

Vanessa C.L. Chang

11 W. Terrace Drive
Houston, TX 77007-7040
Tel +1-213-305-5611

August 7, 2023

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.,
Washington, D.C. 20006-2803

Via email submission: comments@pcaobus.org

Re: Release 2023-003 Amendments to PCAOB Auditing Standards Related to a Company's Noncompliance with Laws and Regulations Docket Matter No. 051

The Board has proposed amendments to its auditing standards related to an auditor's consideration of a company's Noncompliance with Laws and Regulations ("NOCLAR") while performing an audit. My comments pertaining to the Public Company Accounting Oversight Board's ("PCAOB" or "Board") *Release 2023-003 Amendments to PCAOB Auditing Standards Related to a Company's Noncompliance with Laws and Regulations Docket Matter No. 051* (the "Proposal") contained in this letter are mine alone, from the perspective of an audit committee member, and do not represent those of my fellow board members nor those of management of any of the companies or organizations on whose Audit Committees I have served or currently serve.

I have served on public, private, and not-for-profit companies' Audit Committees for over 31 years with eleven different organizations, including twenty-five mutual and exchange-traded funds. These various entities consisted of a health insurer, a contract research organization, an electric utility, a mutual fund family, enterprises in higher education, oil and gas services, construction management, engineering and consulting, call centers, and cemetery and mortuary services. I have experienced the Board's effectiveness in their oversight of independent public accountants since the implementation of The Sarbanes-Oxley Act of 2002 ("SOX"). I believe that the resulting increase in audit fees was well worth the improvement in audit quality.

Audit Committees are "force multipliers" in assisting the PCAOB achieve its audit quality goal. However, I am concerned that the scope of this Proposal's expansion of auditing standards is too broad and covers subject matters in which auditors have no expertise.

Most of the organizations on whose Audit Committees I served have Chief Compliance functions. The Chief Compliance Officer ("CCO") reports to the Audit Committee at every meeting. The Audit Committee has executive sessions with the CCO, often quarterly. The CCO also reports to the General Counsel who together create corporate compliance policies and procedures, provide training, and monitor that laws and regulations are in compliance. If a violation has occurred, the CCO and the General Counsel evaluate next steps, such as—obtain legal advice under attorney-client privilege, perhaps self-report the violation, assess potential fines and penalties, and/or negotiate a settlement. These steps can evolve over many months and sometimes years, with an uncertain outcome.

The Audit Committee relies upon the judgment from the CCO, the General Counsel and perhaps, outside counsel, involving violations of laws and regulations. Such judgment is a function of their expertise relevant to the company—scientific, engineering, safety, customs,

Office of the Secretary
August 7, 2023
Page 2

labor laws, various countries' immigration laws and the like. The Proposal to expand auditing standards also expands the liability and responsibility of the Audit Committee in their oversight of the auditors who are not qualified to conclude on noncompliance of the laws and regulations applicable to the company.

The auditor's scope of responsibility is restricted to financial reporting in accordance with Generally Accepted Accounting Policies ("GAAP"). Any settlement or fine resulting from a violation can only be recognized in the financial statements if the amount is estimable and probable. Auditors, not being lawyers, are not qualified to assess whether there has been a violation of laws and regulations nor estimate the amount of a fine or penalty.

The concept of materiality is an accepted threshold when evaluating internal control deficiencies and impacts to the financial statements. Auditors plan the audit engagement through a risk assessment lens. NOCLAR auditing standards should also be considered through a similar risk assessment lens.

Multi-national global companies operate in many jurisdictions where laws and regulations may differ across the same industry. The Proposal will require auditors to retain experts – lawyers, engineers, scientists, etc. – to assess noncompliance with laws and regulations. The audit firm's role would be expanded and fundamentally changed from their focus on opining on financial statements. Instead, auditors' focus would expand to contracting, supervising, and coordinating a significant number of experts who would assume the responsibility and liability for their services.

The Proposal in its current form creates a huge cost with little benefit. The PCAOB has issued the Proposal to try to improve audit quality but fails to do so. I would like to understand what the PCAOB is trying to achieve in expanding the auditing standards. As mentioned, SOX has improved audit quality and I can support increases to audit fees if there is value. I question whether any increase in audit fees resulting from this Proposal will create value for management, Boards of Directors, and shareholders.

Thank you for considering my comments on the Proposal. Please contact me at vanessachang@me.com or +1-213-305-5611 with any questions or for further discussion. I would be willing to participate in public discussion or outreach.

Very truly yours,


Vanessa C.L. Chang