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May 25, 2023

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street NW
Washington, D.C. 20006

Re: Proposed Auditing Standard – General Responsibilities of the Auditor in Conducting an Audit and Proposed Amendments to PCAOB Standards

Dear Office of the Secretary:

RSM US LLP (RSM, “we”) values the opportunity to offer our comments on the Public Company Accounting Oversight Board’s (PCAOB) Proposed Auditing Standard, *General Responsibilities of the Auditor in Conducting an Audit and Proposed Amendments to PCAOB Standards* (the proposed standard). RSM is a registered public accounting firm serving middle-market issuers, brokers, and dealers.

Overall Comments on the Proposed Standard

We are generally supportive of the proposal, recognizing the importance of the standard to audit quality and investor protection, and believe the reorganization of the standards is warranted. We recognize the benefit of creating a new standard that combines general principles and responsibilities from existing standards and introduces updates to reflect developments in the auditing environment.

Although we believe combining existing standards into one new standard is effective in condensing and streamlining the standard, we believe there are areas of concern where revisions or additional clarity in the new standard are necessary. Most notably:

- The proposed standard introduces several new, undefined terms and phrases which would constitute a fundamental change in the role of the auditor, would require interpretation either through inspection or by a court, and could be applied variably across the public accounting profession. The proposed standard elevates the responsibility of the auditor, despite the Board’s statement on page 50 of the release that, “The proposed changes to modernize the foundational standards do not impose new requirements on auditors or significantly change the requirements of PCAOB standards.”
- Certain aspects of the proposed standard de-emphasize auditor judgment and indicate that hindsight may be used to determine the appropriateness of the auditor’s conclusions on unpredictable matters. This would be harmful to the profession, which would ultimately be harmful to issuers, capital markets, and investors.
- The proposed standard introduces the concept of the auditor’s evaluation of fairness of the financial statements extending beyond compliance with the applicable financial reporting framework. We believe this is a dangerous proposal that would create confusion in the profession and capital markets.
- The proposed amendments regarding the auditor’s competency do not appropriately take into consideration the collective competency of the engagement team and are not sufficiently clear on the expected competency of various members of the engagement team.

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- The proposed standard establishes Board-issued guidance as authoritative guidance. We have many concerns on this topic, which are detailed in our response to Question 9 below. We strongly request the Board seriously consider the various implications this would have.

We provide further detail on these areas, as well as other comments, in our responses to the specific questions set out below. In certain areas, we propose specific revisions to the proposed standards. Language recommended for deletion is ~~struck through~~. Language recommended for addition is underlined.

Comments on Specific Questions Posed by the Board

1. 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?

While we generally believe the principles and responsibilities described in the proposal are appropriate, we are concerned the proposed standard gives investors false confidence that they can solely rely on an auditor's report as investment advice, when in fact there are many other factors investors should consider. As auditors, we are proud to play a role in protecting investors' interests through the preparation and issuance of informative, accurate, and independent auditor's reports. Having access to informative, accurate, and independent auditor's reports empowers investors to make informed investment decisions according to their own individual investment goals and risk appetites. However, the auditor's report is only one fundamental piece of information on which investors should rely. Other parties, including management, audit committees, and regulatory bodies, also play a fundamental role in the protection of investors. We believe the proposed standard may mislead investors by implying that investor protection is the sole responsibility of the auditor, and we therefore recommend the PCAOB revise the language in proposed Auditing Standard (AS) 1000.01 as shown below. Alternative options to the language below include replacing the word "protect" with the word "inform" or the phrase "play a role in protecting." If the word "protect" is retained in the final standard, we believe the PCAOB should define the term, clarifying the extent to which an auditor is obliged and able to protect investors. See related comments in our response to Question 7.

Further, as used in proposed paragraph .01, the term "A properly conducted audit" is a new term that is not sufficiently defined. To avoid differing interpretations or confusion, we suggest aligning this phrase with the language used in the auditor's report by replacing "A properly conducted audit" with "An audit conducted in accordance with the standards of the PCAOB."

Additionally, we suggest adding "in all material respects" to proposed paragraph .01 to have a clear, consistent meaning with the remaining paragraphs in the standard.

Lastly, it is unclear what is meant by the word "all" in proposed paragraph .02. To avoid confusion, we suggest removing the word "all."

Our proposed revisions to address these concerns are as follows:

.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 the auditor's work under~~ conduct an audit in accordance with the standards of the Public Company Accounting Oversight Board ("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 are presented fairly, in all material respects, and, if applicable, on the effectiveness of

the company's internal control over financial reporting. An audit conducted in accordance with the standards of the PCAOB ~~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.

.02 This standard describes the general principles and responsibilities of the auditor in properly conducting an audit in accordance with the standards of the ~~Public Company Accounting Oversight Board~~ ("PCAOB"). This standard sets out the objectives of the auditor, establishes requirements for the auditor's professional qualifications and the auditor's general responsibilities applicable in ~~all audits of financial statements and internal control over financial reporting~~, and describes auditing principles relevant to conducting the audit.

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

We believe the PCAOB's approach to reorganizing and consolidating the general principles and responsibilities is appropriate.

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

We believe the first two objectives of the auditor in the proposed standard are appropriate. The third objective refers to "applicable professional and legal requirements," and Footnote 1 indicates this term has the same meaning as defined in Appendix A of proposed QC 1000, *A Firm's System of Quality Control*. We believe it is difficult to comment on the appropriateness of an objective which includes a term with a definition that is subject to change. The footnote also describes what is included in that definition, which could be interpreted differently from what was proposed in QC 1000. We provided the following response regarding the definition of "applicable professional and legal requirements" in our February 1, 2023 comment letter on the *PCAOB Proposals on A Firm's System of Quality Control*:

While we agree with the definition generally, it appears to be overly broad and may inadvertently scope into the QC system professional and legal requirements or other matters that are beyond the remit of the PCAOB. We recommend that the scope of the standard is more clearly ring-fenced, for example, by providing descriptions of what is intended to be covered by the firm's system of quality control.

We stand by that comment as it relates to this proposal, and we further emphasize the need for the phrase "legal requirements" to be more narrowly defined. As it is currently defined in the proposal, it includes unidentified legal requirements outside of state public accountancy laws and regulations and federal securities laws and regulations. We believe this applies to all uses of the phrase "applicable professional and legal requirements" throughout the proposal.

4. Are the proposed requirements related to auditor independence clear and comprehensive? If not, why not?

We believe the proposed requirements related to auditor independence are clear and comprehensive.

5. Are the proposed requirements related to ethics clear and comprehensive? If not, why not?

We believe it is difficult to comment on the appropriateness of requirements which are subject to change. In our February 1, 2023 comment letter on the *PCAOB Proposals on A Firm's System of Quality Control*,

we responded to questions regarding proposed standards on ethics, including EI 1000, *Integrity and Objectivity*. Assuming those comments are appropriately addressed, we believe proposed AS 1000.06 is clear and comprehensive, and we support the auditing standards referring to the specific requirements.

6. Are the proposed requirements related to the auditor's competence clear and comprehensive? If not, why not?

We recognize and value the importance of the auditor's competence in performing high quality audits, and therefore we recommend several changes to these paragraphs to achieve the intended objectives. Specific recommended changes or clarifications to these paragraphs are noted below.

1. **An audit is performed by a group of competent individuals, not just one auditor.** Each engagement team member brings a unique skillset and perspective to the engagement, and the combination of the varying backgrounds determines whether the engagement team (including any specialists) collectively possesses the necessary competence to effectively perform an audit in accordance with applicable professional and legal requirements. Therefore, we highly recommend the following revision to proposed AS 1000.07:

The audit must be performed by an auditor or auditors who, collectively, have an auditor who has the competence to conduct an audit in accordance with applicable professional and legal requirements.⁶

Depending on the PCAOB's intentions, this could alternatively say "individuals who have" or "an engagement team who has."

2. **Related to our comments above regarding the competence of the engagement team as a whole, we believe paragraphs .07 and .08 of the proposed standard do not clearly define who should have, develop, and maintain competence.** It is unclear whether each individual assigned to the engagement is required to demonstrate the same level of competence regardless of their role, extent of involvement, or extent of supervision. Public accounting firms are structured in an apprenticeship model whereby staff auditors gain competence, experience, and expertise through close supervision and on-the-job training. In practice, the level of competence, experience, and expertise of the lead engagement partner differs from that of the staff auditor. This concept is explicitly described in extant AS 1010.03 but is de-emphasized in the proposed standard. Footnote 7 of the proposed standard refers to AS 1201.05–.06 as amended, which requires reviewers to take into account the knowledge, skill, and ability of preparers. While this is helpful, we have additional recommendations to address these concerns. First, we recommend the following sentence from extant AS 1015.06 be incorporated into AS 1201:

Engagement team members should be assigned to tasks and supervised commensurate with their level of knowledge, skill, and ability.

We further recommend the PCAOB clarify that the competence of individual engagement team members differs based on a variety of factors. While proposed AS 1000.07 indicates an auditor needs the competence to "perform the assigned activities," which we believe is a critical phrase to retain in the final standard, we encourage the PCAOB to further emphasize or elaborate on this concept. This could be accomplished by adding the following note to proposed AS 1000.07:

Note: An individual's competence is measured against the assigned activities, including the type of activities, the extent of the individual's involvement, and the extent of supervision of the individual.

In addition to various levels of experience, there are various roles within in an engagement team (including auditors and non-auditors) as well as other individuals who are not part of the engagement team but have assigned roles on the engagement (such as subject matter experts and engagement quality reviewers). We are unsure how requirements in paragraphs .07 and .08 are intended to apply to these individuals.

We recommend the PCAOB clarify paragraphs .07 and .08 of the proposed standard to more clearly define the individuals intended to be covered by these paragraphs. This could be accomplished by replacing "the auditor" with a more specific term(s) and (or) adding an explanatory note.

- 3. We oppose the PCAOB's assertion that the measure of competence is only qualitative rather than both quantitative and qualitative.** Page 20 of the release gives an example whereby "an engagement partner with significant experience in auditing manufacturing companies may not necessarily have the appropriate level of competence to oversee the audit of a financial institution." We strongly agree that experience in a company's industry is one factor of an individual's competence. However, we believe this is simply one qualitative factor. Quantitative factors should also be considered in the measurement of one's competence. Further, as noted above, competence should be evaluated holistically and collectively (i.e., qualitative and quantitative factors should be considered for both individuals and the entire engagement team, including any specialists, as a whole). Therefore, we recommend the following revisions to proposed AS 1000.07:

The measure of competence is both qualitative and ~~rather than~~ quantitative, ~~because~~ Quantitative measurement alone may not accurately reflect the relevant experience gained over time.

- 4. Proposed AS 1215.11 states, "...competence and training...may be documented in a central repository..." We believe this statement causes confusion because training is one of the three modes by which auditors develop and maintain competence according to proposed AS 1000.08.** Therefore, it is unclear whether the other modes of developing and maintaining competence (i.e., academic education and professional experience) may be documented in a central repository for the firm in accordance with proposed AS 1215.11. We recommend removing "and training" from proposed AS 1215.11 or revising it as follows:

.11 Certain matters, such as auditor independence, ~~staff competence and training, and~~ client acceptance and retention, and auditor competence, including training, may be documented in a central repository for the public accounting firm ("firm") or in the particular office participating in the engagement. If such matters are documented in a central repository, the audit documentation of the engagement should include a reference to the central repository. Documentation of matters specific to a particular engagement should be included in the audit documentation of the pertinent engagement.

<p>7. 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?</p>

Reasonable assurance

We believe the proposed definition of "reasonable assurance" lacks vital language in comparison to extant AS 1015.10–.13, which specifies the difference between reasonable assurance and absolute assurance. There are inherent limitations to reasonable assurance (e.g., due to fraud), which we believe are important to describe for the sake of transparency, clarity, consistency in practice, and investor

protection. As discussed in recent open meetings of the Investor Advisory Group (IAG), there appears to be an expectation gap between what the investor and the auditor each believe to be the level of assurance provided by the auditor's report. We believe the revised definition of reasonable assurance would exacerbate this disconnect. We believe it is imperative to bridge this gap for the safety of capital markets and, in doing so, it is important to strike the right balance in the language and tone used in the standards and auditor's opinion to achieve both consistency in auditor practice and an appropriate level of reliance that investors place on auditor's reports. To clearly demonstrate the role auditors play in the protection of investors, we believe the standards and the auditor's opinion should inform investors of the limitations of reasonable assurance. Likewise, and equally important, the standards should not devalue the audit by providing overly cautious statements. To protect capital markets, investors need confidence in the worthiness of the auditor's report while understanding the inherent limitations thereof. Therefore, we recommend incorporating language derived from extant AS 1015.10–.13 into proposed AS 1000 as follows:

.14 Reasonable assurance is a high level of assurance and is obtained by reducing audit risk to an appropriately low level through the application of due professional care, including by obtaining sufficient appropriate audit evidence.²⁵ The auditor is able to obtain reasonable, but not absolute, assurance that (1) in an audit of financial statements, misstatements, whether caused by error or fraud, are detected that, individually or in combination, would result in material misstatement of the financial statements; and (2) in an audit of internal control over financial reporting, material weaknesses are detected.

Note: An audit conducted in accordance with these standards may not detect a material misstatement in the financial statements, whether caused by error or fraud, or a material weakness in internal control over financial reporting. The auditor's report does not constitute a guarantee or insure against a material misstatement or a material weakness in internal control over financial reporting.

Note: The subsequent discovery of either a material misstatement, whether from error or fraud, in the financial statements or a material weakness in internal control over financial reporting does not, in and of itself, evidence a failure to comply with the standards.

Additionally, we recommend revising the auditor's opinion in AS 3101 Appendix B as follows, with corresponding edits to AS 3101.09:

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Reasonable assurance is a high level of assurance and is obtained by reducing audit risk to an appropriately low level through the application of due professional care, including by obtaining sufficient appropriate audit evidence. Reasonable assurance is not absolute assurance and does not guarantee that the financial statements are free of material misstatement, whether caused by error or fraud, or whether any material weaknesses exist as of the date of management's assessment. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Due professional care

As described in our response to Question 11, we recommend separating the engagement partner's responsibilities related to due professional care into a separate paragraph.

Professional skepticism

Significant updates have been made by other audit standard-setting bodies (i.e., the International Auditing and Assurance Standards Board (IAASB) and Auditing Standards Board (ASB)) related to the guidance and application material on the concept of professional skepticism, yet "the proposed standard retains the concept of professional skepticism in substantially the same form as it is described in AS 1015." We encourage the PCAOB to update the guidance around professional skepticism to align with improvements made by other standard-setting bodies.

Additionally, paragraph .10 of the proposed standard has potential redundancies and causes some confusion. We recommend removing the first sentence of paragraph .10, as we believe it is redundant with paragraph .09. We recommend relocating the second sentence of paragraph .10 to be the first sentence of paragraph .11, as paragraph .11 would then comprehensively define professional skepticism. These revisions are summarized as follows:

~~.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 information related to the audit.~~

.11 Professional skepticism is an attitude that includes a questioning mind and a critical assessment of information related to the audit. The auditor's exercise of professional skepticism includes:

- a. Objective evaluation of evidence obtained in an audit (including information that supports and corroborates management's assertions regarding the financial statements or internal control over financial reporting and information that contradicts such assertions), and consideration of the sufficiency and the appropriateness (i.e., relevance and reliability) of that evidence;²⁰
- b. Remaining alert to conditions that may indicate possible misstatement due to error or fraud;
- c. Not relying on evidence that is less than persuasive;
- d. Not assuming that management is honest or dishonest; and
- e. Consideration of potential bias on the part of management and the auditor.

Lastly, we understand the PCAOB's position to use "information related to the audit" rather than "audit evidence" (as described in AS 1015) to emphasize that application of professional skepticism extends beyond the information used as audit evidence in arriving at conclusions on which the auditor's opinion is based. However, the difference between "*critical assessment* of information related to the audit" and "*objective evaluation* of evidence obtained in an audit" is unclear. It is also unclear why the former is a component of the "attitude" while the latter describes one way in which an auditor exercises professional skepticism. We encourage the PCAOB to consider the relation between these two phrases to determine whether there are any unintended redundancies, and if not, to provide further guidance on this topic.

Professional judgment

The release states that, "The description of professional judgment is similar to the definition in the IAASB and [American Institute of Certified Public Accountants] AICPA standards." However, we believe there are notable differences which require clarification. The IAASB and AICPA define professional judgment as:

“The application of relevant training, knowledge, and experience, within the context provided by auditing, accounting, and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.” Proposed AS 1000 introduces the concept of “well-reasoned conclusions,” which is not defined or explained. If the PCAOB’s intention is for “professional judgment” to have the same meaning as in the standards of the IAASB and AICPA, we highly recommend using the same definition. However, if the PCAOB’s intention is for this term to have a different or added meaning, we request the PCAOB explain those differences so that firms can adhere to the definition. For example, two different auditors with the appropriate competency and the same set of facts who exercise due professional care, professional skepticism, and all other requirements of PCAOB standards could use professional judgment and reach two different conclusions on the same matter. We believe that introducing the term “well-reasoned conclusions” without appropriate explanation in the authoritative standards could be used inappropriately to retrospectively evaluate an auditor’s judgment using hindsight.

9. 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?
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We agree that relevant Board-issued guidance is beneficial for interpreting the PCAOB’s intended meaning of approved standards. However, if there are details within adopting releases and other relevant guidance that are important enough to merit the auditor considering them in the conduct of the audit, we believe those details should be directly incorporated into the final standards. Our specific concerns and recommended revisions or clarifications are outlined below.

1. We suggest defining “take into account.” If the Board intends to retain this proposal in the final standard, we suggest stating what evidence the PCAOB would expect when determining compliance with the standards. While this term is used throughout PCAOB auditing standards, we would appreciate further clarity on how this differs from the terminology “should consider” or “should evaluate.” This could be accomplished by revising PCAOB Rule 3101, *Certain Terms Used in Auditing and Related Professional Practice Standards*, to include expectations around “take into account” and “should evaluate.” Clarifying the definition of this term may alleviate some, but not all, of our other concerns below.
2. The proposed standard does not clearly specify the scope of relevant Board-issued guidance and the information therein that auditors would be expected to consider. The PCAOB’s website contains thousands of pages of releases, rule filings, and supplemental materials spanning the past two decades. For firms to effectively comply with the proposed standard, we believe it is crucial for the standard to explicitly state the scope and be organized in a manner by which all authoritative guidance is readily discoverable. We recommend the PCAOB specify the scope of the following:
 - Types of Board-issued guidance (e.g., Releases and Rule Filings, including Concept Releases, Proposed Rules, Final Rules, and Overviews; Supplemental Materials, including Transcripts and Transcript Excerpts, White Papers, Statements, Marked Text Illustrations, Briefing Papers, and Updates on Status)
 - Types of content within those documents (e.g., Background, Economic Analysis)
 - Superseded content (e.g., Proposed Rules)
 - Already-existing Board-issued guidance (i.e., effective retrospectively or prospectively)
 - Comments not codified through rule making (e.g., one commenter’s view on an exposure draft repeated in a Release, but not incorporated into the final rule)

Further, the PCAOB would need to have a clear process for identifying superseded information and communicating it as such. For example:

- *Docket 028: Proposed Auditing Standard Related to Confirmation and Related Amendments to PCAOB Standards* includes a concept release, two proposed rules, and 14 documents classified as supplemental materials, dating back to 2009. We request the Board clarify which information within these documents, if any, should be taken into account upon the adoption of proposed AS 1000 and (or) proposed AS 2310.
 - *Docket 044: Amendments to Auditing Standards for Auditor's Use of the Work of Specialists* includes a final rule, a proposed rule, and 16 documents classified as supplemental materials, dating back to 2015. We request that the Board clarify whether information within this proposed rule should be taken into account, even if the Board's intention is for proposed rules to be superseded by final rules, due to the final rule referencing the proposed rule.
3. The PCAOB would need to develop a clear timeline for when these types of guidance are required to be taken into account, and this timeline would need to include sufficient time to allow for audit firms to develop their policies, tools, and resources; test them for quality control; and release them to the audit practice.
 4. If the Board intends to retain this proposal in the final standard, we highly encourage the Board to write the relevant guidance styled as application guidance.
 5. We appreciate the opportunity to comment on proposed standards during the standard proposal and approval process. Due to potential unintended consequences, we believe it may be detrimental for guidance which has not undergone a comment process to become authoritative. If the PCAOB appreciates the due process afforded by the comment process and feedback received from various parties—including audit firms, issuers, and investors—we believe the PCAOB should remove this note from the proposed standard.
 6. If the Board intends to retain this proposal in the final standard, we highly encourage both the PCAOB and the SEC to review the historical Board-issued guidance documents covered by the Board's intended scope with the same level of scrutiny that is given to proposed standards, as these would effectively become authoritative guidance. We question whether previously issued Board guidance was released with the notion that it would become authoritative in the future and subjected to the same scrutiny afforded to final standards.
 7. Related to number 5 above, we believe the same level of scrutiny would need to be given to future Board-issued guidance, which could cause delays in the proposal and adoption processes because the Board-issued guidance would hold the same weight as the final standard.
 8. The cost burden of implementing this change on a retrospective basis would outweigh the benefits. We analyze authoritative guidance with a very high level of scrutiny. While we read through the Board-issued guidance, we do so in a holistic way and do not analyze minute details to the same extent we do with authoritative guidance. Going back through the historical Board-issued guidance would take a significant amount of time given the sheer volume of information. This is especially concerning given the Board's current standard-setting agenda. Resources are limited, especially for smaller firms, and rehashing thousands of pages of guidance from the past two decades would undoubtedly take valuable resources away from the implementation of new standards.
 9. If this concept is retained in the final standard, we believe it is imperative for PCAOB staff guidance to be explicitly excluded, as proposed. First, as noted in the release, staff guidance represents the views of PCAOB staff and not necessarily those of the Board. Second, as mentioned above and in our response to Question 25 below, sufficient time between when authoritative guidance is adopted by the Board and approved by the SEC and when the authoritative guidance is implemented by auditors is necessary to ensure proper implementation.

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

No, we believe the proposed amendments do not clarify the meaning of “present fairly” appropriately, but rather create an unclear and unachievable performance standard.

First, the standard introduces new undefined terms. For example, the undefined phrase “informative and not misleading to a reasonable investor” is subjective and fundamentally different from existing standards. The financial statements, including disclosures, provide information to investors which is then used to make investment decisions. Investors may use information contained in the financial statements in different manners and for varying purposes. Determining whether information contained within the financial statements, including disclosures, is informative and not misleading would depend on the various, and potentially conflicting, views of different investors. Additionally, it is unclear how auditors would be evaluated by the PCAOB, the SEC, judicial courts, and potentially other authoritative bodies on their compliance with this standard given the lack of definition or applicable framework underpinning the phrase.

Second, we believe it is imperative for professional judgment to be exercised in the evaluation of whether financial statements are presented fairly in accordance with the applicable financial reporting framework. We recommend the proposed standards more explicitly refer to the concept of professional judgment as it relates to the “present fairly” evaluation. For example:

.30A When evaluating whether the financial statements present fairly the financial position, results of operations, cash flows, and disclosures, in all material respects, in conformity with the applicable financial reporting framework, the auditor should exercise professional judgment and evaluate whether:^{17C}

- a. The information in the financial statements is presented and classified appropriately and in an informative and reasonable manner ~~that would be informative and not misleading to a reasonable investor;~~

Third, we disagree with the Board’s statements on page 30 of the release that, “...the auditor’s [existing] obligation concerning the fairness of the financial statements extends beyond compliance with the applicable financial reporting framework.” On the contrary, extant AS 2815.03 states, “The independent auditor’s judgment concerning the “fairness” of the overall presentation of financial statements should be applied within the framework of generally accepted accounting principles. Without that framework, the auditor would have no uniform standard for judging the presentation of financial position, results of operations, and cash flows in financial statements.” Having auditors evaluate financial statements beyond their compliance with applicable financial reporting frameworks would essentially allow auditors to overwrite such frameworks, which could create an avenue for inconsistent accounting treatment and cause confusion among issuers and investors alike.

If the Board is concerned that certain financial reporting frameworks may be misleading, we urge the Board to voice these concerns with the respective accounting standard-setting bodies. We believe in proper separation of power. It is the accounting standard-setting bodies’ duty to establish the accounting rules; it is management’s duty to apply the accounting rules; and it is the auditor’s duty to evaluate whether the entity properly applied the accounting rules, in all material respects. It is in the best interests of the capital markets that the segregation of duties remains intact and clearly understandable to investors.

Fourth, we believe the proposed standard should be clarified to further emphasize the importance of the notes (at times referred to as “disclosures”) in the financial statements, which are critical in the evaluation of whether the financial statements are presented fairly. We recommend that the standard clearly define the term “financial statements” to be inclusive of the financial statements and disclosures.

Fifth, proposed paragraph .31 has redundancies which we believe create unnecessary confusion and should be simplified. We suggest revising proposed AS 2810.31 as follows:

~~.31 As part of the evaluation of the presentation of the financial statements, the~~ The auditor should evaluate whether the financial statements contain the information essential for a fair presentation of the financial statements in conformity with the applicable financial reporting framework.¹⁸ Evaluation of the information disclosed in the financial statements includes consideration of the form, arrangement, and content of the financial statements (including the accompanying notes), encompassing matters such as the terminology used, the amount of detail given, the classification of items in the statements, and the bases of amounts set forth.

Note: The auditor should also evaluate whether the substance of transactions or events differs materially from their form.

Lastly, we also believe proposed AS 2810.30A.c could inappropriately require the auditor to evaluate whether all company transactions and relevant events and conditions are appropriately recognized, measured, and disclosed in the financial statements. Extant AS 2815.04(e) clarifies that not every account or transaction is evaluated by including the phrase “within a range of acceptable limits.” If the Board wishes to remove this language, we suggest revising proposed 2810.30A to include a footnote referencing AS 2110 or a note describing the relationship between 2810.30A and AS 2110 and adding “in all material respects” as follows:

- c. Company transactions and relevant events and conditions are appropriately recognized, measured, and disclosed in the financial statements, in all material respects.

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

We agree the engagement partner plays a critical role on the engagement team, with heightened responsibility compared to other engagement team members. To emphasize this, we believe the engagement partner’s responsibilities warrant their own paragraphs. There are overlapping themes between proposed AS 1201.04 and 1201.05’s Note 2. We recommend relocating the substance of 1201.05 Note 2 to its own paragraph under the *Responsibility of the Engagement Partner for Supervision* heading. Similarly, proposed AS 1000.09 highlights the engagement partner’s responsibilities in relation to due care—to be consistent, we recommend putting this in its own paragraph.

Despite the engagement partner’s heightened responsibility, as noted in our response to Question 6, an audit is performed by a group of individuals, not just one auditor. There is a shared responsibility among the engagement team, and there are areas of an audit which require the need to involve other experts when necessary. We believe the proposed notes in AS 1201.04–.05 and 2101.03 inappropriately diminish the responsibility and value of other engagement team members and experts by indicating their reviews do not reduce the engagement partner’s responsibility. We agree that the engagement partner’s *responsibility* should not be reduced; however, we believe engagement partners should tailor the extent of their supervision based on a variety of factors as described in AS 1201.06. We encourage the PCAOB to add additional emphasis to this notion, perhaps by referring to AS 1201.06 specifically in these three notes.

In addition, we believe the term “timely evaluate” is not sufficiently defined. While we agree that significant findings and issues should be evaluated timely, we would appreciate clarification on this term so that auditors are enabled to adhere to the expectations of this new authoritative standard and demonstrate compliance. Is there a specific time frame that would be considered by the PCAOB to be “timely,” or would this be left to auditor judgment?

Lastly, we believe the term “sufficient documentation” as used in proposed AS 1201.05 Note 2 is not sufficiently defined and may result in inconsistencies in the profession.

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

We agree with the amendments to AS 1215.15 in that reviews of audit documentation should be completed prior to the report release date, and we support this being formally specified in the standard. There may be inconsistencies in practice as to what this new language entails. For example, we request the PCAOB further clarify whether this would include ensuring all review notes have been sufficiently addressed prior to the report release date.

13. 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?

We believe the proposed amendment to accelerate the documentation completion date to 14 days is beneficial and appropriate. However, one of the potential benefits noted in the release was that the PCAOB’s inspection process could potentially begin sooner. We believe beginning the inspection process earlier could be detrimental to audit quality, as it would cause auditors to reallocate their time to the inspection process rather than focusing on audits of financial statements not yet issued during a time in which issuers have regulatory requirements to file their financial statements. We would have concerns with our ability to support the inspection process if it began earlier in the year.

14. 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 believe this would create technological and process challenges for firms. Currently, support for Form AP is retained as part of the audit engagement file documentation, which is enabled by the filing of Form AP prior to the lock-down of the engagement file. Firms may need to establish a separate system of record and processes and controls for maintaining information related to Form AP that is acquired subsequent to the lock-down of the audit engagement file or create a process whereby the audit files could be re-opened for such information to be added, while ensuring no existing information in the file could be changed. While we believe finding solutions for this inconsistency would be less burdensome than accelerating Form AP filings for all issuers, we believe sufficient time should be allowed for implementation of the standard and technological changes needed.

16. 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?

The proposed amendments to the attestation (AT) standards refer to the auditing standards in numerous instances. We suggest limiting the references to the auditing standards such that the attestation standards can stand alone and be fit for purpose. Certain references may be necessary, but we believe certain references are inappropriate. For example, several footnotes in the attestation standards (AT No. 1's footnote 11A, AT No. 2's footnote 8B, and AT 101's footnote 7A) refer to AS 1000.10–.11, which discuss the concept of professional skepticism specifically in the context of an audit. Instead of this reference, which then requires interpretation of the content in the context of an attestation engagement, the content on professional skepticism should be incorporated directly into the attestation standards and tailored to an attestation engagement to enhance consistent operability.

Additionally, we believe it is inappropriate to remove paragraph .41 from AT 101. We believe this is relevant case law. If the PCAOB desires to remove this paragraph, we suggest that revision be included in the anticipated Attestation Standards Update proposal rather than this General Responsibilities of the Auditor in Conducting an Audit proposal.

Finally, we believe footnote 9A needs to be updated to state “review engagements” rather than “examination engagements.”

21. 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?

Please see our response to Question 9.

22. Are there any other economic impacts we did not describe above that are relevant for consideration? If so, please specify.

Please see responses to Questions 9 and 14 regarding certain costs we expect to incur if this standard is finalized as proposed.

24. The Board requests comment generally on the analysis of the impact of the proposal on EGCs. Are there reasons why the proposal should not apply to audits of EGCs? If so, what changes should be made so that the proposal would be appropriate for audits of EGCs? What impact would the proposal likely have on EGCs, and how would this affect efficiency, competition, and capital formation? Please specify.

We believe the proposal should apply to emerging growth companies (EGCs).

25. 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?

Requiring compliance on June 30 the year after approval would present administrative, technological, and training challenges. First, we would need time to update our methodology, tools, and resources; test them for quality control; release them to the audit practice; and develop and deliver training sessions on these changes. The most significant time constraints would be the challenges we discussed in our responses to Questions 9 and 14. We would need at least one full audit cycle to implement the changes as proposed. Depending on the Board's intentions for our concerns in response to Question 9, we may need additional time (e.g., if the Board intends to retrospectively require auditors to take into account Board-issued guidance from the past two decades). Second, because the majority of our firm's audits are December 31 year-ends, we believe a December 15 effective date is a more natural timeline to implement changes to

methodology and tools. Internally, we strive to implement methodology and tool changes effective in December each year to reduce confusion and administrative burden.

Many firms who perform audits in accordance with PCAOB standards use purchased audit methodologies and software tools and rely on these updates to implement and train on changes. The PCAOB should consult directly with the methodology providers to understand the timeline needed for them to implement the changes into their tools as well as then distribute and train auditors on the changes. This can inform the PCAOB on the needed timeline for implementation.

Other Comments

We additionally suggest the following minor revisions to proposed AS 1000:

.17 The auditor's report must contain:

- a. In an audit of financial statements, an An expression of opinion on the financial statements, taken as a whole, or an assertion that an opinion cannot be expressed;³⁰ and
- b. In an audit of internal control over financial reporting, an expression of opinion on the effectiveness of the company's internal control over financial reporting or an assertion that an opinion cannot be expressed

.19 When the auditor conducts an audit in accordance with the standards of the PCAOB, some circumstances require that the auditor express a qualified opinion, adverse opinion, or disclaimer of opinion on the company's financial statements or ~~the company's~~ internal control over financial reporting, and state the reasons for the departure from the unqualified opinion.³⁴

Finally, we suggest the following revision to footnote 17A in proposed AS 2810 to align with the language in the SEC rule quoted:

^{17A} For additional considerations regarding the fairness of presentation of financial statements, see, e.g., SEC Rule 12b-20 17, C.F.R. § 240.12b-20 (requiring issuers to disclose "in a statement or report ... 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.").

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We would be pleased to respond to any questions the PCAOB or its staff may have about our comments. Please direct any questions to Adam Hallemeier, Deputy Chief Auditor, at 619.641.7318, or Sara Lord, Chief Auditor, at 612.376.9572.

Sincerely,

RSM US LLP

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