on audit work not required because of the expansion of responsibility will need to be increased to cover the increased legal exposure.

4. The Release discusses “unintended consequences” that acknowledges that efforts to comply with the expanded noncompliance areas will:

a. likely compete with and compromise audit efforts related to normal audit work. This will naturally occur! It will increase the PCAOB’s findings of audit failures.

b. likely increase the difficulty of the auditor efforts to obtain needed information to do their audit procedures. This will naturally occur! Client personnel will have an increased view of the auditor as a policeman seeking to find them doing something wrong. Information needed from a client will be harder to obtain (if possible) and will lead to more audit problems.

With the ever increasing world of regulations from Washington and states to dictate how business is done and how we are to live our lives, the challenge proposed in this Release will continue to expand. It will be increasingly impossible to accomplish while having an increasing cost. It will not increase the value of the audit to the investor. It will also reduce the number of good auditors. Who would want to enter this profession when its responsibilities are beyond its ability.

I would not.

You may contact me at ewtrott@gmail.com if you would like to discuss my comments.