

---

**GRANT THORNTON LLP**

Grant Thornton Tower  
171 N. Clark Street, Suite 200  
Chicago, IL 60601-3370

**D** +1 312 856 0200  
**S** [linkd.in/grantthorntonus](https://www.linkedin.com/company/grantthorntonus)  
[twitter.com/grantthorntonus](https://twitter.com/grantthorntonus)

May 30, 2023

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

Via Email to [comments@pcaobus.org](mailto:comments@pcaobus.org)

**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 Office of the Secretary:

Grant Thornton LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB's or Board's) Rulemaking Docket Matter No. 049, *Proposed Auditing Standard – General Responsibilities of the Auditor in Conducting an Audit and Proposed Amendments to PCAOB Standards* (Proposal). We respectfully submit our comments and recommendations for the Board's consideration.

We commend the Board for undertaking an initiative to update all the interim standards, and we support the Board's project to modernize and clarify the "foundational standards," as defined in the Proposal, to reflect changes in the auditing environment and to eliminate outdated or inconsistent language. Nevertheless, we have considerable concerns with regard to the potential unintended consequences that might occur as a result of the manner in which the Board has proposed updating and streamlining the requirements. Most notably, we are concerned that the proposed standard could exacerbate the gap between the assurance that an investor (or other market participant) may believe an audit provides versus the assurance that reasonably can be provided, even through a properly planned and performed audit (hereinafter referred to as the "expectations gap").

**Reorganization**

We support the Board's approach to consolidating and reorganizing the general principles and responsibilities sections of the PCAOB's auditing standards. We

believe a single standard will drive a more efficient approach to understanding the general principles and responsibilities, as auditors will look to a single standard as opposed to navigating through multiple standards. While we have certain reservations, we also support the Board's efforts to streamline the terminology used throughout the standards in order to minimize confusion.

### Objectives

We are supportive of the proposed objectives of AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*, and believe they are appropriate and sufficiently clear.

### General principles and responsibilities

While we support the Board's reorganization and consolidation, we have significant concerns about the proposed elimination of important explanatory material with respect to certain concepts that place the auditor's responsibilities within the appropriate context. Without proper context for the auditor's responsibilities in an audit of financial statements or internal control over financial reporting, the "expectations gap" could become wider, which would ultimately be detrimental to the public interest. Therefore, we encourage the Board to reinstate certain explanatory material (discussed in greater detail below). We believe the inclusion of such explanatory material will help investors better understand the auditor's role and responsibilities, without altering the Board's goal of streamlining and clarifying the auditor's general responsibilities. Suggested edits for the remainder of this letter are shown as **bolded italics** for additions and ~~strikethrough~~ for deletions.

#### *Reasonable assurance*

We recommend clarifying paragraph .14 to more closely align with the characterization of *reasonable assurance* as described in the respective auditing standards promulgated by the International Auditing and Assurance Standards Board (IAASB) and by the AICPA's Auditing Standards Board (ASB). We also believe it is important for the proposed standard to explain why *absolute assurance* is not attainable. Further, we believe the balance between what reasonable assurance is, and what it is not, is important to ensure users of financial statements adequately understand the limits on the assurance that auditors can provide, even through a properly planned and performed audit. Therefore, we suggest the following changes to paragraph .14:

***Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Although not absolute assurance, Reasonable assurance is a high level of assurance...***

We note that concepts from paragraphs .11 through .13 of AS 1015, *Due Professional Care in the Performance of Work*, have not been incorporated into proposed AS 1000. We strongly believe that these paragraphs contain explanatory language that puts the auditor's responsibilities into appropriate context. We believe it would be a disservice to investors not to sufficiently describe what does and does not constitute

reasonable assurance. Toward that end, we ask the Board to incorporate the following as new paragraphs after proposed paragraph .14:

**.14A An audit conducted in accordance with applicable professional and legal requirements may not detect a material weakness in internal control over financial reporting or a material misstatement to the financial statements. Judgment is required in interpreting the results of audit testing and evaluating audit evidence. Even with good faith and integrity, mistakes and errors in judgment can be made.**

**.14B 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 the auditor's 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 applicable professional and legal requirements.**

#### *Competence*

With regard to the note to paragraph .07, we are concerned that the term "expertise" implies a high bar that may not be attainable for less experienced engagement team members. We believe that "expertise" is ultimately achieved by the engagement team collectively and by the engagement partner identifying the appropriate resources to perform the work. Therefore, we recommend that the term "expertise" be replaced with "proficiency" as follows:

Competence includes knowledge and ~~expertise~~ **proficiency** in accounting and auditing standards and SEC rules and regulations relevant to the company being audited and the related industry or industries in which it operates.

#### *Professional skepticism*

We agree with incorporating the notion of "potential bias" in proposed paragraph .11e of AS 1000. We believe that a specific discussion of this concept will enhance the auditor's awareness while executing audit procedures. Nevertheless, we are concerned that the intentions of this requirement are unclear. Page 24 of the Proposal states "In exercising professional skepticism, the auditor could mitigate such bias by being aware of 'confirmation bias,' considering alternatives provided by others, and seeking contradictory information as evidence." Currently, AS 1105, *Audit Evidence*, does not require the auditor to seek contradictory evidence, and we believe applying the proposed requirement in AS 1000 in the context described on page 24 of the Proposal would be inappropriate and could ultimately be detrimental to audit quality. We believe any requirement in AS 1000 that relates to audit evidence should be consistent with the principles of AS 1105.

It is also unclear what “consideration of potential bias” [emphasis added] implies in the context of audit documentation. Because professional skepticism is exercised in a variety of ways throughout the audit, we do not believe it would be appropriate for auditors to document “considerations” of bias, particularly in areas that are not susceptible to either management or auditor bias. As such, we believe proposed paragraph .11e requires greater clarity and/or guidance in order for auditors to appropriately consider potential biases while remaining within the framework of the requirements of AS 1215, *Audit Documentation*.

#### **Information related to the audit**

We recognize the Board’s premise for proposing to use “information related to the audit” in order to emphasize that professional skepticism extends beyond audit evidence. We are concerned, however, that the phrase is overly broad. In addition, using such phrase could inappropriately alter the nature and intent of various requirements and create confusion among auditors in applying and documenting the requirements where this phrase is being proposed. We do not believe this phrase is sufficiently clear to enable auditors to appropriately fulfill what is expected, and we are unable to identify information, other than Form AP data, that would be “information related to the audit” that is not already audit evidence, given the broad definition of “audit evidence” in AS 1105. We recommend that the Board revert to “audit evidence” and, where appropriate, incorporate Form AP data specifically into the requirement.

#### **Relevant guidance**

We have significant concerns regarding the note to proposed paragraph .15, particularly footnote 26, which states that “Relevant guidance includes PCAOB auditing interpretations, Board-issued guidance, and releases accompanying the standards and rules of the Board.” This appears to substantially broaden the population of information previously referred to as “guidance” in paragraph .11 of AS 1001 and its related note:

The auditor should be aware of and consider auditing interpretations applicable to his or her audit. If the auditor does not apply the auditing guidance included in an applicable auditing interpretation, the auditor should be prepared to explain how he or she complied with the provisions of the auditing standard addressed by such auditing guidance.

Note: The term “auditing interpretations,” as used in this paragraph, refers to the publications entitled “Auditing Interpretation” issued by the American Institute of Certified Public Accountants’ Auditing Standards Board as in existence on April 16, 2003, and in effect.

PCAOB Release No. 2015-002 included a discussion of interpretive publications related to the Board’s reorganization and renumbering of its standards. At that time of that release, the only additional guidance that auditors were required to consider was in the form of audit interpretations.

It is also unclear whether the release text of proposed standards would require consideration along with the release of final standards. In considering the practical application of Board release text being guidance that needs to be considered by

auditors, we question how auditors would reconcile the discussion in Release No. 2015-002 with the release of the final version of this proposed standard? Both discuss the concept of guidance, but one does not specifically supersede the other. We believe it will be difficult for auditors to reconcile information among different releases that accompany the Board's new standards and rules. Further, releases include economic analysis and other ancillary information, including information from the Board's disposition of specific comments received during the proposal process and references to legal proceedings and academic research, which would then be scoped into proposed paragraph .15. Because prior releases may not have been written with the approach to guidance described in this Proposal, we believe the Board would need to reevaluate previous releases of currently effective standards in order to ensure that they are clear to auditors. Given the depth and breadth of the Board's current standard-setting and rulemaking agendas, we question whether such an undertaking is feasible in the timetable for adopting AS 1000.

We encourage the Board to revert to the approach taken in Release No. 2015-002 and to limit "relevant guidance" to the standards and auditing interpretations. While we believe that relevant or important guidance, to the extent known at the time of adoption of a standard, should be incorporated into the standard itself, we recognize that application of requirements may evolve over time and future events may dictate the need for additional clarification through authoritative guidance. The Board could consider exploring a separate project to more holistically determine and establish a hierarchy of authoritative and nonauthoritative guidance, similar to the hierarchy established by the AICPA.

### **Rescission of AS 2815**

Though we understand the Board's approach to incorporating the concepts of AS 2815 into AS 2810, we are concerned that the proposed changes to AS 2810 are unclear with regard to the meaning of "present fairly" and may unintentionally change the underlying meaning. We believe the context provided by extant paragraph .03 of AS 2815 is essential for users and investors to understand the basis for the auditor providing an opinion on the financial statements, which is grounded in the applicable financial reporting framework. We recommend incorporating the following language as a new paragraph prior to proposed paragraph .30A of AS 2810:

***The independent auditor's judgment concerning the "fairness" of the overall presentation of financial statements should be applied within the applicable financial reporting framework. Without that framework, the auditor would have no uniform standard for judging the presentation of financial position, results of operations, cash flows, and disclosures in financial statements.***

Similarly, we recommend adding "based on the audit evidence obtained, knowledge obtained in the audit, and the auditor's professional judgment" to the end of the lead-in to the list in proposed paragraph .30A to more clearly address the context in which the auditor makes their evaluation regarding fair presentation.

### **Documentation completion date**

Generally, we support the proposal to shorten the documentation completion date from 45 days to 14 days. We believe that shortening the period could improve the quality of audit documentation given the closer proximity to the report release date. We also believe that advancements in audit firms' technology support a shortened time period. However, the size of the firm could affect the time necessary to assemble a complete and final set of audit documentation, such as smaller firms that may not utilize electronic tools. Such a requirement may negatively impact smaller firms to the extent that they are unable to comply with the revised requirement without considerable investments that may not be economically feasible.

We would be remiss not to acknowledge, however, that the proposed shortened documentation completion date would require operational changes that could require a longer time to implement appropriately. For example, firms may need to revise their quality control processes, project management frameworks, audit tools (discussed further in the "Economic Analysis" section below), and resource management approaches. We encourage the Board to consider a staged adoption approach that would enable firms to take steps towards decreasing the documentation period from 45 days to 14 days, so that this change can be implemented in a manner that does not diminish audit quality in the short term. In light of our comments on the proposed effective date provided below, we recommend a staged approach for adopting the proposed documentation completion date, similar to what was provided for the adoption of critical audit matters.

We also note that the Board proposed a 45-day documentation completion period within QC 1000, analogizing to the existing documentation completion date in the auditing standards. We would have considerable concerns reducing the documentation completion of the firm's evaluation of its system of quality control to 14 days given the difference in the nature of the subject matter at hand.

#### *Form AP filing implications*

We agree that information underlying the engagement's Form AP filing is often retained with the audit workpapers. Generally, our Form AP filings occur between 14 and 21 days after report issuance. If other accounting firms were used in the engagement, it can take longer to obtain the relevant information from such firms. We expect that it would be appropriate, in the Board's view, for Form AP documentation to be appended to the audit documentation when Form AP is filed, which is likely to occur subsequent to the documentation completion date. We don't foresee significant difficulties with complying with paragraph 16 of AS 1215. However, it will require time and effort to establish policies and adjust our tools to accommodate adding Form AP documentation after the documentation completion date, as we expect such changes to impact substantially all of our issuer audits (that is, almost all engagements will require additions to the audit documentation subsequent to the documentation completion date).

### **Effective date**

While we recognize the Board's position that the proposed standard and related amendments are not fundamentally changing the auditor's responsibilities, we believe that audit firms will require more than the proposed minimum of six months to implement the proposed standard and related amendments if SEC approval occurs in the fourth quarter of the calendar year. Audit firms will require sufficient time to analyze the final standard and to evaluate how to update their audit methodologies. Firms will also need sufficient time to develop and deploy appropriate training to audit personnel to ensure they adequately understand the changes made to the auditing standards. Depending on firms' tools, programming changes along with adequate testing will likely be needed as well (discussed further in the "Economic Analysis" section below). Global network firms may have additional responsibilities and actions to ensure that their network firms have adequate training and guidance in place. Therefore, we believe audit firms will require at least 18 months in order to sufficiently and thoughtfully implement the new requirements into their policies and methodologies. Additionally, as discussed above, we believe an extended adoption period would be appropriate for the requirement related to the documentation completion date.

In our view, the profession would benefit from establishing the effective date in a manner consistent with other standard-setting projects, which tie the effective date to the period-end of the financial statements that will be subject to audit. As such, we recommend an effective date in the format of "for audits of periods ending on or after December 15, 20XX" where XX is the year at least 18 months subsequent to SEC approval, as discussed above. Having an effective date in the form used traditionally by the PCAOB will enhance auditors' understanding of the timeframe in which they need to implement the requirements and address training needs before the new requirements apply. In addition, we ask the Board to clarify the effective date in the context of interim reviews and other services, such as comfort letters. Typically, the effective date for interim reviews is the year after the year when the standard is effective for audits of financial statements; the effective date for services such as comfort letters is typically based on the date of issuance and is also generally effective after the audit effective date.

### **Other amendments**

#### *Required elements of documentation*

We are supportive of the Board proposing paragraph .06A in order to make the various components of existing paragraph .06 clearer. However, we do not believe the proposed addition to paragraph .06 of "who performed the work, the person or persons who reviewed the work, and the date of such review" is necessary and are concerned this phrase could trigger unintended consequences. The proposed change appears duplicative of the contents of paragraph .06A, and it is unclear whether the Board intends for a different level of documentation than what currently exists in the "reasonable auditor" lens of paragraph .06A. We recommend the Board remove the proposed change to paragraph .06 to avoid unnecessary confusion since auditors

sufficiently understand the existing documentation requirements described in proposed paragraph .06A.

*Documentation prior to report release*

In addition to the shortened documentation completion date, the Board proposes additional changes to actions and documentation required to take place prior to the report release date in paragraph .15. The Board proposes that, in addition to the audit procedures being completed and sufficient appropriate audit evidence obtained, the engagement partner and other engagement team members performing supervisory activities must have completed their reviews of audit documentation by the report release date. While it is appropriate and necessary to complete supervisory activities prior to releasing the auditor's report, we believe the documentation of such supervision and review before the report is released could create practical challenges and result in unintended consequences.

For example, consider a scenario where a potential illegal act is identified shortly before the issuer's filing deadline. The audit committee undertakes a full investigation, and the auditor receives an acceptable, final report from the audit committee and independent legal counsel on the day when the Form 10-K is due. The auditor thereby obtains sufficient appropriate audit evidence to date and releases the auditor's report. However, it may be impossible for the auditor to finalize its own memo and obtain final reviews and sign-offs prior to the filing being made. The proposed requirement implies that both the memo must be completed, and the reviews and sign-offs must take place before the filing is made. If that is what the Board intends, unintended consequences could include either (a) less than thorough documentation because auditors are left with inadequate time to draft, review, and finalize a memo; or (b) increased instances of late filings that are "caused" by the auditor, who has reached a conclusion that the filing can be made, but simply cannot complete their documentation in time. We believe that neither of these outcomes serve the public interest and could ultimately be detrimental to audit quality. If the Board does not intend formal documentation of such reviews of all audit documentation to be completed prior to report release, we ask the Board to formally clarify such point in the final standard.

We believe the existing requirement related to what must be completed prior to report release is adequately clear and provides auditors with the flexibility to appropriately handle audit matters that occur at or near report issuance. We believe that the shortened documentation completion date alone will enhance the quality of documentation overall while avoiding the potential unintended consequences described above.

*Other information in documents containing audited financial statements*

We recommend revising the proposed change to paragraph .05 of AS 2710, which refers to "between the auditor and client." We believe "management" would be a term more consistent with other standards of the PCAOB than "client."



*Reviews of interim financial information*

We recommend incorporating the phrase “to the extent those standards are relevant” to the proposed language related to AS 1000. We believe this is necessary considering that AS 4105 provides requirements to obtain limited assurance while AS 1000 has been drafted in the context of reasonable assurance. Providing clarity on the extent to which AS 1000 is relevant to AS 4105 will make paragraph .01 of AS 4105 more operational and understandable.

**Economic analysis**

We believe the economic evaluation of the potential costs of this standard setting is incomplete. The Board states that “[f]or firms with electronic audit tools and audit software in place, the earlier documentation completion date should not change the functionality or cost of software, which should facilitate a low-cost transition to the proposed archiving period.”<sup>1</sup> This statement does not contemplate the potential costs for firms that utilize proprietary audit software. We anticipate that such firms would incur costs related to reprogramming and testing, and that such costs could be exacerbated for network firms that are subject to differing jurisdictional requirements. Reprogramming could be complex in order to accommodate multiple documentation completion dates. While it is difficult to quantify the expected costs, we do not expect them to be negligible, and we believe the need for programming and testing require consideration, particularly in light of the proposed effective date.

\*\*\*\*\*

We would be pleased to discuss our comments with you. If you have any questions, please contact Jeff Hughes, National Managing Partner of Audit Quality and Risk, at 404-475-0130 or [Jeff.Hughes@us.gt.com](mailto:Jeff.Hughes@us.gt.com).

Sincerely,

/s/ Grant Thornton LLP

---

<sup>1</sup> Page 49 of the Proposal.