

August 7, 2023

By email: comments@pcaobus.org

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

Re Proposing Release: Amendments to PCAOB Auditing Standards related to a Company's Noncompliance with Laws and Regulations and Other Related Amendments; PCAOB Rulemaking Docket Matter No. 051

Dear Office of the Secretary:

This letter represents the views of audit committee chairs and members, as well as other corporate board members, regarding the Public Company Accounting Oversight Board's [proposal](#), *Amendments to PCAOB Auditing Standards related to a Company's Noncompliance with Laws and Regulations and Other Related Amendments*.

We support the PCAOB's mission to protect investors by modernizing auditing standards that support the performance of continued high-quality audits in today's complex business environment. However, we are concerned that the proposed amendments do not advance that mission. They risk reducing audit quality and lessening investor protections while unnecessarily increasing the cost and complexity of audits.

We, as audit committee chairs, members, and board members, share the concerns raised by PCAOB Board Members Duane DesParte and Christina Ho in the PCAOB's June 7, 2023, open meeting.¹

Specifically, we are concerned that:

- The proposed scope is too broad.
- The proposal does not sufficiently take into account a company's existing compliance function and the shared responsibility of the board of directors, the audit committee, the chief compliance officer, and the general counsel.
- Auditors are not lawyers and as a result the proposed amendments would expand the auditor's role to include knowledge and expertise outside their core competencies.
- The proposal will substantially increase the cost of the audit without a commensurate benefit.

We believe that:

1. Any change should keep the auditor focused on NOCLAR that could materially impact the financial statements, such as material penalties or loss contingencies.
2. Any requirement of the auditor should be risk-based and consider the role the company's compliance program plays in detecting NOCLAR that could be material to the audited financial statements.

To expand upon our position, we offer the following rationale:

The proposed scope is too broad.

The proposed requirement that auditors identify "laws and regulations with which noncompliance could reasonably have a material effect on financial statements"² is duplicative and unnecessary. Given that public companies are subject to a vast number of laws and regulations, and the largest companies in highly regulated

¹ See public statements from Board Members [Duane DesParte](#) and [Christina Ho](#).

² See proposed AS 2405.06.

industries can be subject to hundreds of new laws and regulations in a single quarter, they already have extensive compliance processes to perform this exact function. The results of those processes are regularly reported to the audit committee, as well as to the external auditors for their input regarding the process and evaluation of any significant matters. According to a recent survey, the top three detection methods of frauds (approximately 70%) were as a result of tips, internal audit, and management review.³

The proposal does not sufficiently take into account a company's existing compliance function and the shared responsibility of the board of directors, the audit committee, the chief compliance officer, and the general counsel.

We believe that it takes company management, audit committees, auditors, and regulators working in concert to foster a system that supports both high-quality financial statements and audits, all for the protection of investors. Oversight of a company's compliance with laws and regulations is primarily the shared responsibility of the board of directors, the audit committee, the chief compliance officer, and the general counsel. We suggest a better approach could be one that is risk-based, and where the auditor considers the role the company's compliance program plays in detecting non-compliance with laws and regulations that could be material to the audited financial statements.

Auditors are not lawyers.

In addition to being unnecessary and burdensome, the proposed amendments would expand the auditor's role to include skills, knowledge, and expertise outside the auditor's core competencies and expertise. The teams of in-house attorneys and outside counsel employed by publicly traded companies are better suited to monitor, identify, and investigate potential violations of laws and regulations.

The proposal will substantially increase the cost of the audit without a commensurate benefit.

The PCAOB acknowledges in its proposal that auditors may need to retain a range of legal experts to comply with the proposed standards but offers no projected cost beyond "[t]hese costs could be substantial." Additional effort should be made to study the costs and benefits of the proposal.

We appreciate the opportunity to share our views.

Sincerely,

<i>Eula Adams</i>	<i>William Belk</i>	<i>John Howard Clowes</i>	<i>Mohamed El-Erian</i>
<i>Jason Aiken</i>	<i>Prat Bhatt</i>	<i>Cynthia Collins</i>	<i>Jeff Epstein</i>
<i>James Allen</i>	<i>Donna Blank</i>	<i>Sue Collyns</i>	<i>Carolyn Everson</i>
<i>Gary Allerheiligen</i>	<i>Allison Boersma</i>	<i>Douglas Coltharp</i>	<i>Duane Farrington</i>
<i>Nancy Altobello</i>	<i>Beth Brooke</i>	<i>Kevin Cook</i>	<i>Megan Faust</i>
<i>Angela Aman</i>	<i>Jeff Brown</i>	<i>William Corey</i>	<i>Tamara Favorito</i>
<i>Brian P Anderson</i>	<i>Maryann Bruce</i>	<i>Timothy Coxson</i>	<i>Al Ferrara</i>
<i>Adrienne Anderson</i>	<i>Judy Bruner</i>	<i>Mary Cranston</i>	<i>Dale Field</i>
<i>Steven Anenen</i>	<i>James Bush</i>	<i>Kermit Crawford</i>	<i>Cheryl Francis</i>
<i>Shellye Archambeau</i>	<i>John Bush</i>	<i>Thomas Darcy</i>	<i>Laura Francis</i>
<i>Ian Ashken</i>	<i>Miguel Calado</i>	<i>Alex Davern</i>	<i>Samuel R. Fuller</i>
<i>Jan Babiak</i>	<i>Jeffrey Campbell</i>	<i>Ralph de la Vega</i>	<i>Justin Gannon</i>
<i>Jennifer Banner</i>	<i>Vickie Capps</i>	<i>Laurence Debroux</i>	<i>Michael Garnreiter</i>
<i>Art Beattie</i>	<i>Ellen Carnahan</i>	<i>Deborah DeHaas</i>	<i>Stephen George</i>
<i>Carolyn Beaver</i>	<i>Roger Carolin</i>	<i>Debra Dial</i>	<i>Christine Gorjanc</i>
<i>Michael Becher</i>	<i>Tiffany Cepak</i>	<i>Candace Duncan</i>	<i>Ginger Graham</i>
<i>Cheryl Beebe</i>	<i>Matt Chapman</i>	<i>Ryan Edone</i>	<i>Tracy Grooms</i>
<i>Mark Behrman</i>	<i>Fabiana Chubbs</i>	<i>William Ehrhardt</i>	<i>Allan Hall</i>

³ See ACFE report, *Occupational Fraud 2022: A Report to the Nations*.

Kathy Hannan
Donna Harman
Jeffrey Harris
Bill Hayes
Sandra Helton
Joan Herman
Jeryl Hilleman
James Hugar
Heidi Hunter
Gary Hurand
Robert Jessup
Karlton Johnson
Craig Johnson
Rainer Jueckstock
Daniel Junius
Peter Kelly
Brian Kinion
Deborah Kissire
Garheng Kong
Kelly Kramer
Laurel Krzeminski
Winston Kung
Diana Laing
Prue Larocca
Keith Larson
Armand Lauzon, Jr.
Thomas Leonard
Sara Lewis
Harold Lewis
Bonnie Lind
Jesse Robert Lovejoy
James Loving
Ira Lupkin
William Lyons

Kerrie MacPherson
Glenn Marino
Magda Marquet
Randy Martinez
Gregory Matz
Thomas Maurer
Mary Beth McCormick
MaryFrances McCourt
Carol McFate
Michael McNally
Robert McNamara
Alana McNulty
Wade Meyercord
George Minnich
Royce Mitchell
Tom Monahan
Michael Montelongo
Ganesh Moorthy
Elizabeth Mora
James Morris
Anne Motsenbocker
Albert Moyer
Laurie Mullen
Arjun Murti
John O'Connor
Kenneth Owen
Jeffrey Owens
Shailee Parikh
Robert Carter Pate
Donald Patteson
Diana Peninger
Kim Perdikou
Jaime Pereira
Marla Persky

Steve Pizula
Deepa Prasad
Diana Purcel
Betsy Rafael
William Raines
Karen Rapp
Terry Rappuhn
Anne Raymond
Christopher Reidy
Brian Reilly
Sanford Rich
Anne Roby
Richard Roedel
Herm Rosenman
Mark Rubash
Erin Russell
David Sagehorn
Richard Sanders
Bryan Sansbury
Joe Schick
Nancy Schlichting
John Schmid
Lisa Schnorr
Alice Schroeder
Teresa Sebastian
Larry Selzer
Laura Sen
Maria Sharpe
Richard Simonson
Ekta Singh-Bushell
Richard Smith
Steven Smith
Sally Smith
Margaret Smyth

Jamie Sokalsky
Frances Spark
Teresa Sparks
Eric Spiegel
Charles Stevens
Theodore Tewksbury
Stephen Todd
Clayton K Trier
R Tony Tripeny
Irma Tuder
Robert Vahradian
Leslie Varon
Wallim Vasconcellos
Alejandra Veltmann
Kim Vogel
G. Richard Wagoner, Jr.
Kenneth Walker
Jeffrey Walker
Susan Ward
Elizabeth Ward
Patrick Ward
J. Anthony Ware
Larry Washow
Somer Webb
Lynn White
Felicia Williams
Frank A. Wilson
Kathleen Winters
Phoebe Wood
Brian Yoor
Linda Zukauckas