

August 7, 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: 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:

While we understand the Board's intention to strengthen auditing standards related to the auditor's consideration of a company's noncompliance with laws and regulations, including fraud ("NOCLAR"), we do not believe the proposed amended standards align with the auditor's responsibility to plan and perform an audit to obtain *reasonable assurance that the company's financial statements are free of material misstatement*, whether due to error or fraud. As described in more detail below, we do not believe the proposed amendments will result in improved audit quality, and implementation will result in a greater expectations gap between investors and auditors.

The proposed standards unreasonably expand the auditor's responsibilities by increasing requirements that are not within the area of the auditor's expertise and the objectives of a financial statement audit and transforming the auditor's role from one of providing reasonable assurance to one of performing a compliance audit and a management function.

We share the views of Board member Christina Ho, as expressed in her statement on the proposal, in which she noted – "This expansion could cause considerable confusion on the appropriate role of auditors, undermine the time-tested accountability framework, and reduce the resilience of the already highly concentrated audit marketplace. Ultimately, this could undermine trust in our capital markets, to the detriment of investors."¹

We also agree with concerns raised by Board Member Duane DesParte when he stated, "I also wonder whether we are further contributing to the expectations gap by imposing responsibilities on auditors not aligned with their core competencies or the fundamental purpose of a financial statement audit."²

We strongly urge the Board to consider the unprecedented dissention to the proposal by only the two CPA Board members. The knowledge and expertise of those who understand and have worked in the field of accounting and auditing are critical to developing auditing standards that

¹ Refer to [Statement on Proposal to Amend PCAOB Auditing Standards Related to a Company's Noncompliance with Laws and Regulations and Other Related Amendments](#) made by Christina Ho on June 6, 2023.

² Refer to [Statement on Proposal to Amend PCAOB Auditing Standards Related to a Company's Noncompliance with Laws and Regulations and Other Related Amendments](#) made by Duane DesParte on June 6, 2023.

will meet the objectives of the Board, promote trust in our capital markets, and can stand the test of time. The perspectives of those individuals should not be taken lightly.

Key Observations

We have several observations on the proposal that resonated throughout our responses below. We believe that the proposal imposes a fundamental shift in the objective of an audit from determining if the financial statements of a company are free of material misstatement, to opining on the compliance with laws and regulations of a company, which is outside the purview of the auditor's responsibility. Auditors lack the necessary expertise to comply with the objectives set forth in the proposal, as they are not lawyers or forensic specialists. To comply with the requirements of the proposal, there will be significant costs incurred for the auditors, as well as companies, which will ultimately be passed on to investors. We believe the costs will significantly outweigh the benefits achieved from the proposal. Moreover, the proposed requirements would put the auditor in a position to perform services for the client which would pose a management participation threat by evaluating and concluding on NOCLAR, which is outside the scope of providing an opinion on the financial statements.

We also share concerns expressed by Board member DesParte in his statement on the proposal, in which he commented on all the projects in process at the PCAOB – "...this project is one of 14 on our ambitious standard-setting agenda. Each of the projects is significant. As we proceed one-by-one, I am increasingly concerned we are establishing new auditor obligations and incrementally imposing new auditor responsibilities in ways that will significantly expand the scope and cost of audits, and fundamentally alter the role of auditors without a full and transparent vetting of the implications, including a comprehensive understanding of the overall cost-benefit ramifications."³

Responses to Questions Posed by the Board

Q1. Is the proposed definition of "noncompliance with laws and regulations" sufficiently clear? If not, why not?

Yes, the definition is clear, and we support replacing "illegal acts" with "noncompliance with laws and regulations;" however, we have concerns regarding the inclusion of fraud in the definition. See our response to question 2 for more detail.

Q2. Is the rationale for including fraud, as described in AS 2401, within the proposed definition of noncompliance with laws and regulations sufficiently clear? If not, why not?

Although the rationale for including fraud within the definition is clear, its inclusion is problematic as executed. First, the Board fails to define sufficiently what it means by "fraud" and the release's text exacerbates the concerns over the rule's lack of a definition. Footnote 1 of the release states that the definition of NOCLAR includes not only fraud as defined under AS 2401.05 (a definition that auditors are familiar with currently), but also "all other types of fraud, such as non-scienter-based fraud." Adding unexplained new types of "fraud" for auditors to consider without any further definition will cause confusion in adoption and application and will result in unwarranted diversity

³ Refer to [Statement on Proposal to Amend PCAOB Auditing Standards Related to a Company's Noncompliance with Laws and Regulations and Other Related Amendments](#) made by Duane DesParte on June 6, 2023.

in practice among auditors. Auditors are not trained in legal concepts like *scienter* and are not well-equipped to understand what concepts like non-*scienter*-based fraud mean.

Second, the Board's maintenance of separate standards related to NOCLAR and fraud will likely promote confusion in adoption and application. The Board does not explain adequately how revised AS 2405 and AS 2401 relate to each other or otherwise provide guidance on how an auditor should apply them in combination. Given that the Board has a separate project on fraud on its mid-term standard setting agenda that is clearly interrelated to the NOCLAR project, it should strongly consider combining the two projects or at least pursuing them in parallel, like how it handled the revised standards for estimates and specialists.

Q4. Is the introduction to proposed AS 2405 sufficiently clear? If not, how should the introduction be clarified?

The language in proposed AS 2405.01 is not clear and should be modified prior to adoption. Specifically, the proposed language will promote confusion regarding the legal duties that an auditor owes to investors. From a legal perspective, an auditor's obligation to investors is to conduct an audit in accordance with PCAOB standards and any other applicable rules (e.g., PCAOB and SEC independence rules). The proposed language in 2405.01 seeks to fundamentally restate that legal obligation in a manner consistent with the PCAOB's mission under the Sarbanes-Oxley Act of 2002. The statement is neither appropriate nor supported by applicable law, and it will only promote confusion in the legal landscape. It is also not in keeping with other standards adopted previously by the Board, none of which include similar language in their introductions. The proposed language in paragraph AS 2405.01 should either be deleted in its entirety or modified as follows (language to be deleted is ~~struck through~~; language to be added is underlined):

~~.01 Auditors have a fundamental obligation to protect investors through the preparation and issuance of informative, accurate, and independent auditor's reports, and that obligation governs this standard to identify and evaluate information indicating that **noncompliance with laws and regulations**,¹ including fraud,² has or may have occurred and make appropriate communications to management and the audit committee about such information.³ conduct an audit in accordance with the standards of the PCAOB in order to provide an objective and independent opinion on whether the company's financial statements are presented fairly, in all material respects, and, if applicable, on the effectiveness of the company's internal control over financial reporting.~~

Q5. Are the objectives for proposed AS 2405 sufficiently clear? If not, how should the objectives be clarified?

No, the objectives are not sufficiently clear. As stated elsewhere in our response, for the auditor to "Identify laws and regulations with which noncompliance could reasonably have a material effect on the financial statements," the auditor must first identify the population of all laws and regulations applicable to the client. The auditor will not have the expertise to make this assessment on their own and will require the use of one or more specialists to determine a complete population. As expressed by Board Member Duane DesParte, "Lawyers will be required across the wide array of legal disciplines and specializations to assist the auditor in identifying the population of relevant laws and regulations, assess the "could reasonably" scoping filter, design and perform compliance attestation procedures to identify information that may indicate potential

noncompliance and evaluate whether such noncompliance has or has likely occurred.”⁴ DesParte further went on to state that “the filtering threshold of “reasonably could” is not adequately explained in the proposal and is not addressed elsewhere in PCAOB standards.”⁵

Additionally, “could materially affect the financial statements” is a broad term, as there are a multitude of ways a violation of a law or regulation could affect the financial statements, including through, but not limited to, regulatory actions, loss of business, or civil actions, all of which would be outside the expertise of the auditor to determine.

Given the complexity of the proposal, and the history in this area, we recommend that the Board consider the process to finalize Section 10A in 1995, where similar concerns were raised by the SEC and the Auditing Standards Board (ASB). When the original proposal for Section 10A by the Board included procedures to provide “reasonable assurance of detecting illegal acts that would have a material impact on the issuer’s financial statements by reviewing compliance with laws and regulations which, if violated, could materially affect the issuer’s financial statements or operations,” the SEC thought that the language then was too broad because it would have “general application to companies that must comply with a multitude of statutes and regulatory schemes – from environmental to franchising, to workplace safety, to fair labor procedures laws – federal, state, local, foreign.” The ASB thought that the proposed standard should instead focus on fraud and illegal acts. The same concerns the SEC raised in 1995 would be true today with the current proposal by the Board.

Q6. Are there other objectives that should be included in proposed AS 2405? If so, what would those objectives be?

No, there are no additional objectives that should be included.

Q7. Is the proposed requirement for auditors to identify laws and regulations applicable to the company with which noncompliance could reasonably have a material effect on the financial statements sufficiently clear? If not, why not? / Q8. Will auditors be able to identify those laws and regulations applicable to the company with which noncompliance could reasonably have a material effect on the financial statements? If not, why not?

The proposed requirements regarding the auditor’s identification of laws and regulations applicable to the company are the most problematic portions of the proposed standard.

First, auditors lack the competence and expertise necessary to identify the universe of laws and regulations applicable to a client that could reasonably have a material effect on the financial statements. Auditors are not trained legal experts and do not have the educational or experiential background to competently, accurately, and/or completely fulfill this requirement. They would be entirely dependent on legal experts to assist them. That dependence begs the question as to why the Board believes it is appropriate to require auditors to undertake this exercise in relation to the objectives of and the context for a financial statement audit.

⁴ Refer to [Statement on Proposal to Amend PCAOB Auditing Standards Related to a Company’s Noncompliance with Laws and Regulations and Other Related Amendments](#) made by Duane DesParte on June 6, 2023.

⁵ Refer to [Statement on Proposal to Amend PCAOB Auditing Standards Related to a Company’s Noncompliance with Laws and Regulations and Other Related Amendments](#) made by Duane DesParte on June 6, 2023.

Second, even if auditors were to rely on one or more legal experts to assist them, it is unclear that they could successfully discharge their responsibility. Most lawyers are not trained as experts in all areas of the law. Some attorneys make excellent securities lawyers, but otherwise have no expertise in employment law. Others are experts in employment law but have little to no expertise in tax law or antitrust law. Still others might be experts in tax law but know little to nothing about antitrust law. Those who understand antitrust law within the U.S. legal regime may well have no experience with antitrust law within the European Union. To put it simply, for most public companies, auditors would be required to obtain perspectives from numerous different lawyers to get the assurance necessary to fulfill the identification requirements under the proposed standard. That would introduce significant inefficiencies and likely delays in the audit process.

Third, compliance with this requirement will likely be costly. Lawyers' rates generally exceed those of accountants and significant legal time would likely be needed to fulfill the proposed requirements. Investors would ultimately bear the costs of that compliance in the form of greater corporate expenditures and reduced corporate profits.

Fourth, the extensive costs of the proposed requirement, particularly when considered together with the expertise necessary to fulfill it, will further impair the ability of small and mid-size accounting firms to accept and serve public company clients. The requirements will result in further concentration of public company audits within the top several firms in the marketplace.

Fifth, the proposed standard does not adequately define the phrase "reasonably could." The proposing release states that, "We believe the inclusion of the phrase 'could reasonably have a material effect' would appropriately tailor the requirements to include those laws and regulations that relate to the way matters are presented (that is, recorded or disclosed) in the financial statements (for example, tax, pension, and certain securities laws) and other laws and regulations that may relate to the operations of a company with which the company's noncompliance could reasonably result in material penalties, fines, or damages to the company (for example, for a chemical company, environmental protection regulations). These laws and regulations would necessarily be relevant to the company or its operations but would not represent every law or regulation to which the company is subject. We believe that the proposed standard appropriately focuses the auditor's attention on laws and regulations that could have a material effect on the financial statements."⁶ While it appears from this statement that the Board's intention is for auditors to focus their attention on laws and regulations that could have a material effect on the financial statements, as proposed, the standards would not allow auditors to focus only on potentially material amounts.

As we have mentioned previously, and pointed out by Board member Ho, "To identify the laws and regulations with which noncompliance could reasonably have a material effect on financial statements, an auditor must first identify all the laws and regulations applicable to the public company."⁷ Further, as noted by Board member DesParte, "Companies of all sizes are subject to a vast array of laws and regulations with which they must comply, including federal, state, and local laws in each domestic and foreign jurisdiction in which they operate. These laws and regulations continually evolve, and cover a myriad of areas including corporate governance, securities, markets, trade, contracts, taxes, consumers, employment, health, safety, environmental, privacy, intellectual property, mergers, acquisitions, and foreign corrupt practices,

⁶ Refer to release text Page 29.

⁷ Refer to [Statement on Proposal to Amend PCAOB Auditing Standards Related to a Company's Noncompliance with Laws and Regulations and Other Related Amendments](#) made by Christina Ho on June 6, 2023.

among others. The applicability and significance of each law will change as the company's business changes, and each law or regulation may have different effects on different business units or divisions.”⁸ The proposal indicates that “...the auditor would be able to benefit from management's process to identify these laws and regulations.”⁹ Any such benefit, however, would clearly be limited, as the proposal goes on to state that, “The auditor's identification would not be limited to those laws and regulations identified by management when fulfilling this obligation, however, such laws and regulations are a source of information for the auditor,”¹⁰ and auditors would be required under AS 1105.10 to perform procedures to test the accuracy and completeness of any such information produced by the company.

Without a clear framework for identifying which laws and regulations “could reasonably have a material effect on the financial statements” and a process to do so without the auditor first identifying all laws and regulations to which a company is subject, this requirement would be impractical for auditors to comply with given the potential magnitude of laws and regulations that would need to be considered at a company, especially with respect to companies that operate globally or in a highly-regulated industry.

Q9. Are there additional procedures that should be required for auditors to perform to identify those laws and regulations applicable to the company with which noncompliance could reasonably have a material effect on the financial statements? If so, describe.

No, there are no additional procedures that auditors should be required to perform.

Q15. Are auditors using technology-assisted audit procedures to assess and respond to risks of material misstatement due to noncompliance with laws and regulations or to identify information indicating that noncompliance with laws and regulations has or may have occurred? If so, describe those audit techniques.

While auditors currently use technology-assisted audit procedures to assist throughout an audit, including related to NOCLAR and fraud, the breadth of the proposed standards is such that it may be impracticable for auditors to comply with, even with the use of technology. Further, as highlighted by Board Member Ho in her statement on the proposal, AS 1105 requires auditors to consider the relevance and reliability of information used as audit evidence.¹¹ Therefore, even if auditors were to use technology to comply with the requirements of the proposed standards, they would still have to assess the relevance and reliability of the information gathered, analyzed, summarized, etc., which could require significant time and effort, resulting in increased cost to auditors and fees to companies.

Q18. Are the proposed requirements related to reading publicly available information about the company sufficiently clear? If not, why not?

We do not believe the proposed requirements within this paragraph would be practicable for an auditor to apply in many cases. Even with the use of technology, we believe it is unlikely that an

⁸ Refer to [Statement on Proposal to Amend PCAOB Auditing Standards Related to a Company's Noncompliance with Laws and Regulations and Other Related Amendments](#) made by Duane DesParte on June 6, 2023.

⁹ Refer to release text Page 29

¹⁰ Refer to release text Page 29.

¹¹ Refer to Statement on Proposal to Amend PCAOB Auditing Standards Related to a Company's Noncompliance with Laws and Regulations and Other Related Amendments made by Christina Ho on June 6, 2023.

auditor would be able to locate and analyze every public reference about their client, including all references within media reporting and social media posts.

The volume of information that the proposal would require auditors to locate and analyze, as well as test the completeness and accuracy of, is impracticable and could result in the auditor not being able to comply with the proposal. Even in instances in which the auditor could comply with such requirements, it would be at great cost, and would not provide corresponding value in the context of the objective of a financial statement audit.

Q23. Are there additional procedures the auditor should be required to perform to identify noncompliance with laws and regulations that are not currently contemplated by the proposed amendments? If so, what are the procedures?

No, there are no additional procedures that the auditor should be required to perform to identify noncompliance with laws and regulations.

Q24. Is the proposed approach to evaluate instances of noncompliance that has or may have occurred sufficiently clear? If not, why not?

Although the proposed approach is sufficiently clear, we have concerns that such approach will significantly change the auditor's responsibilities in evaluating instances of NOCLAR as a result of omitting certain language intended to provide context to the auditor's responsibilities. Specifically, without such context as described in paragraph .03 of existing AS2405, entitled Dependence on Legal Judgment that, "[w]hether an act is, in fact, illegal is a determination that is normally beyond the auditor's professional competence. An auditor, in reporting on financial statements, presents himself as one who is proficient in accounting and auditing. The auditor's training, experience, and understanding of the client and its industry may provide a basis for recognition that some client acts coming to his attention may be illegal. However, the determination as to whether a particular act is illegal would generally be based on the advice of an informed expert qualified to practice law or may have to await final determination by a court of law.," the proposed standards would obligate the auditor to determine whether it is likely noncompliance has occurred. Further, although the proposed standard states that the auditor may need to engage legal counsel or other specialists, we believe that the proposal as written would significantly expand the auditor's need for expertise from legal experts, fraud experts, and other specialists. We suggest that the Board reach out to relevant stakeholders, including those within the legal community, to further understand the impact and interpretation of the standards as written.

Q25. Is the proposed requirement for auditors to consider whether specialized skills or knowledge is needed to assist the auditor in evaluating noncompliance that has or may have occurred sufficiently clear? If not, why not?

To comply with the proposed standard, the auditor will likely need to engage legal counsel or other specialists to assist the auditor, including with respect to evaluating whether it is likely that noncompliance occurred. However, as prescribed by AS 1210, the role of a specialist is to *assist* the auditor in obtaining and evaluating audit evidence *that will allow the auditor to reach a conclusion* regarding the relevant assertion of a significant account or disclosure.¹² As such, even with the involvement of a specialist, the auditor is responsible for any conclusions reached

¹² Refer to AS 1210, paragraphs .01 and .02.

regarding noncompliance. This responsibility is beyond the current capabilities and expertise of a financial statement auditor. Please refer to our response to questions 7 and 8 above regarding our concerns with reliance on legal specialists.

Additionally, there are significant likely barriers that will impede auditors' access to the facts and information necessary to evaluate potential noncompliance. We anticipate the attorney-client privilege to present a substantial barrier to receiving information from public company clients. Where privilege is invoked, there is little an auditor can do to overcome it. The release does not consider whether a company would need to waive applicable privileges given the increased sharing of information between the company and the auditor, nor the consequences to the attorney client relationship of such required sharing of information.

Where privilege is invoked, an auditor or auditor specialist likely will not be privy to all the facts of the situation, and therefore, will not be able to evaluate the NOCLAR, or make any conclusions.

Moreover, even in situations in which a legal expert could potentially opine on the likelihood of a company's noncompliance with a law or regulation, it may not be completed in the timeframe required for the audit. As proposed, the standard does not indicate how the auditor should proceed when they are unable to conclude on the likelihood of potential NOCLAR, other than communicating the inability to the audit committee. Instances of delayed financial statement filings may increase if auditors are required to conclude on the likelihood of each potential instance of NOCLAR identified during the audit (regardless of materiality) prior to the issuance of the audit report.

Q33. Does the timing of the proposed communications (that is, "as soon as practicable") to management and the audit committee pose any particular challenges to the auditor? If so, how should the proposed requirement be changed? / Q35. Does the requirement to communicate the results of the auditor's evaluation of information indicating noncompliance with laws and regulations has or may have occurred pose any particular challenges? If so, how should the proposed requirement be changed?

We agree with the concerns voiced by Board Member Duane DesParte in his statement on the proposal, in which he stated that, "It is questionable whether it would be useful or a distraction to the Audit Committee for the auditor to communicate information indicating potential noncompliance prior to the auditor's evaluation of whether the noncompliance has likely occurred or of any financial statement impacts (vs. only reporting matters deemed likely to have occurred and/or to have material financial statement implications)."¹³ As such, given the number of potential matters that could arise, and the fact that reporting is required regardless of perceived materiality of the occurrence, the requirement for the auditor to communicate to the Audit Committee essentially all instances observed "as soon as practicable" may have the effect of shifting the focus of the auditor and the Audit Committee away from more important matters, which could be detrimental to audit quality and which could lead to delays in completing the audit and the issuer timely meeting its periodic reporting obligations even in circumstances where noncompliance may not exist.

Further, these changes in the communications will result in a substantial increase in communications by the auditor to the Audit Committee. In addition, a requirement to report a

¹³ Refer to [Statement on Proposal to Amend PCAOB Auditing Standards Related to a Company's Noncompliance with Laws and Regulations and Other Related Amendments](#) made by Duane DesParte on June 6, 2023.

matter which may have occurred to the Audit Committee “as soon as practicable” may lead to circumstances where auditors may feel compelled to report information for which they have not had time to gather sufficient information and thoughtfully evaluate prior to communicating potentially resulting in communicating inaccurate or incomplete information and/or unnecessary matters. Because the requirements to identify laws and regulations extend beyond financial reporting, this could impact Audit Committee charters and other governance infrastructures at companies.

Q57. Are there other benefits and costs not addressed above that we should consider?

The expanded scope of the proposed amendments would have a substantial impact on the costs of the audit. The proposal even states “[a]uditors would likely need to expend considerable additional audit effort to identify relevant laws and regulations under the proposed standard” and that “the costs associated with the proposed amendments...may be substantial.”¹⁴ Yet, the PCAOB did not quantify the potential costs in the proposal.

It is expected, and acknowledged by the Board in the proposal, that there will be substantial costs to develop methodologies, train auditors and engage specialists to develop processes and procedures to comply with the proposal. Upon implementation, additional substantial costs associated with the use of auditor specialists will be incurred. Lawyers’ billing rates are high, and these costs would be passed along to the companies being audited. Without proper due diligence, it is hard to estimate these costs.

Additional costs would also be expected for companies, as they would incur costs for their internal and external counsel and related business units to prepare significantly more information for the auditor. Further audit committees will spend significantly more time and effort to comply with the proposed requirements, potentially including engaging specialists to assist them in fulfilling their responsibilities. All these costs will ultimately be passed on to investors. We believe such additional costs would have a disproportionate effect on smaller firms and smaller issuers.

Furthermore, we do not believe the Board will achieve the benefits expected of the proposed standard. The Board’s goal is to have the auditor involved in detecting violations of laws and regulations with earlier and enhanced communication and reporting of noncompliance to investors. There is no basis to believe that this will occur under the proposed standard. Moreover, we are concerned that the expectation gap will only widen as a result of the proposed standard and the lack of transparency regarding the role of management vs. the role of the auditor.

Q60. Is the expansion of the auditor’s responsibilities to identify information indicating noncompliance with laws and regulations has or may have occurred without regard to the effect of such noncompliance on the financial statements practical and cost effective to implement? Are small/medium firms equipped and capable of implementing these new requirements? If not, why not?

Given the regulatory expertise required to comply with the standard, a significant financial burden will likely be placed on many firms, particularly mid-sized and smaller firms that do not have the in-house expertise required. The financial burden would likely drive firms out of the marketplace

¹⁴ Refer to release text Page 81.

and drive overall audit costs up due to the increased requirements and the decreased competition in the market.

We agree with Board Member Christina Ho's statement, "The economic analysis acknowledges that the proposal would have a greater cost impact on non-affiliated firms which are generally mid-sized and smaller firms. I am concerned that the proposal would create additional barriers to entry. Investors and the auditing profession can ill afford these barriers, given that the audit market for large multinational public companies is limited to roughly a handful of firms capable of performing such engagements. This significant expansion of auditor responsibilities could therefore further reduce competition and exacerbate the power concentration in the audit marketplace."¹⁵

Q62. Are there substantial costs associated with an increased need to use auditor's specialists to assist the auditor in evaluating noncompliance that has or may have occurred as a result of the proposed requirements? If so, are the costs quantifiable? Are there any applicable means of mitigating or reducing such costs?

Yes, as mentioned previously, there would be substantial costs, primarily to those in small or mid-sized firms, associated with the increased need to utilize auditor's specialists to assist the auditor in identifying relevant laws and regulations and evaluating noncompliance or potential noncompliance with them. These costs would also be passed on to issuers, which could substantially increase overall audit fees.

We believe it is difficult to quantify the costs broadly, as most auditors will require one or more legal experts to assist as an auditor specialist. To fully understand the cost, firms would need to analyze their client base and engage legal experts on individual and potentially industry levels. The planning alone would be a significant cost to firms that firms would not necessarily be able to directly pass on to clients.

Q63. Would the economic impacts be different for smaller firms or emerging growth companies? If so, how?

Yes, the economic impact would be greater for smaller firms and emerging growth companies. As stated within the Boards economic analysis, and previously in our response, smaller firms typically do not have access to the same in-house specialists as larger firms and would incur greater costs to engage auditor specialists. If the proposal were adopted as is, smaller firms would have to rely heavily on external resources in order to comply. The significant costs and the limited availability of external resources could drive smaller firms out of the marketplace.

70. How much time following SEC approval would audit firms need to implement the proposed requirements?

We believe there would be challenges, particularly for small or mid-sized firms to comply in the proposed time frame. Firms will need time, not only to update their procedures, but also to ensure clients are aware of the changes and understand their increased responsibilities, as well as for firms to potentially build a pool of specialists they can utilize to comply with the standard. We

¹⁵ Refer to [Statement on Proposal to Amend PCAOB Auditing Standards Related to a Company's Noncompliance with Laws and Regulations and Other Related Amendments](#) made by Christina Ho on June 6, 2023.

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anticipate it would take multiple years (i.e., more than two years) for firms and clients to implement processes to comply with the standard.

Plante Moran appreciates the opportunity to comment on the Proposing Release: Amendments to PCAOB Auditing Standards related to a Company's Noncompliance with Laws and Regulations and Other Related Amendments. 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 Christina Moser (christina.moser@plantemoran.com) or Bora Brock (bora.brock@plantemoran.com).

Sincerely,



Plante & Moran, PLLC



Plante Moran, PC

cc: **PCAOB**

Erica Y. Williams, Chair
Duane M. DesParte, Board member
Christina Ho, Board member
Kara M. Stein, Board member
Anthony C. Thompson, Board member
Barbara Vanich, Chief Auditor

SEC

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