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Via E-mail: comments@pcaobus.org

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

Re: PCAOB Rulemaking Docket Matter No. 049

Dear Office of the Secretary:

BDO USA, LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board (“PCAOB” or the “Board”) Proposed Auditing Standard - *General Responsibilities of the Auditor in Conducting an Audit and Proposed Amendments to PCAOB Standards* (the “Release”). We are supportive of the Board’s overall objectives of modernizing and streamlining the existing foundational standards that establish the general principles and responsibilities of the auditor when conducting an audit in accordance with the standards of the PCAOB.

We believe that general principles and responsibilities addressed by the existing foundational standards relating to the concepts of reasonable assurance, due professional care, professional skepticism, independence, competence, and professional judgment to be appropriate general principles for audits performed under PCAOB standards, and that these principles continue to provide an appropriate foundation for the performance of audits in accordance with the PCAOB standards.

Our comments below align with those points noted in the Executive Summary on page 4 of the Release, as well as other matters noted in our consideration of the proposal.

Combination of General Principles and Responsibilities

We find the Board’s approach of combining the general principles and responsibilities under the extant standards¹ into one standard (proposed AS 1000) to be reasonable; however, we believe that there are consequences, intended or otherwise, resulting from the amendments in the Release that might impact the current remit within the industry and have other deleterious effects.

Specifically:

- The proposed amendments may have an unintended consequence of expanding rather than diminishing the audit expectation gap. For example:

¹ 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*



- The note to paragraph .07 indicates that expertise in SEC rules and regulations is necessary to exhibit competence. Proposed QC 1000.47(e) states that “the audit partner obtain and maintain the competence to fulfill their respective assigned engagement roles, including an understanding of the following: e) The industry in which the client operates and its relevant characteristics (e.g., applicable standards, industry-specific risks, and industry-specific estimates)”. Both “expertise” and “obtaining an understanding” are terms that are open to interpretation and do not necessarily equate. In presenting auditors as experts in SEC rules and regulations, it may be interpreted that we are able to and should make legal determinations in relation to those rules and regulations.
- Using the phrase “related to the audit” in place of “in the planning and performance of the audit and preparation of the report” (para. .09) and “audit evidence” (para. 10) respectively does not appear to provide clarity. It can be interpreted as broadening these activities and, in the case of paragraph .10, may render the action increasingly difficult to perform.

Paragraph 10 states we are to maintain an attitude that includes a “critical assessment of information related to the audit”. This can be viewed as including aspects of the audit outside of where an applicable framework would provide the criteria to assess against as we would do with audit evidence.

- Certain guidance, such as releases accompanying the standards and rules, may be perceived as being elevated in the hierarchy of authoritative guidance. There should be a clear hierarchy of authoritativeness amongst those materials, contrasted with the final standards and rules of the board as released. Additionally, the proposed AS 1001.15 states that auditors should “take into account relevant guidance”. This phrase may leave auditors confused as to the level of authority that is placed on the various documents and the associated level of documentation needed to evidence in the workpapers.

Footnote 26 to the proposed 1001.15 defines relevant guidance to include PCAOB auditing interpretations, Board-issued guidance, and releases accompanying the standards and rules of the board. An analogy can be drawn to Q2 of PCAOB Staff Questions & Answers, *References to Authoritative Accounting Guidance in PCAOB Standards* which, in response to the FASB Codification, notes an acknowledgement by FASB staff that certain wording changes might theoretically lead an issuer to conclude differently. If auditor responsibilities with regards to literature mentioned in paragraph 1001.15 changes, or is perceived to change, this could lead to over-reliance on other guidance provided by the PCAOB which could, theoretically, lead an auditor to conclude differently.

Extant AS 1001.01 states that we perform our audit in accordance with the standards of the PCAOB. Additionally, extant PCAOB Rules of the Board Section



1. General Provisions Rule 1001 (a)(viii) (and Rule 1001(p)(vi) further articulates) defines, when used in the Rules, unless context otherwise requires, “auditing and related professional practice standards” as meaning “the auditing standards, related attestation standards, quality control standards, ethical standards, and independence standards (including any rules implementing Title II of the Act), and any other professional standards, that are established or adopted by the Board under Section 103 of the Act.”

There may be a perceived need to increase documentation at the engagement team level as teams perceive a need to explicitly document how this other relevant guidance is addressed. Whereas currently, these pieces of guidance would have informed the auditor’s decision process and might be reflected in documentation but not explicitly addressed in the documentation.

Engagement partner’s responsibility to exercise due professional care related to supervision and review of the audit

Proposed amendment to AS 1201.05 Note 2 states that the engagement partner must review “sufficient documentation to determine that (i) the engagement was performed as planned...”. As planning of an audit is a broad activity, this may be construed as expanding the partner review requirements beyond review of documentation of “significant findings or issues”. AS 1215.12(c) defines “significant findings or issues” in relation to planning activities as “Results of auditing procedures that indicate a need for significant modification of planned auditing procedures”. This requirement is more limited than the proposed change to AS 1201.05.

Acceleration of the Documentation Completion Date

We believe that the acceleration of the documentation completion date could increase audit quality overall. Although this accelerated period may allow for the Board to begin the inspection process sooner after completion of an audit, issuers may have various filing deadlines, or require extensions that would necessitate the full attention of professionals on those engagements. Consideration may be needed for these situations, so inspections are not running concurrently.

Evaluation of Whether the Financial Statements are “Presented Fairly”

SEC Rule 12b-20 17, CFR § 240.12b-20 indicates an issuer’s responsibility to disclose “such further material information, if any, as may be necessary to make the required statements, in the light of the circumstances under which they are made not misleading”. The explicit inclusion of it in 2810.30 FN 17a may be interpreted as applying to the auditor. This, coupled with the previously mentioned note to paragraph .07 which indicates that expertise in SEC rules and regulations are required attributes, may provide a reader with the sense that auditors are able to and should provide some sort of legal determination.



Office of the Secretary
Public Company Accounting Oversight Board
Page 4 of 4

This would conflict with AS 2410.05 which, in the case of fraud, states that auditors do not make legal determinations.

Effective Date

We are concerned that the proposed effective date for compliance with the proposed standard and related amendments by June 30 in the year after they are approved by the SEC may not provide sufficient time for audit firms to implement the amended standards. We believe that there are certain aspects of the proposed standard and related amendments that will require additional time, beyond the proposed effective date, to design and implement necessary changes to firm methodologies and policies, particularly within global network firms and other firms with significant cross-border audits.

Consistent with the Board's other recent standards-setting activities, and assuming the SEC approves the final standard before the end of calendar year 2023, we recommend that the effective date of the final standard should be no earlier than for audits of financial statements for fiscal years ending on or after December 15, 2024.

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We appreciate your consideration of our comments and suggestions and would be pleased to discuss them with you at your convenience. Please direct any questions to Ashwin Chandran at 214-689-5667 (achandran@bdo.com), or James D'Arcangelo at 203-905-6234 (jdarcangelo@bdo.com).

Very truly yours,

BDO USA, LLP

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