

# SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-100773; File No. PCAOB-2024-01)

August 20, 2024

## **Public Company Accounting Oversight Board; Order Granting Approval of Auditing Standard 1000, *General Responsibilities of the Auditor in Conducting an Audit*, and Amendments to PCAOB Standards**

### **I. Introduction**

On May 24, 2024, the Public Company Accounting Oversight Board (the “Board” or the “PCAOB”) filed with the Securities and Exchange Commission (the “Commission”), pursuant to Section 107(b)<sup>1</sup> of the Sarbanes-Oxley Act of 2002 (“SOX”) and Section 19(b)<sup>2</sup> of the Securities Exchange Act of 1934 (the “Exchange Act”), a proposal to adopt Auditing Standard (“AS”) 1000, *General Responsibilities of the Auditor in Conducting an Audit*; rescind AS 1001, *Responsibilities and Functions of the Independent Auditor*, AS 1005, *Independence*, AS 1010, *Training and Proficiency of the Independent Auditor*, AS 1015, *Due Professional Care in the Performance of Work*, and AS 2815, *The Meaning of “Present Fairly in Conformity with Generally Accepted Accounting Principles;”* and amend several other related existing PCAOB standards (collectively, the “Amendments”). The Amendments were published for comment in the *Federal Register* on June 11, 2024.<sup>3</sup> On July 1, 2024, the Commission extended the public comment period until July 16, 2024, and extended the date by which the Commission shall either approve or disapprove, or institute proceedings to determine whether to disapprove, the

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<sup>1</sup> 15 U.S.C. 7217(b).

<sup>2</sup> 15 U.S.C. 78s(b).

<sup>3</sup> See *Public Company Accounting Oversight Board; Notice of Filing of Proposed Rules on General Responsibilities of the Auditor in Conducting an Audit and Amendments to PCAOB Standards*, Release No. 34-100276 (June 5, 2024) [89 FR 49730 (June 11, 2024)] (“Notice of Filing of Proposed Rules”), available at <https://www.sec.gov/files/rules/pcaob/2024/34-100276.pdf>.

Amendments to August 25, 2024.<sup>4</sup> We received eleven (11) comment letters in response to the Notice of Filing of Proposed Rules.<sup>5</sup> This order approves the Amendments, which we find to be consistent with the requirements of Title I of SOX and the rules and regulations issued thereunder and necessary or appropriate in the public interest or for the protection of investors.

## II. Description of the Amendments

On May 13, 2024, the Board unanimously adopted the Amendments.<sup>6</sup> The Amendments are intended to modernize, clarify, and streamline the general principles and responsibilities of the auditor and provide a more logical presentation, which should enhance the useability of the standards by making them easier to read, understand, and apply. This should promote investor protection by enhancing the quality of audits. The requirements contained within the Amendments are discussed further below.

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<sup>4</sup> See *Public Company Accounting Oversight Board; Extension of Comment and Approval Periods for Proposed Rules on General Responsibilities of the Auditor in Conducting an Audit and Amendments to PCAOB Standards and A Firm's System of Quality Control and Related Amendments to PCAOB Standards*, Release No. 34-100451 (July 1, 2024) [89 FR 55993], available at <https://www.sec.gov/files/rules/pcaob/2024/34-100451.pdf>.

<sup>5</sup> We received comment letters from Stephen W. Hall, Legal Director and Securities Specialist and Brady Williams, Legal Counsel, Better Markets, Inc. (July 2, 2024) (“Better Markets”), Dennis McGowan, Vice President, Professional Practice, Center for Audit Quality (July 2, 2024) (“CAQ”), Jack T. Ciesielski, CPA, CFA (July 2, 2024) (“Ciesielski”), Brandon J. Rees, Deputy Director, Corporations and Capital Markets, American Federation of Labor and Congress of Industrial Organizations (July 1, 2024) (“AFLCIO”), Sandra J. Peters, CPA, CFA, Senior Head, Global Financial Reporting Policy Advocacy, and Matthew P. Winters, CPA, CFA, Senior Director, Global Financial Reporting Policy Advocacy, CFA Institute (July 1, 2024) (“CFAI”), Micah Hauptman, Director of Investor Protection, Consumer Federation of America (July 1, 2024) (“Consumer Federation of America”), PricewaterhouseCoopers LLP (June 28, 2024) (“PwC”), Members of the Investor Advisory Group (June 28, 2024) (“MIAG”), Deloitte & Touche LLP (June 28, 2024) (“Deloitte”), Jeffrey P. Mahoney, General Counsel, Council of Institutional Investors (June 27, 2024) (“CII”), and Robert A. Conway, CPA (June 26, 2024) (“Conway”). Comment letters received by the Commission on the Amendments are available on the Commission’s website at <https://www.sec.gov/comments/pcaob-2024-01/pcaob202401.htm>.

<sup>6</sup> See *General Responsibilities of the Auditor in Conducting an Audit and Amendments to PCAOB Standards*, PCAOB Release No. 2024-004 (May 13, 2024) (“Adopting Release”), available at [https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket-049/2024-004-as1000.pdf?sfvrsn=3ba6358a\\_2](https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket-049/2024-004-as1000.pdf?sfvrsn=3ba6358a_2).

## A. Changes to PCAOB Standards

Among other things, the Amendments enhance the existing general principles and responsibilities of an auditor by:

- Including introductory language that reaffirms the auditor’s fundamental obligation to protect investors through the preparation and issuance of independent auditor’s reports;<sup>7</sup>
- Including objectives related to the audit of the effectiveness of a company’s internal control over financial reporting;<sup>8</sup>
- Retaining and clarifying the general principles and responsibilities that are foundational for an audit, including reasonable assurance,<sup>9</sup> due professional care,<sup>10</sup> professional skepticism,<sup>11</sup> and professional judgment;<sup>12</sup>
- Aligning the engagement partner’s supervisory responsibilities under AS 1201, *Supervision of the Audit Engagement*, with due professional care;<sup>13</sup>
- Retaining the requirement for the auditor to be independent but expressing the obligation more directly by referring to PCAOB independence rules and standards and SEC independence rules and regulations;<sup>14</sup>

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<sup>7</sup> See AS 1000.01.

<sup>8</sup> See AS 1000.03.

<sup>9</sup> See AS 1000.13 and .14.

<sup>10</sup> See AS 1000.09 and .10.

<sup>11</sup> See AS 1000.11.

<sup>12</sup> See AS 1000.12.

<sup>13</sup> See AS 1000.10 and AS 1201.03 and .04, as amended.

<sup>14</sup> See AS 1000.04 and .05.

- Describing the auditor’s obligations to (i) comply with ethics requirements,<sup>15</sup> (ii) obtain and maintain competence,<sup>16</sup> and (iii) prepare audit documentation;<sup>17</sup>
- Expressing the auditor’s responsibilities by using the terms set forth in PCAOB Rule 3101, *Certain Terms Used in Auditing and Related Professional Practice Standards*;<sup>18</sup> and
- Removing language that is outdated, inconsistent, and not relevant to audits conducted under the standards of the PCAOB.

The Amendments also improve other PCAOB auditing standards that address responsibilities fundamental to the conduct of an audit, including by:

- Clarifying the engagement partner’s existing responsibilities for supervision and review by providing more specificity related to such activities;<sup>19</sup>
- Clarifying the requirements for audit documentation in AS 1215 to identify who performed the work, who reviewed the work, and the date of such review;<sup>20</sup>
- Accelerating the period in AS 1215 to assemble a complete and final set of audit documentation for retention from 45 days to 14 days (“documentation completion date”);<sup>21</sup> and

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<sup>15</sup> See AS 1000.06.

<sup>16</sup> See AS 1000.07 and .08.

<sup>17</sup> See AS 1000.16.

<sup>18</sup> See AS 1000.17 through .20.

<sup>19</sup> See AS 1201.05, AS 1215.02 and .15, and AS 2101.03, as amended.

<sup>20</sup> See AS 1215.06, as amended.

<sup>21</sup> See AS 1215.15, as amended.

- Updating<sup>22</sup> and incorporating the underlying requirements of AS 2815 into AS 2810, *Evaluating Audit Results*, and rescinding AS 2815, while preserving the meaning of “presents fairly” and streamlining the requirements to provide a more logical presentation.<sup>23</sup>

## **B. Applicability and Effective Date**

The Amendments will be effective for audits of financial statements for fiscal years beginning on or after December 15, 2024, except that, for registered public accounting firms that provide audit opinions for 100 or fewer issuers during the calendar year ending December 31, 2024, the amendment relating to the documentation completion date will take effect for audits of financial statements for fiscal years beginning on or after December 15, 2025. The PCAOB has proposed application of the Amendments to include audits of emerging growth companies (“EGCs”),<sup>24</sup> as discussed in Section IV below.

## **III. Comment Letters**

As noted above, to date the Commission has received eleven (11) comment letters on the Amendments.<sup>25</sup> Commenters were generally supportive of the Amendments.<sup>26</sup>

Some commenters suggested that the Commission encourage the PCAOB to provide implementation support and to undertake a post-implementation review of the Amendments to

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<sup>22</sup> See e.g., *supra* note 6 at 54 (“The requirements of the SEC for the company under audit are included in SEC Rule 4-01(a), which we reference in a new footnote to paragraph .30A, to remind auditors of the company’s obligation regarding additional information that may need to be disclosed in the financial statements so that the financial statements are not misleading.”).

<sup>23</sup> See AS 2810.17 and .30 through .31, as amended.

<sup>24</sup> The term “emerging growth company” is defined in Section 3(a)(80) of the Exchange Act (15 U.S.C. 78c(a)(80)). See also *Inflation Adjustments under Titles I and III of the JOBS Act*, Release No. 33-11098 (Sept. 9, 2022) [87 FR 57394 (Sept. 20, 2022)], available at <https://www.sec.gov/files/rules/final/2022/33-11098.pdf>.

<sup>25</sup> See *supra* note 5.

<sup>26</sup> See, e.g., letters from Conway; Deloitte; CAQ; and MIAG.

assess whether they have met their stated objectives.<sup>27</sup> The Board has a historical practice of post-implementation review<sup>28</sup> as well as issuing appropriate implementation guidance for new standard and rule amendments when needed. We acknowledge the importance of monitoring the implementation of the Amendments and the Commission staff works closely with the PCAOB as part of the Commission's general oversight mandate.<sup>29</sup> As part of that oversight, Commission staff will keep itself apprised of the PCAOB's activities for monitoring and supporting the implementation of the Amendments and update the Commission, as necessary.

Some commenters stated that because the Amendments extend the concept of due professional care, specifically professional skepticism, beyond a critical assessment of audit evidence to a critical assessment of other information related to the audit, the Amendments will result in increased focus on the preparation of Form AP, *Audit Participants*, among other things.<sup>30</sup> We acknowledge this comment and, because due professional care and professional skepticism are foundational elements of auditing, we agree with the Board's assessment that it is appropriate to apply the concept of due professional care to all aspects of the audit, including aspects of the audit that extend beyond the issuance of the auditor's report, such as the completion of audit documentation and the public reporting requirements in Form AP.<sup>31</sup>

The same commenters observed that the effective date of the Amendments related to the

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<sup>27</sup> See, e.g., letters from CAQ (regarding implementation support) and MIAG and CII (regarding post-implementation review).

<sup>28</sup> See, e.g., *Interim Analysis Report – Evidence of the Initial Impact of New Requirements for Auditing Accounting Estimates and the Auditor's Use of the Work of Specialists*, Release No. 2022-008 (Dec. 8, 2022), available at [https://assets.pcaobus.org/pcaob-dev/docs/default-source/economicandriskanalysis/pir/documents/estimates-specialists-interim-analysis-report.pdf?sfvrsn=e1b0eb15\\_4](https://assets.pcaobus.org/pcaob-dev/docs/default-source/economicandriskanalysis/pir/documents/estimates-specialists-interim-analysis-report.pdf?sfvrsn=e1b0eb15_4).

<sup>29</sup> See Section 107 of SOX.

<sup>30</sup> See letters from PwC and CAQ.

<sup>31</sup> See Notice of Filing of Proposed Rules, at Section III.B.4.i.

14-day documentation completion date requirement does not reference interim reviews or stub periods and requested clarification.<sup>32</sup> We note that existing AS 1215 applies to documentation completion and specifies that, for reviews of interim financial information, the standard takes effect beginning with the first quarter ending after the first financial statement audit covered by the standard. For audits, the application of the effective date is explicit in the Adopting Release. For audits of stub periods, we believe the effective date of the document completion requirement is clear. Nevertheless, we encourage the PCAOB staff to consider the need to provide additional guidance which could be useful to firms.

SOX requires us to determine whether the Amendments are consistent with the requirements of Title I of SOX and the rules and regulations thereunder or are necessary or appropriate in the public interest or for the protection of investors.<sup>33</sup> In making this determination, we have considered the comments we received, as well as the feedback received, and modifications made, by the PCAOB throughout its rulemaking process.

#### **IV. Effect on Emerging Growth Companies**

In the Notice of Filing of Proposed Rules, the Board recommended that the Commission determine that the Amendments apply to audits of EGCs.<sup>34</sup> Section 103(a)(3)(C) of SOX requires that any rules of the Board requiring mandatory audit firm rotation or a supplement to the auditor's report in which the auditor would be required to provide additional information about

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<sup>32</sup> See letters from PwC and CAQ.

<sup>33</sup> See Section 107(b)(3) of SOX. SOX also specifies that the provisions of Section 19(b) of the Exchange Act shall govern the proposed rules of the Board. See Section 107(b)(4) of SOX. Section 19 of the Exchange Act covers the registration, responsibilities, and oversight of self-regulatory organizations. Under the procedures prescribed by SOX and Section 19(b)(2) of the Exchange Act, the Commission must either approve or disapprove, or institute proceedings to determine whether the proposed rules of the Board should be disapproved; and these procedures do not expressly permit the Commission to amend or supplement the proposed rules of the Board.

<sup>34</sup> See Notice of Filing of Proposed Rules.

the audit and the financial statements of the issuer (auditor discussion and analysis) shall not apply to an audit of an EGC. The provisions of the Amendments do not fall into these categories.

Section 103(a)(3)(C) further provides that “[a]ny additional rules” adopted by the PCAOB do not apply to audits of EGCs “unless the Commission determines that the application of such additional requirements is necessary or appropriate in the public interest, after considering the protection of investors and whether the action will promote efficiency, competition, and capital formation.” The Amendments fall within this category. Having considered those statutory factors, we find that applying the Amendments to the audits of EGCs is necessary or appropriate in the public interest.

With respect to the Commission’s determination of whether the Amendments will apply to audits of EGCs, the PCAOB explained why it believes the Amendments should apply to audits of EGCs. The Board sought public input on the application of the Amendments to the audits of EGCs, and those that responded to the Board generally agreed the Amendments should apply to the audits of EGCs.<sup>35</sup>

We agree with the Board’s assessment and believe that applying the Amendments to the audits of EGCs is necessary or appropriate in the public interest, after considering the protection of investors and whether the Amendments will promote efficiency, competition, and capital formation. Overall, the Amendments are expected to enhance audit quality and contribute to an increase in the credibility of financial reporting for all issuers, including EGCs, whose financial statements are audited by a registered public accounting firm. We also note the secondary benefits that flow from higher audit quality, including improved efficiency of capital allocation and lower cost of capital and enhanced capital formation with respect to EGCs and other issuers.

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<sup>35</sup> See Adopting Release, *supra* note 6 at 93 to 95.



The PCAOB explained how associated costs may be relatively higher for EGC audits in large part due to the amendment accelerating the documentation completion date.<sup>36</sup> We acknowledge the potential for higher costs, but agree with the PCAOB's assessment that these costs may be mitigated based on certain characteristics of EGCs. For example, as the PCAOB observed in its analysis, to the extent EGCs are smaller than non-EGCs, EGC audits may be less complex, which potentially facilitates a more expeditious assembly of the final workpapers.<sup>37</sup> Additionally, to the extent that EGCs are audited by firms that issued audit reports with respect to 100 or fewer issuers during the calendar year ending December 31, 2024, the extended effective date of the amendment to accelerate the documentation completion date will allow those firms more time to implement systems, processes, and procedures to meet the accelerated documentation completion date.<sup>38</sup>

We also concur with the PCAOB's conclusion that while the costs to update references within firm methodologies and related guidance for the amendments made to the general principles and responsibilities of the auditor could also be relatively higher for firms which are more likely to serve as EGC auditors, in general, the alternative of not applying the same standard and related amendments to audits of EGCs and non-EGCs creates the potential for confusion, or even potential additional costs and inefficiencies to maintain separate methodologies.<sup>39</sup>

As the PCAOB explained in its analysis, the amendment to accelerate the documentation completion date could improve efficiency and capital formation for EGCs to the extent that the

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<sup>36</sup> See Adopting Release, *supra* note 6 at 94.

<sup>37</sup> *Id.*

<sup>38</sup> *Id.*

<sup>39</sup> *Id.* at 95.

amendment reduces uncertainty about the reliability of an EGC's financial statements via enhanced audit quality.<sup>40</sup> Investors who are uncertain about the reliability of an EGC's financial statements may require a larger risk premium that reduces the efficient allocation of capital or increases the cost of capital. Additionally, while the Amendments could impact the ability of EGCs to compete if the indirect costs to audited companies disproportionately impact EGCs relative to their competitors, as the costs associated with the Amendments are expected to be relatively modest, any impact on competition is likely to be relatively small.

Accordingly, after considering the protection of investors and whether the action will promote efficiency, competition, and capital formation, we believe there is a sufficient basis to determine that applying the Amendments to the audits of EGCs is necessary or appropriate in the public interest.

## **V. Conclusion**

The Commission has reviewed and considered the Amendments, the information submitted therewith by the PCAOB, and the comment letters received, and the recommendation of the Commission's staff. The Commission concludes that the determinations made by the PCAOB as described in the Adopting Release are reasonable. The Amendments will reaffirm and modernize the foundational audit standards, clarify engagement partner responsibilities, and accelerate the documentation completion date, which should improve audit quality. In particular, the Amendments make the following important changes, among others, to the existing standards, which will advance the Board's investor protection mandate under SOX: reaffirm the auditor's fundamental obligation to protect investors;<sup>41</sup>

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<sup>40</sup> *Id.*

<sup>41</sup> AS 1000 is consistent with *United States v. Arthur Young & Co.*, 465 U.S. 805, 818 (1984) (“[t]he independent public accountant performing this special function [auditing] owes ultimate allegiance to the

extend the requirement of due professional care to other areas of audit practice, such as public reporting and documentation, which will help to ensure that auditors fulfill their professional responsibilities with appropriate rigor and diligence; clarify an auditor’s responsibilities by focusing on affirmative responsibilities rather than discussing the limitations of an audit and the limits of an auditor’s responsibility; and ensure consistency of the PCAOB standards with the requirements of Regulation S-X Rule 4-01(a),<sup>42</sup> which states that compliance with the applicable financial reporting framework is “a minimum requirement to which shall be added such further material information as is necessary to make the required statements, in the light of the circumstances under which they are made, not misleading.” Therefore, in connection with the PCAOB’s filing and the Commission’s review,

A. The Commission finds that the Amendments are consistent with the requirements of Title I of SOX and the rules and regulations thereunder and are necessary or appropriate in the public interest or for the protection of investors; and

B. Separately, the Commission finds that the application of the Amendments to the audits of EGCs is necessary or appropriate in the public interest, after considering the protection of investors and whether the action will promote efficiency, competition, and capital formation.

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corporation’s creditors and stockholders, as well as to investment public. This ‘public watchdog’ function demands that the accountant maintain total independence from the client at all times and requires complete fidelity to the public trust.”).

<sup>42</sup> See Rule 4-01 under Regulation S-X, 17 CFR 210.4-01(a).

IT IS THEREFORE ORDERED, pursuant to Section 107 of SOX and Section 19(b)(2) of the Exchange Act, that the Amendments (File No. PCAOB-2024-01) be and hereby are approved.

By the Commission.

**Vanessa A. Countryman,**

*Secretary.*