

Ms. Phoebe W. Brown, Secretary
Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006-2803

30 May 2023

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

Dear Ms. Brown:

Ernst & Young LLP (EY) is pleased to submit comments to the Public Company Accounting Oversight Board (PCAOB or Board) on the proposed standard on the general responsibilities of the auditor in conducting an audit and related proposed amendments (PCAOB Release No. 2023-001).

General support and observations

We support the Board's efforts to modernize a group of foundational standards that were originally developed by the American Institute of Certified Public Accountants (AICPA) and adopted on an interim basis by the PCAOB in 2003. We believe the efforts to streamline and clarify general principles and the responsibilities of auditors can enhance the consistency in interpreting and applying the PCAOB's standards.

We are supportive of the Board's reaffirmation of the general principles and responsibilities, which we believe remain appropriate considering the changes in the financial reporting and auditing environment. These general principles and responsibilities are foundational for conducting high-quality audits that provide reliable and independent audit opinions and informative communications that serve the public interest.

While we recognize that the Board does not intend to impose new requirements on auditors or significantly change existing requirements,¹ we believe that stakeholder input obtained during the rulemaking process is critical to confirm the achievement of the proposal's objectives since there are elements of the proposal that could unintendedly contribute to the expectations gap related to the auditor's responsibility.

The attachment to this letter contains our responses to the questions the PCAOB posed in the proposal.

¹ The PCAOB release states on page 50 that "[t]he proposed changes to modernize the foundational standards do not impose new requirements on auditors or significantly change the requirements of PCAOB standards."



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We thank the Board and its staff for their consideration of this letter. We would be pleased to discuss our comments with members of the PCAOB or its staff at their convenience.

Very truly yours,

Ernst & Young LLP

Q1. 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?

The preparation and issuance of informative, accurate and independent auditor's reports are important roles that auditors have in the financial reporting ecosystem. We fully embrace our responsibility to perform high-quality audits that promote trust in the capital markets and investor confidence.

To further the proposal's goal of clarifying the auditor's responsibilities, we suggest certain changes to paragraph .01 in proposed Auditing Standard (AS) 1000.² Specifically, we believe that auditors and investors may interpret and understand differently the reference to a "fundamental obligation to protect investors" and "governs the auditor's work." We believe this language could create a misimpression that auditors are permitted and expected to diverge from following auditing standards in situations where they feel it would be warranted to further investors' interests.³ Our suggested changes are also consistent with the Board's stated intent to avoid significant changes or new requirements.

.01 A properly conducted audit and the related auditor's report benefit investors and other market participants by enhancing confidence in the company's financial statements and, if applicable, internal control over financial reporting. Auditors have responsibilities that include the preparation and issuance of informative, accurate, and independent auditor's reports, and that obligation governs the auditor's work under the standards of the PCAOB. An audit primarily benefits investors, who rely on the audit to provide an objective and independent opinion on whether the company's financial statements, taken as a whole, are presented fairly in all material respects and, if applicable, on the effectiveness of the company's internal control over financial reporting. A properly conducted audit and the related auditor's report enhance the confidence of investors and other market participants in the company's financial statements and, if applicable, internal control over financial reporting.

Q2. Is the approach to reorganize and consolidate the general principles and responsibilities appropriate? If not, why not?

As mentioned in our cover letter, we are supportive of the Board's approach to reorganize and consolidate the general principles and responsibilities, which should drive enhanced usability and consistent application of the standards.

² We generally believe the general principle that investors benefit from properly conducted audits and related audit reports is foundational and should be stated similarly as our recommendation in Q1 in proposed AS 1000.15. The sentence "In fulfilling these requirements, the auditor should keep in mind their role in protecting investors" could be unclear for determining measures for complying with such a requirement.

³ The PCAOB release states on page 42 that "[i]nvestors form expectations from a number of sources, including potentially the language of the standards themselves, but also from third parties (e.g., media) who may write about PCAOB standards."

Q3. Are the objectives of the auditor in the proposed standard appropriate? If not, what changes to the objectives are necessary and why?

We believe that the objectives of the auditor in proposed AS 1000.03 would be appropriate.

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 believe the proposed requirements and related descriptions of the general principles are clear and comprehensive. However, we believe the reference to "information related to the audit" when describing where professional skepticism applies would be too broad and would result in the risk of capturing information that is never presented to the auditor for assessment but is "related to the audit." We believe that the Board should make the following revisions to proposed AS 1000.10:

.10 Exercising due professional care includes exercising professional skepticism in conducting an audit. Professional skepticism is an attitude that includes a questioning mind and a critical assessment of **audit evidence and other information obtained to comply with the Rules of the Board-information related to the audit.**

These revisions would retain the general concept of audit evidence that is defined in AS 1105 in the foundational standard while also specifying that other information obtained by the auditor for compliance with the Board's rules should be critically assessed.

We also discuss potential unintended consequences of the proposal in our response to Q21 below.

Q9. 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?

We believe that it would be appropriate 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. Relevant guidance accompanying the standards helps promote the consistent application of the requirements by auditors.

However, we recommend that the Board include in the final standard guidance addressing how firms should demonstrate as part of their system of quality control that they "took into account" relevant guidance of existing standards, amendments and rules of the PCAOB during implementation to comply with the proposed requirement.

Finally, to avoid confusion on what types of supplemental publications are deemed to be authoritative and taken into account by auditors, we recommend the Board revise footnote 26 as follows:

26 Relevant guidance includes PCAOB auditing interpretations, Board-issued guidance, and **final rulemaking** releases accompanying the standards and rules of the Board.

Otherwise, it could be interpreted that prior proposals, including concept releases, should be taken into account, which we do not believe is the Board's intention and would not be practical or cost-effective to implement. Additionally, there would be aspects of prior proposals that would not be relevant and would be superseded by changes made during the standard-setting process.

Q10. Are the proposed amendments to clarify the meaning of “present fairly” appropriate? If not, why not?

We believe that certain proposed amendments to clarify the meaning of “present fairly” would extend the auditor's obligation beyond what is expressed in an auditor's report. The auditor's report references that the auditor's responsibility is to evaluate and conclude whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.

We recommend that the Board remove footnote 17A in paragraph AS 2810.30, which introduces SEC Rule 12b-20 17 C.F.R. § 240.12b-20 for additional considerations regarding the fairness of presentation of financial statements. This requirement is a legal responsibility of registrants, and its inclusion in AS 2810 could imply that it would be applicable for auditors and, therefore, extend the auditor's responsibilities.

We also encourage the Board to provide guidance to auditors to promote the consistent application of AS 2810.30A(a) because the term “informative” could be widely interpreted and applied in practice.

Q11. Are the proposed clarifying amendments related to engagement partner responsibilities appropriate? If not, why not?

We believe that the proposed clarifying amendments related to engagement partner responsibilities would be appropriate.

Q12. Are the proposed clarifying amendments related to audit documentation appropriate? If not, why not?

We believe that the proposed clarifying amendments related to audit documentation would be appropriate.

Q13. 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?

The proposed amendment to reduce the maximum period of time to assemble a complete and final set of audit documentation for retention would be appropriate.

Q14. 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?

We would not have difficulty complying with the requirements of AS 1215.16; however, we expect to incur incremental costs (e.g., effort to change processes, administrative burden) that are not explicitly indicated by the Board in the economic analysis.

Q16. 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 believe that the amendments to the general principles and responsibilities described in the PCAOB's attestation standards are appropriate, and no other relevant amendments would be necessary.

Q17. 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?

We believe that the amendments to the general principles and responsibilities described in AS 4105, *Reviews of Interim Financial Information*, are appropriate, and no other relevant amendments would be necessary.

Q21. 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?

We support the Board's proposed retention of the general principle of reasonable assurance and its reaffirmation through the definition in proposed AS 1000.14. However, we believe the proposal could inadvertently reduce transparency and contribute to an expectation gap regarding the nature of reasonable assurance.⁴

While we appreciate the Board's efforts to streamline the general principles and responsibilities, we believe there is a risk that the proposal could contribute to an expectation gap when it comes to investor understanding of an auditor's general responsibilities. We believe this risk may be exacerbated by omitting certain concepts related to reasonable assurance. For example, the context included in extant

⁴ In addition to retaining certain language from the current standards, the Board could consider including cross-references in proposed AS 1000 to other standards that address similar contexts (e.g., AS 2401.12).

AS 1001.02⁵ and AS 1015.12-13 may be beneficial to investors who form expectations from the standards themselves. We believe that including some information of this type would contribute to the overall understanding of auditor responsibilities. We also agree that identifying limitations on auditor responsibilities should not be the main focus of the standard.

Q25. 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?

We believe that the effective date should be aligned to audits of fiscal years and be no earlier than 12 months after the final standard is approved by the Securities and Exchange Commission (SEC), while also considering the effective dates of other standards resulting from existing projects.

Auditors will need time to evaluate and implement the final standard, including amendments to performance standards, which involves relevant training of personnel. For example (as referenced in the text of the PCAOB release), auditors will need to assess that relevant guidance as proposed in paragraph 1000.15 is properly reflected in their methodologies and periodic trainings.

⁵ AS 1001.02: "The auditor has no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by errors or fraud, that are not material to the financial statements are detected."