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July 2, 2024

Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: File Number PCAOB-2024-01

Dear Ms. Countryman:

As a member of the PCAOB's Investor Advisory Group, I became aware of the Request for Public Comment on the PCAOB's proposal on the general responsibilities of the auditor in conducting an audit. I supported the PCAOB's proposal as a member of that group at that time and I still do. I have attached the Group's comment letter for your reference. Although the final rules differ somewhat from our recommendations, I still believe the final rules are an improvement over the current standards.

If you need to discuss the issue further, please do not hesitate to contact me. Best regards.

Sincerely,

Jack Ciesielski

Members of the Investor Advisory Group

May 16, 2023

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

PCAOB Rulemaking Docket Matter No. 049: Proposed Auditing Standard – General Responsibilities of the Auditor in Conducting an Audit and Proposed Amendments to PCAOB Standards, PCAOB Release No. 2023-001.

Dear Secretary Brown and Members of the Public Company Accounting Oversight Board (PCAOB or Board):

The Members of the Investor Advisory Group (MIAG) appreciate the opportunity to comment upon the PCAOB's "Proposed Auditing Standard – General Responsibilities of the Auditor in Conducting an Audit and Proposed Amendments to PCAOB Standards" (Proposal).[1] We agree with PCAOB Chair Erica Y. Williams that "Our capital markets never stop evolving, and PCAOB standards must keep up to keep investors protected. The Proposal would modernize standards that are foundational to audit quality, ensuring they are fit to meet today's challenges."

We understand the proposed standard AS 1000, "General Responsibilities of the Auditor in Conducting an Audit," would entirely replace AS 1001, "Responsibilities and Functions of the Independent Auditor," AS 1005, "Independence," AS 1010, "Training and Proficiency of the Independent Auditor," and AS 1015, "Due Professional Care in the Performance of Work." We commend the Board for undertaking this project to bring the interim auditing standards into the twenty-first century, and approve the combination of the four single standards into one comprehensive standard. Our letter first addresses several major areas in the Proposal that we believe need attention if this is to be a high-quality standard. It then offers our views on the questions provided in the Proposal.

Responsibilities and Obligations to Investors

The Sarbanes-Oxley Act of 2002 (SOX) established the PCAOB to oversee audits of public companies "…in order to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports" for companies the securities of which are sold to, and held by and for, public investors."[2] The U.S. Supreme Court has defined and recognized the critically important "watchdog" role independent auditors serve with respect to the capital markets:

> By certifying the public reports that collectively depict a corporation's financial status, the independent auditor **assumes a *public* responsibility *transcending* any employment relationship with the client**. The independent public accountant performing this special function **owes *ultimate allegiance* to the corporation's creditors and stockholders, as well as to the investing public**. This ***"public watchdog"*** function ***demands*** that the accountant maintain ***total independence*** from the client ***at all times*** and ***requires complete fidelity to the public trust***.[3] [Emphasis added.]

[1] This letter represents the views of Investor Advisory Group (IAG) and does not necessarily represent the views of all of its individual members, or the organizations by which they are employed. IAG views are developed by the members of the group independent of the views of the Public Company Accounting Oversight Board (PCAOB or Board) and its staff. For more information about the IAG, including a listing of the current members, their bios, and the IAG charter, see https://pcaobus.org/about/advisory-groups/investor-advisory-group.

[2] Sarbanes-Oxley Act of 2002, Section 101(a).

[3] United States v. Arthur Young & Co., 465 U.S. 805, 817-818 (1984).

In its ruling, the U.S. Supreme Court defined the responsibility and obligation of auditors to the investing public, including "the corporation's creditors and stockholders." It notes the ultimate allegiance of the auditor is not to the corporation being audited or to its management, but rather to those providing various forms of capital, for whom the audit is ultimately performed. While managers have the ability to obtain financial information they need in the format they desire and whenever they want it, investors do not have the same luxury. Instead, they can only rely on the auditor to work in their best interests when attesting to the audited financial statements.

We observe that the Proposal uses the word "investors" forty times, but only four of those instances are contained in the actual proposed standard. Unfortunately, the proposing release and proposed standard use the term "client" throughout, referring to the company and its management as the "client", failing to recognize the "public responsibility transcending any reemployment relationship with the client." In those instances where the term "client" is referring to the company and its management, we would prefer that "client" be replaced with the term "company under audit." In fact, we would prefer to see it handled this way in any future proposed standards.

While paragraph .01 of the Proposal reminds auditors of their "fundamental obligation" owed to investors, it is a vague, nebulous concept that goes undescribed in the rest of the proposed standard. As drafted, the wording is left open to an array of interpretations as to whether that obligation is legal or regulatory in nature, and whether the obligation is binding or enforceable. Without a clear articulation of their obligation to investors, how can auditors and investors assess whether that obligation has been met? For that matter - how can the PCAOB assess the fulfillment of that obligation in their reviews of auditors' work?

We believe the PCAOB should insert into the final standard language consistent with the previously cited U.S. Supreme Court opinion and any subsequent related court rulings. Using consistent wording would more clearly articulate and set forth the role and responsibility of the independent auditor to the corporation's creditors and stockholders. The PCAOB also cited the Court's opinion in its proposing release on quality controls issued in 2022. Given the significance of this opinion to the responsibilities and obligations of independent auditors, inserting it into a final standard would certainly enhance the standard.

Exacerbating the vagueness of the phrase "fundamental obligation," paragraph .15 is equally opaque when it says, "the auditor should keep in mind their role in protecting investors." Where is "their role" clearly articulated? How can they "keep it in mind" if they are not made aware of their role? The opening paragraph of Section B. of the Proposal, which is not part of the proposed standard per se, is somewhat more descriptive of auditors' obligations to investors, and should be incorporated into the final standard – albeit with more authoritative references to court decisions that legally define auditors' responsibilities.

Furthermore, the proposed standard does not even define "investors." We find that in practice, the audit opinion is often addressed to the board of directors and shareholders. Such wording suggests that the audit report is not intended for or relevant to debtholders, general creditors or other users of financial statements, which we know is simply not true.

Therefore, we recommend the Board incorporate a definition of 'financial statement users," which brings a broader spectrum of capital providers into this proposed standard. This broader term should be consistent with the opinion of the U.S. Supreme Court cited above and with the language in SOX. To minimize the risk of inconsistencies between authoritative accounting and auditing standards, any wording should be aligned with Financial Accounting Standards Board's Concepts Statement 8, "Conceptual Framework for Financial Reporting." There is an appropriate symmetry to this: the Concepts Statement underlying the presentation of financial statements makes clear who are the users of financial statements. The Proposal is laying the groundwork for the professional execution of an audit of financial statements and should be equally clear about who the users of such financial statements may be – and the auditors' responsibility to them. We include the Concept Statement 8 description of financial statement users here:

OB5. Many existing and potential investors, lenders, and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial reports for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial reports are directed.

The Concept Statement's basis for conclusions holds satisfying reasons for its description of financial statement users:

BC1.16 The reasons why the Board concluded that the primary user group should be the existing and potential investors, lenders, and other creditors of a reporting entity are:

a. Existing and potential investors, lenders, and other creditors have the most critical and immediate need for the information in financial reports and many cannot require the entity to provide the information to them directly.
b. The Board's and the IASB's responsibilities require them to focus on the needs of participants in capital markets, which
include not only existing investors, but also potential investors and existing and potential lenders and other creditors.
c. Information that meets the needs of the specified primary users is likely to meet the needs of users both in jurisdictions with a corporate governance model defined in the context of shareholders and those with a corporate governance model defined in the context of all types of stakeholders.

As mentioned above, the Proposal lays the groundwork for the execution of professional audits. In such a standard, we believe it is critical to remind auditors exactly whom they are serving when conducting a professional audit. Given the recent discussions about the lack of critical audit matters appearing in audit reports, auditors need to be reminded of exactly whom they should be communicating the results of their examinations.

Fairly Presents

We support the Board updating the auditing standard (AS 2815) stating what is meant when an auditor's opinion states the financial statements "present fairly." This standard was initially issued in July 1975, as a result of the well-known case referred to in auditing textbooks, United States v. Simon.[4] The central issue was the "fair presentation" of financial statements and disclosures of related party transactions. At the time of the case, neither generally accepted accounting principles (GAAP) nor generally accepted auditing standards (GAAS) included a standard on related party transactions. As a result, the auditors argued "…the jury was also required to accept the accountants' evaluation whether a given fact was material to overall fair presentation …." In light of the lack of a GAAP or GAAS standard, the auditors argued the jury/court had to accept a judgment made by the auditor and "…only on the need for the auditor to make an honest judgment and their conclusion that nothing in the financial statements themselves negated the conclusion that an honest judgment had been made." However, the lower court disagreed as did the appellate court which ruled, "[s]uch evidence may be highly persuasive, but is not conclusive, and so the trial judge correctly charged." The U.S. Supreme Court denied a request for a review of the decision of the appellate court.[5]

As a result of the Court's decision in this case, the auditing standard stating what is meant by "fairly presents" was subsequently adopted and periodically updated. It recognizes that a standard setter or regulator cannot be expected to write standards that are all-encompassing with respect to all business transactions. As a result, the auditor needs to consider transactions and disclosures in the financial statements. AS 2815 currently states:

> The auditor's opinion that the financial statements present fairly…in conformity with generally accepted accounting principles should be based on his or her judgment as to whether (a) the accounting principles selected and applied have general acceptance; (b) the accounting principles are appropriate in the circumstances; (c) the financial statements including the related notes, are informative of matters that may affect their use, understanding, and interpretation…; (d) the information presented in the financial

[4] United States v. Simon, 425 F.2d 796 (2d Cir. 1969). ".

[5] "AICPA Brief in Continental Vending," Amicus Curiae brief filed by AICPA in Continental Vending case, published in the Journal of Accountancy, May 1970, states the U.S. Supreme Court denied the petitioners' request for review on March 30, 1970.

> statements is classified and summarized in a reasonable manner, that is, neither too detailed or too condensed…; and (e) the financial statements reflect the underlying transactions and events in a manner that presents the financial position, results of operations, and cash flows stated withing a range of acceptable limits, that is, limits that reasonable and practicable to attain in the financial statements. [footnote omitted]

Unfortunately, the proposed revisions on page A2-2, paragraph .31 of the Proposal refer to a financial reporting framework, but those revisions do not discuss when such a framework does not provide guidance. Those revisions have eliminated the actions currently mandated for auditors in cases where financial statements and accompanying notes do not disclose the necessary information required by the existing financial reporting framework. It also revises the language used in the current standard, such as in (c) above, which is not as clear and articulate as the current standard. Finally, the proposed standard would have a footnote 17A which states: "For additional considerations regarding the fairness of presentation of financial statements, see, e.g., SEC Rule 12b-20 17, C.F.R. § 240.12b-20 (requiring issuers to disclose 'in a statement or report…such further information, if any, as may be necessary to make the required statements, in light of the circumstances under which they are made not misleading.')." This language is drawn from the federal securities laws as well as the U.S. Securities and Exchange Commission's (SEC) rules, and companies are required to comply with them. Given the significance of this requirement, it would improve the standard if this language were in the body of the text and not relegated to a footnote.

On pages A2-3 and A2-4 of the Proposal, indicates the following language from AS 2815 is being moved to AS 2810:

> Generally accepted accounting principles recognize the importance of reporting transactions and events in accordance with their substance. The auditor should consider whether the substance of the transactions or events differs materially from their form.

However, we note that on page A2-3, only language similar to the second sentence is moved to the proposed AS 2810. We believe it is important to include the first sentence in AS 2810 as well.

Perhaps the notion of an auditor evaluating "fairly presents" is best summed up by Warren Buffett. He noted that as a member of an audit committee, he would ask the audit partner and Chief Financial Officer one simple question, along the lines of this:

> **With all your knowledge and given what you know about the company today, is there any material information regarding that company that has not been disclosed, that if you were investing in the company, you would want to know?**

As such, the Board should consider going substantially further. Audit firms should ensure that auditors focus on whether the financials are a fair presentation of the company's position rather than narrowly focusing on whether the company is following U.S. GAAP.

Responsibility for Detecting Material Financial Statement Fraud

We agree with how the PCAOB has restated the objective and responsibility of the auditor to detect material financial statement fraud, which is consistent with the current auditing standards and report of the independent auditor. We also understand the PCAOB is considering how to enhance the auditor's detection of material fraud. We note the former Chief Executive of PricewaterhouseCoopers has also indicated it is the auditor's responsibility to detect fraud when he stated in a Wall Street Journal interview:

> WSJ: Is it an auditor's job to try and find fraud?
>
> Mr. Nally: Absolutely. We have a responsibility to perform procedures that are detecting fraud just like we have responsibilities to perform procedures to detect errors in financial statements.
>
> WSJ: You seem pretty certain, but the firms as a whole often eschew some responsibility for finding fraud, especially in court.

> Mr. Nally: The audit profession has always had a responsibility for the detection of fraud. The debate has always gone toward how far do you carry that, what type of procedures do you have to develop and in what environment. The classic issue becomes the cost benefit of all of that and this is why I think there is this expectation gap.[6]

We note on page A1-5 of the Proposal, that the PCAOB has stated under Due Professional Care, an auditor should not assume that management is honest or dishonest. But in the report of The Panel on Audit Effectiveness, it was recommended:

> "…auditors should modify the otherwise neutral concept of professional skepticism and presume the possibility of dishonesty at various levels of management, including collusion, override of internal control and falsification of documents. The key question that auditors should ask is "[w]here is the entity vulnerable to financial statement fraud if management were inclined to perpetrate it?"[7]

Accordingly, the PCAOB should consider the implications of its project on fraud with respect to the language it uses regarding professional due care and avoid predetermining the outcome of its project.

Sound Professional Judgment

In the proposed AS 1000, the PCAOB discusses due professional care and determining "… that significant judgments and conclusions on which the auditor's report is based are appropriate and supported by sufficient appropriate evidence."[8] Indeed, professional judgments may be appropriate and at times, they have also been found to be erroneous. In recognition of this, The International Ethics Standards Board for Accountants (IESBA) International Code of Ethics for Professional Accountants, states in "Subsection 113 – Professional Competence and Due Care" that:

"Serving clients and employing organizations with professional competence requires the exercise of sound judgment in applying professional knowledge and skill when undertaking professional activities."

When referring to judgment in a final standard for due professional care, we recommend the PCAOB, as IESBA has done, refer to "sound" judgment. We also noted the PCAOB has referred to "sound" accounting in the Proposal.

Authoritative Guidance Not Included in Final Standard

As discussed further below in response to Question 9 and set forth in footnote 26 to the proposed standard, the Proposal contains authoritative guidance that is not included in the actual standard. This approach runs counter to efforts in the profession to "codify" all relevant and applicable standards an auditor or accountant is required to follow, into the codification of such standards.

By using the approach set forth in footnote 26, and not including this guidance in the actual standard itself, it will serve to have a negative impact on training of students in auditing, increase the time required of auditors to search various sources for relevant guidance, thereby increasing the cost of audit, increasing the likelihood and auditor may miss an audit requirement, and lower the quality of the audit. Accordingly, we urge the Board to include relevant guidance that is in the proposing release, into the final standards.

Comparisons to the Work of Other Auditing Standard Setters

We encourage the PCAOB to develop and adopt guidance and standards that will result in the highest quality standards. In attaining the highest quality standards, we believe it would be useful in writing standards, that the PCAOB should consider the contents of the similar standards issued by the AICPA Auditing Standards Board, the International Audit and Assurance Standards Board and the IESBA, and assess whether they have any guidance in their standards that may result in higher quality audits.

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[6] David Reilly, Accounting's Crisis Killer, Wall St. J., Mar. 23, 2007, https://www.wsj.com/articles/SB117461651648146411.

[7] Panel on Audit Effectiveness, Report and Recommendations: August 31, 2000, U. Miss. eGrove 88-89 (footnote omitted), https://egrove.olemiss.edu/cgi/viewcontent.cgi?article=1351&context=aicpa_assoc.

[8] Proposed Auditing Standard – General Responsibilities of the Auditor in conducting an Audit and Proposed Amendments to PCAOB Standards, Release No. 2023-001, at A1-4.

Possibly, this kind of comparison has already been made in preparing the Proposal, but there is no evidence of it. Inclusion of this kind of comparison, in tabular form, would likely stimulate additional comments from the PCAOB's interested parties.

Responses to Questions

Our address of the listed questions 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?

While we are in general agreement with the principles and responsibilities described in the Proposal, we have been genuinely concerned about the general lack of critical audit matters appearing in audit reports. We hold this to be an especially important communication between the auditor and users, and in practice, we believe it has been reduced to nearly a "check-the-box" exercise. We believe that the Proposal, which deals with professional standards, should emphasize the importance of these communications to financial statement users. We request that critical audit matters be explicitly addressed as a "must contain" item in the auditor's report, in paragraph .17a. We understand that it is referenced in footnote 30, but we recommend that the entire footnote 30 be elevated to inclusion directly in paragraph .17a. Treating it as a footnote underplays its importance.

On page A4-23 of the Proposal, it discusses in paragraph .11 Determination of Critical Audit Matters. In item (2) of that paragraph, it uses the term "especially" which has given rise to a concern this term is being used to avoid reporting of a critical audit matter. We believe this word should be deleted.

We would also suggest that the training of auditors should be required to include a focus on users of financial information, including investors, as the primary beneficiary of the audit process. Another area of auditor training that would benefit investors is increased training on the concept of materiality. We would suggest that paragraph .08(c) be revised along these lines:

> "Training, including a focus on investors as the primary beneficiary of the audit process, and how audits can be made more transparent and responsive to investor needs, as well as accounting, auditing, independence, ethics, materiality and other relevant continuing professional education."

In addition, it has been found that a common characteristic of frauds that were not detected by independent auditors, is that they did not understand the business they were auditing, as required by the PCAOB auditing standards. In the case of Colonial BancGroup v. PricewaterhouseCoopers LLP the judge stated: "It is axiomatic that an auditor cannot audit what the auditor does not understand."[9] The opinion goes on to further state: "Therefore, the auditing standards require an auditor to obtain a sufficient level of knowledge of its client's business sufficient such that the auditor can properly plan and perform an audit in accordance with GAAS. AU § 311.06…"[10]

As a result, we agree with paragraph .07 of AS 1000 and believe it could be strengthened to highlight that competence must include experience with and an understanding of the operations of the business that affect the financial statements being audited.

2. Is the approach to reorganize and consolidate the general principles and responsibilities appropriate? If not, why not?

We believe the approach taken in the Proposal is appropriate. See our previous comments.

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[9] Colonial BancGroup v PricewaterhouseCoopers LLP, No. 2:11-cv-975-BJR, Order on the Liability Phase of the PWC Bench Trial, at 35, (M.D. Ala. Dec. 28, 2017), https://www.dandodiary.com/wp-content/uploads/sites/893/2019/03/pwc-liability-order.pdf.

[10] *Id.*

3. Are the objectives of the auditor in the proposed standard appropriate? If not, what changes to the objectives are necessary and why?

See our discussion appearing before our responses to the listed questions. Also, see our response to Question 1. Furthermore, we suggest the addition of the word "and" immediately before the phrase "in conformity." As currently read, "are presented fairly, in all material respects, in conformity with the applicable financial reporting framework" limits analysis to the financial reporting framework. Adding the term makes clear that there is an expectation that the financials are presented fairly, in all material respects in addition to conforming to the applicable financial reporting framework. This addresses the issue presented in the United States v. Simon case.

4. Are the proposed requirements related to auditor independence clear and comprehensive? If not, why not?

As set forth in the three paragraphs on page A1-2, there is little said with respect to Independence and Ethics. But in response to the question, the standard could be improved by:

1. Also stating an auditor cannot subordinate their judgment to others, with respect to the audit. This would include not only within the audit firm associated employees of that firm, but also with respect to others such as management and employees of the company being audited or external specialists whose work the auditor relies upon, such as actuaries or valuation specialists. The new proposed EI 1000 only discusses subordination in the context of others within the same auditing firm.
2. The standard would be greatly enhanced if, as with the SEC Rule referenced, the final standard stated:
   When determining whether an auditor is independent, the SEC and PCAOB "will consider all relevant facts and circumstances"[11] Disclosure by the company and/or auditor or approval of a violation of an SEC or PCAOB rule by an audit committee does not "cure" the violation.
3. An auditor may only include in the heading to the auditors' report that they are an independent accountant, if they have complied with the SEC and PCAOB rules.

5. Are the proposed requirements related to ethics clear and comprehensive? If not, why not?

No. The proposed standard fails to address the items set forth in the response to Question 4. above. The proposed standard fails to address ethics in a meaningful way. The statement in paragraph .06: "The auditor must comply with applicable ethics requirements, including the rules and standards of the PCAOB" does not make for a robust ethical requirement where one is greatly needed. During our March panel discussion on fraud, Andy Fastow made the point that before Enron reached its end, the company's auditors put their heads together with management and helped Enron in producing ways to work around the rules. The weak language in the proposed standard indicates that such activity is in fact ethical given that the focus remains on merely complying with the "rules and standards of the PCAOB." As such, ethics need not apply.

6. Are the proposed requirements related to the auditor's competence clear and comprehensive? If not, why not?

As discussed earlier, we believe the proposed requirements related to auditor competence should discuss the need for knowledge of the business being audited, including knowledge of its operations that affect the financial statements and risks of material errors in those statements.

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?

See the comments above, including with respect to the use of "sound judgment." We recommend that the final standard be strengthened regarding the exercise of professional skepticism. We believe the final standard should explicitly state: "In evaluating any potential bias of its own, the auditor should affirmatively consider the risk of bias, particularly confirmation bias, arising out of the financial relationship between management and the auditor."

[11] *See* Qualifications of Accountants, 17 C.F.R. § 210.2-01 (as amended 2020), *available at:* https://www.law.cornell.edu/cfr/text/17/210.2-01.

The PCAOB's standards require an auditor to act with due professional care. An auditor's engagement letter with the audit committee of a public company states the auditor will perform its audit in accordance with PCAOB standards, as does the auditor's report to investors. Due professional care was appropriately described in the Colonial BancGroup v. PricewaterhouseCoopers LLP litigation by Judge Watkins when noted that:

> In Alabama, one who contracts with another and expressly promises to use due care is undoubtedly liable in both tort and contract when his negligence results in injury to the other party. He is liable in contract for breaching an express promise to use care. He is liable in tort for violating the duty imposed by law on all people not to injure others by negligent conduct.[12]

We agree with and support the standard that an auditor provides a high level of assurance. This standard should not be lowered.

The U.S. Courts have held an auditor is responsible for detecting material errors from fraud.[13] Paragraph 3. of AS No. 8 (Audit Risk) states "To form an appropriate basis for expressing an opinion on the financial statements, the auditor must plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement due to error or fraud." The auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud". Paragraph .09(d) of AS 3101 (The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion) requires each and every independent auditor's report contain: "A statement that the PCAOB standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements, whether due to error or fraud." And paragraph .C1(b)(1) of AS 1301 (Communications with Audit Committees) requires the auditor to annually include in each engagement letter, that the auditor is responsible for conducting the audit in accordance with standards of the PCAOB. This includes that the auditor must: "Plan perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether from caused by fraud or error, and whether effective internal control over financial reporting was maintained in all material respects." Accordingly, the auditor's responsibility for the detection of fraud has been clearly established and that responsibility is no longer a matter of "an expectation gap."

As paragraph .14 of the Proposal indicates, "reasonable assurance is a high level of assurance and is obtained by reducing audit risk to an appropriately low level through the application of due professional care, including by obtaining sufficient appropriate audit evidence." We note that reducing audit risk is a dynamic, fluid process that differs from one audit to another. We recommend that the final standard includes guidance towards determining whether audit risk is reduced to an appropriately low level, requiring consideration of changes in technology, the nature and quality of an issuer's financial reporting system, relevant academic and other research, and any other factor that can reduce the risk of material misstatements or fraud.

We also concur that the final standard should require an auditor to exercise due professional care "in all matters related to the audit." Also, see the comments above with respect to the detection of fraud and the mindset of an auditor.

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?

See the previous comments above. We do note that machine learning and AI technologies are progressing rapidly, so there is a need to consider future possibilities and uses as well.

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[12] Colonial BancGroup v PricewaterhouseCoopers LLP, No. 2:11-cv-975-BJR, Order on the Liability Phase of the PWC Bench Trial, at 25-26.

[13] *See e.g., id.* at 29 ("The Court concludes that PWC did not design its audits to detect fraud and PWC's failure to do so constitutes a violation of the auditing standards.").

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?

As stated above, we believe authoritative guidance should be included in the final standard, not in the accompanying release. We believe the approach adopted in the Proposal could increase the costs incurred and lower the quality of audits. It would also be much more difficult, especially for younger auditors who provide the vast majority of audit hours incurred, for training and remaining competent with audit requirements.

10. Are the proposed amendments to clarify the meaning of "present fairly" appropriate? If not, why not?

We believe the proposed amendments to clarify the meaning of "present fairly" are generally appropriate, but we note that when the auditor evaluates the financial statements for fair presentation, it is an exercise in professional judgment. Paragraph .30A should mention that professional judgment bears heavily on the evaluation, as a reminder to auditors that their professional judgment might be called into question if financial statements do not "present fairly."

See the previous comments made with respect to "fairly presents" as well as with respect to "sound" judgment. See also, for consideration the concept that referencing to the "applicable financial reporting framework" should not represent a limiting factor to fair presentation.

11. Are the proposed clarifying amendments related to engagement partner responsibilities appropriate? If not, why not?

On page 22 of the proposing release, it discusses that the audit partner is responsible for assigned tasks and supervision. We agree with this. However, as recommended by the Panel on Audit Effectiveness, "An important objective of these discussions…would be to identify the appropriate engagement team members to address the potential for fraud (e.g., the engagement team members who should interview company personnel) and how their work is to be supervised and reviewed."[14]

12. Are the proposed clarifying amendments related to audit documentation appropriate? If not, why not?

See comments above.

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?

Given the trend toward electronic audit workpapers, which we hold to be profession-wide and not restricted to just the largest of firms, we find the reduction of the time period to be quite achievable and would recommend that it be shortened further – to the 2 days that the PCAOB has observed in its inspections. The Proposal makes a good argument for why the completion period should be shorter in an age of instant documentation and communication, but it fails to make a convincing argument for why 14 days is better than any other shortened period. We believe that the shorter the period, the less chance there is for the occurrence of any revisionist history by the auditor. We also believe that the shorter period would allow the PCAOB to schedule its inspections more efficiently, providing additional benefits to investors.

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?

Given that we see no real difficulties in shortening the documentation assembly time by at least 31 days, we see no reason that the time for filing the Form AP should take as long as 35 days. Accordingly, we believe that the filing of Form AP should also be shortened correspondingly to the maximum time period selected for the audit workpaper assembly.

[14] Panel on Audit Effectiveness, Report and Recommendations: August 31, 2000, U. Miss. eGrove at 88.
The Panel on Audit Effectiveness, Report and Recommendations, August 31, 2000. Page 88.

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.

We believe that companies that approach the public markets for capital should be reporting financial statements of the highest quality, and we are not favorably inclined to automatically reduce reporting requirements for them simply because of their size. We hold the same belief regarding their auditors. Furthermore, if auditors are willing to assume the risks of auditing publicly traded firms and to reap the consequent rewards, they should be fully prepared to abide by the rules and standards set by the PCAOB without exceptions. Therefore, we do not prefer to see any "scaling" of the time necessary to assemble a complete and final set of audit documentation once the time frame has been set by the PCAOB.

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?

We note that American Institute of Certified Public Accountants (AICPA) AU-C Section 230 on Auditor Documentation includes useful guidance that is not included in the Proposal. For example: Paragraph .13 states that if an auditor judges it necessary to depart from a requirement, the auditor must document the justification for the departure, how alternative audit procedures performed were sufficient to meet the intent and objective of the standard. We believe this language should be incorporated into the final standard as it would provide accountability and discipline to the auditing process. It would also greatly enhance the supervision and review process.

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?

To the extent they are consistent with the Proposal for audits, we have no comment.

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.

We believe the "foundational" standards as proposed, are consistent with the existing standards that auditors are currently required to comply with when performing an audit in accordance with the standards of the PCAOB. As such, the proposed changes should not result in any significant additional costs to auditors or the companies they audit. Likewise, it is unlikely they would provide any significant benefits to market participants. However, there are benefits such as the ability to inspect audits quicker, enhancing audit quality, and some changes which would bring greater accountability and discipline to audits that should be useful to investors, without significantly increasing costs.

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.

See our comments in this letter, located before these listed question responses.

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.

See previous comments.

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?

If the final standards do not include authoritative guidance set forth in the accompanying release, we believe the possibility exists for the negative results described above.

22. Are there any other economic impacts we did not describe above that are relevant for consideration? If so, please specify.

We do not foresee any other economic impacts not already described.

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.

At this time, we cannot offer any suggestions; we will supply any relevant studies or data, however, if we discover them soon after the submission of this letter.

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.

The MIAG includes former audit partners among its members. Based on the experience of all our members, we believe the analysis of the impact of the Proposal on EGC's is reasonably accurate. We support the Proposal's conclusion that the standard should apply equally to audits of EGCs. See our response to Question 15: our reasoning in that answer applies to the financial reporting requirements of EGCs and to their auditors as well.

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?

In the worst-case scenario, the SEC would approve the Proposal on December 31, making compliance required in six months. That might be sufficient for firms that have been following the approval process and readying themselves for changes. If firms are not preparing for changes, one might question why they should be allowed to be registered with the PCAOB and to audit publicly traded firms.

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We remind the Board that the views expressed in this letter are solely those of the Investor Advisory Group members who prepared them and do not necessarily reflect the views of the PCAOB, the PCAOB staff, the members of the Board, or the Board's staff. Those views do not necessarily represent the views of its individual members, or the organizations by which they are employed.

If you, any members of the Board, or your staff have questions or seek further elaboration of our views, please contact Amy McGarrity at amcgarrity@copera.org.

Sincerely,

Members of the IAG