

May 30, 2023

Sent via e-mail: comments@pcaobus.org

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

Re: Proposed Auditing Standard – General Responsibilities of the Auditor in Conducting an Audit and Proposed Amendments to PCAOB Standards; PCAOB Rulemaking Docket Matter No. 049

Dear Office of the Secretary:

Plante & Moran, PLLC (“PM,” “the Firm,” or “we”) appreciates the opportunity to share our views and provide input on the Public Company Accounting Oversight Board’s (“PCAOB” or the “Board”) proposed new auditing standard, AS 1000, *General Responsibilities of the Auditor in Conducting an Audit* (proposed standard or proposed AS 1000) and other proposed amendments to PCAOB Standards. We support the objectives of the proposal as set forth by the Board to streamline and clarify general principles and responsibilities of auditors and provide a more logical presentation, which would enhance the useability of the standards by making them easier to read, understand and apply.

We fully agree with and join in the comments submitted by the Center for Audit Quality. Specifically, we agree with the auditor’s fundamental role to serve the public interest. However, we believe that certain aspects of the proposed AS 1000 may expand the auditor’s responsibilities, whether or not the PCAOB intends for that to occur. The proposal, as currently written, raises concerns that the expectations of the auditor’s responsibilities go beyond the applicable financial reporting framework and, similarly, that the auditor’s expertise goes beyond accounting and auditing. Further, certain proposed requirements for the auditor to consider various guidance are overly broad and do not provide the auditor with sufficient detail, nor a sufficient framework to allow them to effectively and consistently comply with proposed requirements.

Our comments below address only those aspects of the proposed standard about which we have additional comments beyond those already noted in the comment letter submitted by the Center for Audit Quality.

Q7. 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?

We do not believe the proposed requirements and related descriptions of the general principles are sufficiently clear and comprehensive, and we encourage the Board to revisit those aspects of

the proposal. Investors are best served when they have a clear, consistent, and transparent understanding of the role that an auditor plays in the financial reporting ecosystem. That understanding—which is founded on PCAOB standards—is fundamental to ensuring that investors accurately perceive what an audit is and what an audit is not. We are concerned that, if adopted as proposed, the amendments to AS 1000 will introduce unwarranted investor confusion regarding the auditor’s role with respect to financial statements and, where applicable, internal control over financial reporting. That confusion will arise directly from the Board’s removal of key contextual language used in the extant standards to describe reasonable assurance and due professional care.

Furthermore, we believe that the proposal does not adequately account for the significant economic costs associated with the proposed changes to the general principles. Many of the proposed changes would remove language that today provides critical context and transparency regarding the role of the auditor. Removing such language will exacerbate the already problematic audit expectations gap and sow confusion in the established legal landscape regarding the auditor’s duties. If the Board does not intend to alter the role of the auditor—as it asserts throughout the proposing release—then we encourage the Board to retain language from the extant standards in the descriptions of the general principles as outlined herein.

Reasonable Assurance

Under current PCAOB standards, reasonable assurance is not only defined directly (see AS 1015.10), but also indirectly through language that explains the import of what reasonable assurance does not include. For example, AS 1015.13 explains: “Since the auditor’s opinion on the financial statements or internal control over financial reporting is based on the concept of obtaining reasonable assurance, the auditor is not an insurer and his or her report does not constitute a guarantee. Therefore, the subsequent discovery that either a material misstatement, whether from error or fraud, exists in the financial statements or a material weakness in internal control over financial reporting exists does not, in and of itself, evidence (a) failure to obtain reasonable assurance, (b) inadequate planning, performance, or judgment, (c) the absence of due professional care, or (d) a failure to comply with the standards of the Public Company Accounting Oversight Board (United States).”

Removing language from the current standards that clarifies the bounds of reasonable assurance will likely lead to investor misunderstanding regarding the concept. It will also further the already problematic audit expectations gap. As the Board’s own proposing release acknowledges, “research on the audit expectations gap concludes that the majority of investors prefer absolute assurance that financial statements are free of material misstatements” and that investors “appear to expect much more than reasonable assurance from auditors in order to prevent fraud and company failure.” See PCAOB Release No. 2023-001 at 39-40 (Mar. 28, 2023). The PCAOB’s standard-setting efforts should not widen the chasm of misunderstanding between investors, auditors, and others by removing language that seeks to close the audit expectations gap. Unfortunately, the proposed standard would do just that with respect to one of the most fundamental concepts underpinning an audit under PCAOB standards. Additionally, removing the cited language may well upset the settled legal landscape regarding the limitations of reasonable assurance. The noted language is often critical to providing judges and fact finders with a

complete and accurate understanding of the bounds of the auditor’s duty with respect to financial statements and/or internal controls over financial reporting.¹

For these reasons, we propose that the Board retain the current language of AS 1015.13 in any revised standard to provide appropriate context to the meaning of reasonable assurance.

Due Professional Care

Under current PCAOB standards, “due professional care” is defined directly by reference to and quotation from a legal treatise—namely, *Cooley on Torts*. See AS 1015.03. The PCAOB proposes to remove entirely the reference and quotations from the treatise, without adding any additional context to the long-standing understanding of what constitutes due professional care. Specifically, the proposed standard would remove all references from the treatise regarding the “degree of skill” that an auditor should possess and any consideration of the “good faith” of the auditor in making inherently complex and difficult professional judgments.

By deleting such context, the proposed amendments would remove concepts that have become a settled part of the understanding of the auditor’s duty of care. It would also contradict the PCAOB’s stated goal to not change the meaning of the phrase “due professional care.” See PCAOB Release No. 2023-001 at 22 (Mar. 28, 2023). Further, we believe that removal of these concepts will contribute to investor misunderstanding of the auditor’s role and thereby unnecessarily increase the economic costs of the proposed standard, including by subjecting auditors to otherwise unwarranted litigation risks. If nothing else, the changes will upset the established legal understanding of what is required of an auditor to exercise due professional care in accordance with PCAOB Standards. Accordingly, we propose that the standard retain the current reference and citation to *Cooley on Torts* from AS 1015.03.

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We appreciate the opportunity to comment on the Proposed Auditing Standard – General Responsibilities of the Auditor in Conducting an Audit and Proposed Amendments to PCAOB Standards, and we look forward to future engagement. As the Board gathers feedback from other interested parties, we would be pleased to discuss our comments or answer questions from the Board regarding the views expressed in this letter. Please address questions to Steve Neiheisel (steve.neiheisel@plantemorán.com) or Bora Brock (bora.brock@plantemorán.com).

Sincerely,



Plante & Moran, PLLC

¹ See, e.g., *DeLollis v. Friedberg, Smith & Co.*, 933 F. Supp. 2d 354, 362-63 (D. Conn. 2013).

Plante Moran, P.C.

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cc: **PCAOB**

Erica Y. Williams, Chair
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Barbara Vanich, Chief Auditor

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