PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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

PCAOB Release No. 2023-001
March 28, 2023

PCAOB Rulemaking
Docket Matter No. 049

Summary: The Public Company Accounting Oversight Board ("PCAOB" or the "Board") is proposing a new auditing standard, AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*, that, together with other amendments, would reorganize and consolidate a group of interim standards adopted by the Board in April 2003. The proposed new auditing standard addresses the general responsibilities of the auditor, such as due professional care and professional skepticism, when conducting an audit in accordance with the standards of the PCAOB.

Public Comment: Interested persons may submit written comments to the Board. Comments should be sent by e-mail to comments@pcaobus.org or through the Board's website at pcaobus.org. Comments also may be sent to the Office of the Secretary, PCAOB, 1666 K Street, NW, Washington, DC 20006-2803. All comments should refer to PCAOB Rulemaking Docket Matter No. 049 in the subject or reference line and should be received by the Board no later than May 30, 2023.

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TABLE OF CONTENTS

I. EXECUTIVE SUMMARY

We are proposing a new auditing standard, AS 1000, *General Responsibilities of the Auditor in Conducting an Audit* ("proposed standard" or "proposed AS 1000"). Proposed AS 1000 would replace a group of standards originally developed by the American Institute of Certified Public Accountants ("AICPA") and adopted on an interim basis by the PCAOB in 2003. That group of standards establishes the general principles and responsibilities of the auditor when conducting an audit ("foundational standards"). The general principles and responsibilities addressed by the foundational standards include reasonable assurance, due professional care, professional skepticism, independence, competence, and professional judgment. These principles and related responsibilities provide a foundation for the proper performance of the audit.

Through this standard-setting project, we are reaffirming the general principles and responsibilities to ensure that the foundation continues to be solid and appropriate for maintaining high-quality audits. These principles and responsibilities, together with modernized auditing standards, should equip the auditor with better tools to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports.

Currently, the general principles and responsibilities are addressed across four standards: AS 1001, *Responsibilities and Functions of the Independent Auditor*; AS 1005, *Independence*; AS 1010, *Training and Proficiency of the Independent Auditor*; and AS 1015, *Due Professional Care in the Performance of Work*. The proposal would combine the general principles and responsibilities from these standards into one standard (proposed AS 1000), while also making updates to reflect developments in the auditing environment.

We are also proposing to amend certain other standards that address responsibilities fundamental to the conduct of an audit. These amendments would clarify the engagement partner's responsibility to exercise due professional care related to supervision and review of the audit, accelerate the documentation completion date by reducing the maximum period for the auditor to assemble a complete and final set of audit documentation from 45 days to 14 days, and clarify the auditor's responsibility to evaluate whether the financial statements are "presented fairly." Finally, we are proposing additional amendments to conform to these changes.

Why Is the Board Proposing These Changes?

Since the PCAOB's adoption of the foundational standards in 2003, the auditing environment has evolved, including:

- Changes to auditing requirements through Board-issued standards;
- New or revised independence requirements issued by the Board; and

- Advancements in technology affecting the availability of electronic audit tools and use of audit software.

How Would this Proposal Modernize PCAOB Standards?

The proposed standard and related amendments would modernize PCAOB standards as follows:

- Reflect changes in the auditing environment;
- Eliminate outdated and inconsistent language; and
- Achieve consistency with Board-issued standards.

The proposed standard and related amendments are designed to streamline and clarify general principles and responsibilities of auditors and provide a more logical presentation, which would enhance the useability of the standards by making them easier to read, understand, and apply. We propose to clarify the auditor's responsibility to evaluate whether the financial statements are "presented fairly." We also propose to clarify the engagement partner's due professional care responsibilities by adding specificity to certain audit performance principles set out in the standards. Finally, an accelerated documentation completion date reflects changes in the auditing environment including that advancements in technology have enabled auditors to assemble a complete and final set of audit documentation in less time than in a paper-based environment. It would also enable the Board to potentially begin the inspection process sooner after completion of an audit, which we believe could enhance the Board's efforts to improve audit quality and promote investor protection, ultimately enhancing investor confidence.

Requesting Public Comment on Our Proposal

In this release, we are seeking comment on all aspects of the proposed standard and related amendments, including the appropriateness of the general principles and responsibilities, and on proposed conforming amendments to other PCAOB auditing standards. We have included detailed questions soliciting your feedback on specific aspects of the Board's proposal. You are encouraged to comment on any or all topics, respond to any or all questions, provide feedback in areas not covered by specific questions, and provide any evidence, including data or your practical experiences, that informs your views.

Instructions on how to comment, including by e-mail or postal mail, can be found on the cover sheet of this release. Comments submitted can be found at the docket page of PCAOB Rulemaking Docket Matter No. 049.

II. BACKGROUND

In April 2003, the Board adopted, on an interim basis, the generally accepted auditing standards of the AICPA's Auditing Standards Board as they existed then ("interim standards").[1] At that time, the Board stated that it would determine whether the interim standards "should become permanent standards of the Board, should be repealed, or should be modified."[2] Since then, the Board has adopted a number of new auditing standards[3] and proposed additional standards[4] to supersede or amend portions of the interim standards. However, certain remaining interim standards, including those that address the general principles and responsibilities of the auditor, continue to be in effect substantially in the form adopted.

Since the adoption of the interim standards, the auditing environment has evolved in many ways, including: (i) changes to auditing requirements through Board-issued standards; (ii) new or revised independence requirements issued by the Board;[5] and (iii) advancements in technology affecting the availability of electronic audit tools and the use of audit software. While these developments have generally been reflected through amendments to some interim standards in connection with the Board's standard-setting initiatives, opportunities remain to consider broader changes to modernize and better align interim standards with Board-issued standards and to reflect changes in the auditing environment.

In our 2022-2026 Strategic Plan, we expressed our re-energized focus on the PCAOB's investor protection mission and stated our intent "to modernize and streamline our existing standards and to issue new standards where necessary to meet today's needs."[6] Commenters on the draft of the strategic plan that we issued for public comment in August 2022 generally

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[1] *See Establishment of Interim Professional Auditing Standards*, PCAOB Release No. 2003-006 (Apr. 18, 2003).

[2] *Id.*

[3] *See, e.g.,* AS 1201, *Supervision of the Audit Engagement*; AS 1215, *Audit Documentation*; AS 2101, *Audit Planning*; and AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.

[4] *See, e.g., A Firm's System of Quality Control and Other Proposed Amendments to PCAOB Standards, Rules, and Forms*, PCAOB Release No. 2022-006 (Nov. 18, 2022), and *Proposed Auditing Standard – The Auditor's Use of Confirmation, and Other Proposed Amendments to PCAOB Standards*, PCAOB Release No. 2022-009 (Dec. 20, 2022).

[5] *See generally, e.g.*, PCAOB rules under Section 3. Auditing and Related Professional Practice Standards, Part 5 – Ethics and Independence.

[6] *See* PCAOB, Strategic Plan 2022-2026, at 10, *available at* https://assets.pcaobus.org/pcaob-dev/docs/default-source/about/administration/documents/strategic_plans/strategic-plan-2022-2026.pdf?sfvrsn=b2ec4b6a_4/

supported this initiative.[7] One commenter noted that "[m]odernization is necessary to make sure that these standards remain fit for purpose and reflect both significant changes in how audits are performed and developments in the capital markets in which companies operate."[8] Another commenter noted that "investors have asked the PCAOB to increase stability and predictability by developing more permanent standards (*i.e.*, depending less on interim standards)."[9] The need to update the interim standards has been cited in other letters received by the PCAOB and the Securities and Exchange Commission ("SEC").[10]

In connection with our standard-setting initiatives,[11] we are evaluating which of the interim standards are necessary to retain and, of those, which should be retained with minimal updates and which warrant more significant changes. In this regard, today we are proposing a new, single standard to replace the interim standards that address the general principles and responsibilities of the auditor in conducting an audit. These foundational standards are:[12]

- AS 1001, *Responsibilities and Functions of the Independent Auditor*;
- AS 1005, *Independence*;
- AS 1010, *Training and Proficiency of the Independent Auditor*; and

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[7] *See* PCAOB*, Request for Public Comment – Draft 2022-2026 PCAOB Strategic Plan*, PCAOB Release No. 2022-003 (Aug. 16, 2022). Comments on the draft strategic plan are available at https://pcaobus.org/about/strategic-plan-budget/comments-on-pcaob-draft-strategic-plan-2022-2026.

[8] *Id.*

[9] *Id.*

[10] *See Letter from former members of PCAOB Investor Advisory Group* (Apr. 19, 2021), *available at* https://consumerfed.org/wp-content/uploads/2021/04/PCAOB-IAG-Letter.pdf. *See also Letter from Alliance of Concerned Investors* (Feb. 14, 2022), *available at* https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/about/advisory/documents/comments/3_aoci.pdf?sfvrsn=f47eefbb_4 and *Letter from Mary M. Bersot, et al.* (Feb. 28, 2022), *available at https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/about/advisory/documents/comments/16_bersot.pdf?sfvrsn=83d93742_4*.

[11] *See* PCAOB's interim standards project, *available at* https://pcaobus.org/oversight/standards/standard-setting-research-projects/interim-standards.

[12] When adopted by the Board in 2003, this group of interim standards was designated as AU sec. 110, AU sec. 220, AU sec. 210, and AU sec. 230. In 2015, the PCAOB reorganized its auditing standards using a topical structure and a single, integrated number system, and these interim standards were designated as AS 1001, AS 1005, AS 1010, and AS 1015, respectively. *See Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Standards and Rules*, PCAOB Release No. 2015-002 (Mar. 31, 2015). The reorganization did not impose additional requirements on auditors or change substantively the requirements of PCAOB standards.

- AS 1015, *Due Professional Care in the Performance of Work*.

The general principles and responsibilities addressed by the foundational standards include reasonable assurance, due professional care, professional skepticism, independence, competence, and professional judgment. We believe that these principles and responsibilities are generally understood by auditors and investors and lay the appropriate groundwork for audit procedures performed under PCAOB standards.

Our analysis also considered whether other matters that are fundamental to the conduct of an audit merit inclusion in the proposed standard or amendments to other PCAOB standards.

- First, our auditing standards describe many of the engagement partner's responsibilities as general responsibilities and permit the engagement partner to seek assistance from others. More specificity about the engagement partner's responsibility to exercise due professional care could benefit auditors and investors. Such responsibilities relate to important aspects of the audit, including the supervision and review of audit documentation in AS 1201, AS 1215, and AS 2101.

- Second, the requirements in AS 1215 for documenting and reviewing the performance of audit procedures, including the requirement to complete audit documentation within 45 days of releasing the auditor's report, were adopted by the PCAOB almost 20 years ago, before the widespread use of electronic documentation.

- Third, AS 2810, *Evaluating Audit Results,* requires that the auditor evaluate whether the financial statements are "presented fairly," but important concepts related to that evaluation are discussed in a different standard, AS 2815, *The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles."*

The remainder of this section provides an overview of existing requirements included in the foundational standards and other relevant standards, and discusses our reasons for modernizing, streamlining, and amending these auditing standards.

A. Overview of Existing Requirements

This section discusses key provisions of the existing standards.

Key provisions of AS 1001, *Responsibilities and Functions of the Independent Auditor*, include:

- The objective of an audit of financial statements is to express an opinion on the fairness of the financial statements in presenting, in all material respects, the financial position, results of operations, and cash flows in accordance with generally accepted accounting principles. The auditor also disclaims an opinion if circumstances require. (AS 1001.01)

- The responsibilities of the auditor and management are that: (i) the auditor plans and performs the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud; and (ii) management is responsible for the financial statements, including adopting accounting policies and establishing and maintaining internal control to initiate, record, process, and report transactions (as well as events and conditions) consistent with management's assertions in the financial statements. (AS 1001.02-.03)

- The auditor is to possess professional qualifications and exercise professional judgment in determining which auditing procedures are necessary in the circumstances to gain a reasonable basis for the opinion. (AS 1001.04-.05)

- The auditor should be aware of and consider auditing interpretations applicable to the audit and, if the guidance in the interpretations is not followed, be prepared to explain how the auditor complied with the provisions of the auditing standard addressed by the guidance. (AS 1001.11)

Key provisions of AS 1005, *Independence*, require that the auditor:

- Maintain independence in mental attitude and be intellectually honest, impartial, and without bias with respect to the client (i.e., be independent in fact). (AS 1005.01-.03)

- Be free from any obligation to or interest in the client, its management, or its owners, so that the general public maintains confidence in the independence of auditors. (AS 1005.03)

- Not only be independent in fact, but also avoid situations that may lead outsiders to doubt the auditor's independence. (AS 1005.03)

Key provisions of AS 1010, *Training and Proficiency of the Independent Auditor*, require that:

- The audit be performed by persons having adequate technical training, proficiency, and experience as an auditor. (AS 1010.01-.02)

- The training of the auditor be adequate to meet the requirements of the profession, be adequate in technical scope, and include general education. (AS 1010.01-.03)

- New audit professionals obtain professional experience through proper supervision and review of their work by those who are more experienced, with the nature and extent of supervision reflecting variances in practice. (AS 1010.03)

- The engagement partner exercise seasoned judgment in the varying degrees of supervision and review of work performed and judgments exercised by subordinates, and subordinates meet the responsibilities of their work. (AS 1010.03)

- The auditor continue professional training to become aware of developments in business and the profession, and study, understand, and apply new pronouncements on accounting and auditing. (AS 1010.04)

Key provisions of AS 1015, *Due Professional Care in the Performance of Work*, require that:

- The auditor exercise due professional care in the planning and performance of the audit and the preparation of the report, including observance of the auditing standards by professionals within the auditor's organization. (AS 1015.01-.02)

- The auditor possess "the degree of skill commonly possessed" by other auditors and exercise it with "reasonable care and diligence" (i.e., due professional care) in the planning and performance of the audit and the preparation of the report. (AS 1015.01, .05)

- The engagement team be assigned to tasks and be supervised commensurate with their level of knowledge, skill, and ability so that they can evaluate the audit evidence they are examining. (AS 1015.06)

- The engagement partner know, at a minimum, the relevant professional accounting and auditing standards and be knowledgeable of the audit client and be responsible for the assignment of tasks to, and supervision of, the members of the engagement team. (AS 1015.06)

- The auditor exercise professional skepticism throughout the audit, with a questioning mind and a critical assessment of audit evidence, to diligently gather and objectively evaluate audit evidence and consider the competency and sufficiency of the evidence, and not be satisfied with less than persuasive evidence because of a belief that management is honest. (AS 1015.07-.09)

- The auditor obtain reasonable assurance about whether 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. Reasonable assurance is "a high level of assurance" but is not absolute assurance because of the nature of audit evidence and the characteristics of fraud. (AS 1015.10)

Key provisions of other standards relevant to this rulemaking include:

- AS 1201.04-.05 and AS 2101.03, which describe the engagement partner's responsibilities for supervision and review of audit documentation;

- AS 1215.06, which requires the auditor to document procedures performed, evidence obtained, and conclusions reached with respect to relevant financial statement assertions;

- AS 1215.15, which requires the auditor to complete the necessary auditing procedures and assemble for retention a complete and final set of audit documentation within 45 days after the report release date; and

- AS 2815, which explains the meaning of "present fairly" as used in the phrase "present fairly … in conformity with generally accepted accounting principles," and the basis for the auditor's opinion on whether the financial statements present fairly an entity's financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.

B. Reasons to Improve Auditing Standards

The foundational standards continue to be in effect substantially in the form adopted by the Board in 2003. In our view, the general principles and responsibilities addressed by these standards remain central to the practice of auditing. The standards could be updated to streamline and clarify the general principles and responsibilities, which would enhance the useability of the standards by making them easier to read, understand, and apply. As described above, there are opportunities to consider broader changes to better align the general principles and responsibilities of the foundational standards with those of Board-issued standards and to reflect changes in the auditing environment, which has evolved since the Board adopted the interim standards.

1. Alignment with Board-issued standards and rules

Since the adoption of the foundational standards, the Board has issued a number of new auditing standards and amendments. Certain of these standards address other principles and responsibilities that are fundamental to the conduct of an audit, including the engagement partner's supervisory and review responsibilities and general requirements for audit documentation. Expressly incorporating these specific principles and responsibilities for conducting an audit in the proposed standard and related amendments would provide the auditor with more complete direction on matters that are central to the auditor's work.

Certain descriptions in the foundational standards could be updated to align with the language used in Board-issued standards. For example, the foundational standards[13] refer to generally accepted accounting principles ("GAAP"); however, in recognition of the SEC's acceptance of filings that include financial statements prepared under accounting frameworks other than U.S. GAAP, such as International Financial Reporting Standards ("IFRS"), Board-issued standards (e.g., AS 3101) are written as framework neutral and refer instead to the applicable financial reporting framework.[14] As another example, in describing professional skepticism, AS 1015 refers to the competency and sufficiency of the audit evidence. This formulation could be updated to align with the Board-issued AS 1105, *Audit Evidence*, which refers to audit evidence as sufficient and appropriate.

The foundational standards were originally written for audits of financial statements, but certain general principles and responsibilities described in the standards (e.g., reasonable assurance, due professional care, and professional skepticism) apply equally to audits of internal control over financial reporting ("ICFR"). None of the foundational standards mention audits of ICFR or refer to AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with an Audit of Financial Statements*. While AS 2201 refers to the foundational standards for the requirements related to technical training and proficiency as an auditor, independence, and the exercise of due professional care, including professional skepticism, we believe it would be helpful to clarify that the general principles and responsibilities apply to an audit of ICFR as well as an audit of financial statements.

The general principles and responsibilities of the foundational standards could also be streamlined by conforming to the structure used in Board-issued standards. This includes adding an introduction and objectives to the proposed standard. In addition, the responsibilities could be clarified by expressing the requirements using PCAOB Rule 3101 terms (e.g., using "must" and "should" to describe the degree of responsibility that the standards impose on auditors). Any explanatory material that continues to be relevant could be relocated to the release discussion, which would facilitate the auditor's navigation of the new or revised requirements and align with the approach taken in Board-issued standards.

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13 *See, e.g.,* AS 1001. *See also* AS 2815.

14 *See* paragraph .01, footnote 1 of AS 2410, *Related Parties* ("The auditor should look to the requirements of the U.S. Securities and Exchange Commission for the company under audit with respect to the accounting principles applicable to that company …"); *Auditing Standard No. 18 – Related Parties Amendments to Certain PCAOB Auditing Standards Regarding Significant Unusual Transactions and Other Amendments to PCAOB Auditing Standards*, PCAOB Release No. 2014-002 (June 10, 2014), at A4-6 (describing the approach of AS 2410.01, footnote 1 as "framework neutral").

2. New or revised independence requirements issued by the PCAOB and the SEC

Since the adoption of AS 1005 in 2003, the PCAOB has issued independence rules that have imposed certain incremental independence requirements on registered public accounting firms, relative to SEC rules[15] (e.g., independence impairments related to tax services for persons in financial reporting oversight roles at issuer audit clients).[16] These incremental independence requirements are not expressly addressed in existing AS 1005, but nevertheless the auditor is required to comply with them. Further, while existing AS 1005 includes a general reference to the SEC's requirements for auditor independence,[17] there is no reference to the specific requirements. We believe that it would be helpful to refer explicitly to the requirements that govern auditor independence, including independence requirements set out by the SEC, which include an overarching provision for the auditor to maintain independence from its client in fact and in appearance.

3. Advancements in technology affecting the availability of electronic audit tools and use of audit software

Since the foundational standards were adopted by the PCAOB, there have been advancements in technology affecting the availability of electronic audit tools and use of audit software. Auditors have largely moved away from a paper-based approach to audit documentation in favor of using software that houses electronic workpapers and audit programs. Use of electronic workpapers facilitates more efficient performance and review of audit procedures and enables auditors to assemble a complete and final set of audit documentation in less time than in a paper-based environment.

Auditors are also expanding their use of and reliance on electronic audit tools. For example, some firms have made significant investments in internally developed tools for use in the audit. In addition, some "off-the-shelf" applications such as data analysis software have become available to auditors. These advancements have changed the way that many auditors perform and document their audit procedures and retain related audit documentation.

4. Outdated and inconsistent language

The foundational standards include outdated and inconsistent language that is not relevant to audits conducted under the standards of the PCAOB. For example, paragraph .03 of AS 1001 provides that the auditor may draft the financial statements in whole or in part based

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[15] *See generally, e.g.*, PCAOB rules under Section 3. Auditing and Related Professional Practice Standards, Part 5 – Ethics and Independence.

[16] *See* PCAOB Rule 3523, *Tax Services for Persons in Financial Reporting Oversight Roles.*

[17] *See* Section 10A(g) of the Securities Exchange Act of 1934, 15 U.S.C. § 78j-1(g); Regulation S-X Rule 2-01, 17 C.F.R. § 210.2-01.

on information from management during performance of the audit. This provision is outdated and should not be included in PCAOB auditing standards because an auditor drafting the financial statements would violate the applicable independence rules.[18] Eliminating outdated language from the auditing standards would remove inconsistencies between the auditing standards and rules of the PCAOB and the SEC and provide clearer direction to auditors in executing their responsibilities. Similarly, in describing the objective of the audit, paragraph .01 of AS 1001 refers to financial position, results of operations, and cash flows. This language could be unnecessarily limiting because the objective of the audit does not change based on the subject matter of the audit (e.g., whether it is an audit of ICFR or the financial statements).

5. Activities of other standard setters

Since the Board's adoption of the foundational standards, both the International Auditing and Assurance Standards Board ("IAASB") and the Auditing Standards Board ("ASB") of the AICPA have updated their analogous standards:

- IAASB Standard – International Standards on Auditing 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing* ("ISA 200") (effective 2008); and

- ASB Standard – AU-C Section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards* ("AU-C 200") (effective 2012).

These revisions were part of clarity projects that were designed to make the standards easier to read, understand, and apply.[19] These standards were updated to align the terminology used throughout the standards for consistency and to enhance and update explanatory materials. A comparison of proposed AS 1000 to the analogous standards of other standard setters is available on the Board's website in Docket 049.

III. DISCUSSION OF PROPOSAL

A. Overview of Proposal

We are proposing to replace AS 1001, AS 1005, AS 1010, and AS 1015 with one standard, AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*, that would

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[18] *See* Regulation S-X Rule 2-01(c)(4)(i), 17 C.F.R. § 210.2-01(c)(4)(i).

[19] Descriptions of the clarity projects of the IAASB and ASB are available, respectively, at https://www.iaasb.org/projects/clarity-iaasb-standards and https://us.aicpa.org/interestareas/frc/auditattest/improvingclarityasbstandards.

describe the general responsibilities of an auditor[20] in conducting an audit in accordance with the standards of the PCAOB. Briefly, the proposed standard would:

- Include objectives for the auditor in conducting and communicating the results of both an audit of a company's financial statements and an audit of the company's internal control over financial reporting;

- Retain and clarify the general principles and responsibilities that are important for an audit, including reasonable assurance, due professional care, professional skepticism, and professional judgment;

- Align the engagement partner's supervisory responsibilities under AS 1201 with due professional care;

- Retain the requirement for the auditor to be independent but express the obligation more directly by referring to the PCAOB's independence rules and standards, and the SEC's independence criteria;

- Describe the auditor's obligations to (i) comply with ethics requirements, (ii) obtain and maintain competence, and (iii) prepare audit documentation;

- Express the auditor's responsibilities by using the terms set forth in PCAOB Rule 3101 (e.g., must and should) that describe the degree of responsibility that PCAOB standards impose on auditors; and

- Remove language that is outdated, inconsistent, and not relevant to audits conducted under the standards of the PCAOB.

As previously noted, we are proposing changes to other PCAOB standards that address responsibilities fundamental to the conduct of an audit to:

- Clarify the engagement partner's existing responsibilities for supervision and review in AS 1201, AS 1215, and AS 2101 to provide more specificity about the engagement partner's responsibility to exercise due professional care related to supervisory and review activities required to be performed under existing auditor requirements;

- Clarify the requirements for audit documentation in AS 1215 to identify who performed the work, who reviewed the work, and the date of such review;

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[20] The term "auditor" includes both a public accounting firm registered with the PCAOB and associated persons thereof, as defined in Rule 1001, *Definitions of Terms Employed in Rules*. For example, engagement quality reviewers, by virtue of their status as associated persons, are within the term "auditor" in proposed AS 1000. *See also* paragraph .03 of AS 1220, *Engagement Quality Review*.

- Accelerate the period in AS 1215 to assemble a complete and final set of audit documentation for retention from 45 days to 14 days; and

- Update and incorporate the underlying requirements of AS 2815 into AS 2810, and rescind AS 2815, to clarify the meaning of "presents fairly" and streamline the requirements to provide a more logical presentation.

B. Proposed AS 1000

1. Introduction and objective

See paragraphs .01 through .03 of the proposed standard in Appendix 1.

Auditors have a fundamental obligation to the public by serving as the protector of the public interest in the integrity of financial statements. The Supreme Court described this responsibility as a "public watchdog" function that "demands that the accountant maintain total independence from the client at all times and requires complete fidelity to the public trust."[21] We believe it is important to explicitly remind auditors of their obligation to protect investors through the preparation and issuance of informative, accurate, and independent auditor's reports.

As noted in the proposed standard, an audit primarily benefits investors who rely on the audit to provide objective and independent opinions on whether a company's financial statements are presented fairly and on, if applicable, the effectiveness of the company's internal control over financial reporting. A properly conducted audit and related auditor's report enhance the confidence of investors and other market participants in the company's financial statements and, if applicable, ICFR.

The proposed standard addresses the general principles and responsibilities of the auditor in properly conducting an audit in accordance with the standards of the PCAOB. An audit conducted in accordance with these standards provides the basis for the auditor to express an opinion in the auditor's report on which investors and other financial statement users can rely on when making investment decisions.

The proposed standard sets out the objectives of the auditor, states requirements for the auditor's professional qualifications and the auditor's general responsibilities applicable in

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[21] *See United States v. Arthur Young & Co.*, 465 U.S. 805, 817-18 (1984) (also noting that an "independent certified public accountant … [b]y certifying the public reports that collectively depict a corporation's financial status, … assumes a *public* responsibility transcending any employment relationship with the client. The independent public accountant performing this special function owes ultimate allegiance to the corporation's creditors and stockholders, as well as to [the] investing public") (emphasis in original).

all audits, and describes the auditing principles relevant to conducting an audit. The requirements of the proposed standard would apply to an audit of financial statements and an audit of internal control over financial reporting. We are proposing that the standard cover both types of audits because the general principles are the same, and the general objectives of the auditor are similar.

Many of the general principles and responsibilities described in proposed AS 1000 also apply to interim review and attestation engagements. Therefore, we are proposing amendments, consistent with proposed AS 1000, to certain provisions in those standards to make similar improvements.[22]

Under the proposed standard, the objectives of the auditor are: (i) in an audit of financial statements, obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and issue an auditor’s report that expresses an opinion about whether the financial statements, taken as a whole, are presented fairly, in all material respects, in conformity with the applicable financial reporting framework; (ii) in an audit of internal control over financial reporting, obtain reasonable assurance about whether material weaknesses exist as of the date specified in management’s assessment, and issue an auditor’s report that expresses an opinion on the effectiveness of the company’s internal control over financial reporting; and (iii) communicate externally in accordance with applicable professional and legal requirements.

The term “applicable professional and legal requirements,” as defined in the recently proposed quality control standard (“proposed QC 1000”),[23] includes: (i) professional standards, as defined in PCAOB Rule 1001(p)(vi); (ii) rules of the PCAOB that are not professional standards; and (iii) to the extent related to the obligations and responsibilities of accountants or auditors or to the conduct of engagements, rules of the SEC, other provisions of U.S. federal securities law, and other applicable statutory, regulatory, and other legal requirements. This definition is intended to capture all professional and legal requirements specifically related to audits of issuers and SEC-registered broker and dealers performed under PCAOB standards, including the relevant accounting and auditing standards, PCAOB and SEC rules, other federal securities laws (e.g., Section 10A of the Securities Exchange Act of 1934), other relevant laws and regulations (e.g., state law and rules governing accountants), and other legal requirements related to the obligations and responsibilities of auditors or to the conduct of the audit.

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22 *See* Appendix 4 of this release for these other proposed amendments.

23 *See* PCAOB Release No. 2022-006. Proposed QC 1000 includes some definitions and amendments that are also included in proposed AS 1000. If, prior to the conclusion of this rulemaking, the Board has adopted definitions and amendments in proposed QC 1000 that affect this rulemaking, the Board may make conforming changes to proposed AS 1000.

Other than AS 1001,[24] the foundational standards do not include an objective. Adding overarching objectives of the auditor in the proposed standard would emphasize the purpose of the procedures set forth in a standard. The inclusion of the objectives would also be consistent with other Board-issued standards.

2. Professional qualifications of the auditor

i. Independence and Ethics

See paragraphs .04 through .06 of the proposed standard in Appendix 1.

The proposed standard would carry forward the existing requirement in AS 1005 for the auditor to be independent. We are also proposing to directly align language that describes auditor independence obligations with language used in PCAOB Rule 3520, *Auditor Independence,* and Regulation S-X Rule 2-01, *Qualifications of Accountants* ("Rule 2-01").[25] Under the proposed standard, the auditor would be required to be independent of its audit client both in fact and in appearance throughout the audit and professional engagement period.[26]

An auditor's independence is a basic tenet of auditing. Auditors are required to be both independent in fact – that is, objective and unbiased in attitude – and independent in appearance to others. If investors do not perceive that the auditor is independent from the audit client, they will likely derive less confidence from the auditor's report and the audited financial statements.[27]

The proposed standard clarifies that the auditor is not independent with respect to an audit client if the auditor is not, or a reasonable investor with knowledge of all relevant facts and circumstances would conclude that the auditor is not, capable of exercising objective and impartial judgment on all matters encompassed within the engagement. This clarification aligns

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[24] *See* AS 1001.01.

[25] Regulation S-X Rule 2-01, 17 C.F.R. § 210.2-01.

[26] *See* PCAOB Rule 3501, *Definitions of Terms Employed in Section 3, Part 5 of the Rules*, for the definition of the term "audit and professional engagement period."

[27] *See United States v. Arthur Young & Co.*, 465 U.S. 805, 819 n.15 (1984) ("It is therefore not enough that financial statements *be* accurate; the public must also *perceive* them as being accurate. Public faith in the reliability of a corporation's financial statements depends upon the public perception of the outside auditor as an independent professional.").

the standard with language used in SEC Rule 2-01(b)[28] to explain further the meaning of being independent both in fact and in appearance.

Since the adoption of AS 1005 by the Board in 2003, the PCAOB has added incremental independence obligations for registered public accounting firms, such as prohibitions on tax services for persons in financial reporting oversight roles at issuer audit clients and communications with audit committees concerning independence.[29] These additional independence requirements are not expressly addressed in existing AS 1005, but nevertheless the auditor is required to comply with them. We believe that it would be helpful to specify in the proposed standard the requirements that govern auditor independence. Therefore, the proposed standard would require the auditor to satisfy the independence criteria set out in the rules and standards of the PCAOB, and satisfy all other independence criteria applicable to the engagement, including the independence criteria set out in the rules and regulations of the SEC.

The PCAOB's interim independence standards cover many of the same topics as the rules of the SEC. Recognizing the overlap, the Board requires firms to comply with the more restrictive of the Board's independence standards or the SEC's rules.[30] As a reminder of these obligations, the proposed standard refers to PCAOB Rule 3500T for this requirement.

The proposed standard would also require the auditor to comply with applicable ethics requirements, including the rules and standards of the PCAOB.[31] These requirements include the rules in Section 3, Part 5 of PCAOB rules and proposed EI 1000, *Integrity and Objectivity*, of PCAOB Release No. 2022-006.

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[28] Under the general standard in Rule 2-01(b), the SEC "will not recognize an accountant as independent, with respect to an audit client, if the accountant is not, or a reasonable investor with knowledge of all relevant facts and circumstances would conclude that the accountant is not, capable of exercising objective and impartial judgment on all issues encompassed within the accountant's engagement."

[29] *See* PCAOB Rule 3523, *Tax Services for Persons in Financial Reporting Oversight Roles*, and PCAOB Rule 3526, *Communication with Audit Committees Concerning Independence*.

[30] *See* PCAOB Rule 3500T, *Interim Ethics and Independence Standards*.

[31] In conducting an audit in accordance with PCAOB standards, paragraph .15 of the proposed standard would also require the auditor to comply with all applicable professional and legal requirements, which would include other applicable requirements regarding accountant ethics and independence, such as those arising under state law or the law of other jurisdictions (e.g., obligations regarding client confidentiality).

ii. Competence

See paragraphs .07 and .08 of the proposed standard in Appendix 1.

AS 1010 uses the term "adequate technical training and proficiency" to describe the requirements for proper education, ongoing training, and experience in auditing.[32] We are proposing to replace the term "adequate technical training and proficiency" with the term "competence." This approach would align the proposed standard with the terminology of proposed QC 1000. The proposed standard would require that the audit be performed by an auditor who has the competence to conduct an audit in accordance with the applicable professional and legal requirements[33] and the firm's policies and procedures.

Competence, as described in the proposed standard, consists of having the knowledge, skill, and ability that enable an auditor to perform the assigned activities in accordance with applicable professional and legal requirements and the firm's policies and procedures. The auditor's knowledge and skill relate to adequate technical training and proficiency as an auditor. The auditor's ability relates to the capabilities to perform, and in the case of supervisory staff, to review assigned tasks, which include sufficient time and resources to comply with applicable professional and legal requirements.

The level of competence needed would be driven by the activities that an auditor is assigned, so that such activities are performed in accordance with the applicable professional and legal requirements and the firm's policies and procedures. The proposed standard provides that, in determining the appropriate level of competence, the measure is qualitative rather than quantitative because quantitative measurement may not accurately reflect the experience gained over time. For example, 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.

The proposed standard would require the auditor to develop and maintain competence through an appropriate combination of academic education, professional experience in accounting and auditing with proper supervision, and training, including accounting, auditing, independence, ethics, and other relevant continuing professional education. The proposed standard also notes that competence includes knowledge and expertise 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. The auditor's responsibilities under the proposal are consistent with the provisions in AS 1010, but streamlined by eliminating unnecessary descriptions, such as vague references to "general education" and "wide variances in practice."

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32 *See* AS 1010.01.

33 *See* Section III.B.1 for discussion of the term "applicable professional and legal requirements."

AS 1010 also includes requirements related to the extent of supervision and the supervision responsibilities of the engagement partner. Specifically, AS 1010 requires that the engagement partner exercise judgment in the varying degrees of supervision and review of work performed.[34] Because AS 1201 provides requirements for the extent of supervision under PCAOB standards, we are amending AS 1201 to further clarify the supervisory responsibilities of the engagement partner.[35]

3. Due professional care, including professional skepticism

See paragraphs .09 through .11 of the proposed standard in Appendix 1.

Under AS 1015, the auditor is required to exercise due professional care in the planning and performance of the audit and the preparation of the report. This requirement is being retained in the proposed standard with clarifications.

The proposed standard would require the auditor to exercise due professional care "in all matters related to the audit" rather than "in the planning and performance of the audit and the preparation of the report." We are proposing this change to clarify that the obligation to exercise due professional care encompasses all aspects of planning and performing an audit, including client acceptance and continuance procedures, and extends to periods after the issuance of the auditor's report, such as completion of audit documentation,[36] reporting on Form AP,[37] and procedures performed in connection with filings under the federal securities statutes.[38]

Under the proposed standard, due professional care concerns what the auditor does and how well the auditor does it. Due professional care means acting with reasonable care and diligence, exercising professional skepticism, acting with integrity, and complying with applicable professional and legal requirements. We are proposing to retain "reasonable care and diligence" and clarify that "good faith and integrity" means acting with "integrity." Under a new standard we have recently proposed that would recodify the concepts of integrity and objectivity (EI 1000), "integrity" includes being honest and candid and not knowingly

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34 *See also* Section 105(c)(6) of Sarbanes-Oxley (authorizing PCAOB to impose sanctions on a registered firm or person for failure to reasonably supervise an associated person of the firm).

35 *See* Appendix 3 for proposed amendments to AS 1201.04-.05.

36 *See* paragraph .15 of AS 1215, *Audit Documentation* (as proposed to be amended).

37 *See* PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.

38 *See* AS 4101, *Responsibilities Regarding Filings Under Federal Securities Statutes*, which describes the auditor's responsibilities when the auditor's report is included in filings under federal securities statutes.

misrepresenting facts.[39]

The concept of due professional care is described in AS 1015 by quoting a 1932 legal treatise. We believe the reference to that treatise is unnecessary and are proposing to describe in plain language the concept of due professional care, without changing its meaning.

The proposed standard retains and makes more specific the engagement partner's responsibility to exercise due professional care. For engagement partners, due professional care includes (1) appropriately assigning responsibilities to, and supervising, engagement team members; (2) determining that the audit is properly planned and performed to obtain reasonable assurance; (3) evaluating that significant findings or issues are appropriately addressed; (4) determining that significant judgments and conclusions on which the auditor's report is based are appropriate and supported by sufficient appropriate audit evidence; and (5) determining that required communications under applicable professional and legal requirements have been made. Under existing standards, the engagement partner is responsible for the audit and its planning and performance and thus is responsible for the assigned tasks and the supervision of engagement team members with due professional care.[40] The proposed clarification regarding the engagement partner's evaluation of significant findings or issues, determinations regarding significant judgments and conclusions, and determinations regarding required communications is consistent with the engagement partner's responsibility for the audit.[41]

As part of exercising due professional care, the engagement partner assigns activities to engagement team members that adequately match their levels of competence. In general, the engagement team members' competence should be commensurate with the level of professional judgment required to fulfill an assigned activity. For example, an inventory count that includes comparing actual quantities with what the company reported on inventory count sheets may require less expertise or experience, and a less experienced engagement team member may be suited to perform the task. On the other hand, the evaluation of an impairment analysis may involve complex judgments, and a more experienced engagement team member with appropriate training may be best suited to carry out this task. Further, the engagement partner is responsible for proper supervision of the work of engagement team members as described in AS 1201.

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39 *See* proposed EI 1000, *Integrity and Objectivity*, in PCAOB Release No. 2022-006.

40 *See* additional discussion of amendments to AS 1201.03-.06 in Section III.C.2.

41 *See, e.g., In the Matter of Melissa K. Koeppel*, PCAOB File No. 105-2011-007, at 78 (Dec. 29, 2017) (stating that the engagement partner, as the "auditor with 'final responsibility' for the audit," must act with due professional care to see that the audit team performs all of the audit procedures that are required under the circumstances by PCAOB auditing standards, obtains reasonable assurance that the financial statements are free of material misstatement, and obtains sufficient appropriate evidence to afford a reasonable basis for the audit opinion).

The proposed clarifications of the engagement partner's responsibilities related to due professional care leverage existing requirements for planning and performing an audit and completing the corresponding audit documentation. For example, AS 1215 describes matters that are considered to be significant findings or issues in an audit and requires the auditor to document the significant findings or issues, including the actions taken to address them.[42] As part of the engagement partner's supervisory responsibilities under AS 1201, we believe that the engagement partner would need to timely evaluate the significant findings and issues identified by the engagement team to ensure appropriate action was taken.[43]

Similarly, significant judgments made by the engagement team, as described in AS 1220, would also warrant the engagement partner's review. Because the engagement partner has final responsibility for the engagement, they have final responsibility for the significant judgments made during the engagement, notwithstanding any involvement in or responsibility for those judgments by firm personnel outside of the engagement team, such as members of the firm's national office. Accordingly, the "significant judgments made by the engagement team" include all of the significant judgments made during the engagement.[44] By including these clarifications in the proposed standard, the engagement partner's supervisory and review activities would be aligned with existing auditor responsibilities.

We are also proposing to retain language related to an auditor's use of the work of other auditors, which emphasizes that other auditors are responsible for performing their work with due professional care.[45]

Professional skepticism is an important part of exercising due professional care in conducting an audit. Professional skepticism allows the auditor to recognize circumstances that may cause the financial statements to be materially misstated. The proposed standard retains the concept of professional skepticism in substantially the same form as it is described in AS 1015. The proposed standard describes professional skepticism as an attitude that includes a questioning mind and a critical assessment of information related to the audit. In describing the concept, we propose 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. For example, by exercising professional skepticism in the preparation of Form AP, the

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42 *See* AS 1215.12.

43 *See* AS 1201.05.

44 *See* Auditing Standard No.7 – *Engagement Quality Review and Conforming Amendment to the Board's Interim Quality Controls Standards*, PCAOB Release No.2009-004 (July 28, 2009), at 4 n.7.

45 *See Planning and Supervision of Audits Involving Other Auditors and Dividing Responsibility for the Audit with Another Accounting Firm*, PCAOB Release No. 2022-002 (June 21, 2022) (amendments approved by SEC in Release No. 34-95488 (Aug. 12, 2022)), which amended AS 1015 to add this provision. We are proposing to retain the added language in a footnote to AS 1000.

auditor may become aware of inconsistencies in total audit hours reported by another accounting firm participating in the audit and take corrective action.

The proposed standard emphasizes that the auditor would exercise professional skepticism by objectively evaluating audit evidence obtained in an audit and considering the sufficiency and the appropriateness (i.e., relevance and reliability) of that evidence. The exercise of professional skepticism is particularly important in obtaining and evaluating audit evidence when responding to assessed risks of material misstatement, including fraud risks. Audit evidence is necessary to support the auditor's opinion. While it is primarily obtained from audit procedures performed during the audit, audit evidence may also include information obtained from other sources such as previous audits, client acceptance or continuance procedures, and understanding the company's relevant industry, regulatory environment, and legal and political environment. Audit evidence consists of both information that supports and corroborates management's assertions, and any information that contradicts such assertions.[46]

As part of exercising professional skepticism, the auditor also remains alert to conditions that may indicate possible misstatement due to error or fraud. This includes, for example, being alert to information that calls into question the reliability of documents and responses to inquiries the auditor plans to use as audit evidence. Such information could identify conditions that may indicate possible fraud or error in the financial statements.

Further, the proposed standard specifies that the auditor would exercise professional skepticism by not relying on evidence that is less than persuasive, and avoiding assumptions that management is honest or dishonest. In addition, in exercising professional skepticism, the auditor would consider the impact of management bias and the auditor's own bias that could affect the auditor's own judgments. For example, the tendency to seek confirming information can lead the auditor to seek audit evidence that is only consistent with management's explanations, or to favor conclusions that are consistent with the auditor's initial beliefs. 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.[47] The auditor also considers the impact of management bias, such as management bias in accounting estimates or in the selection and application of accounting principles.[48]

Auditors and management may have biases related to electronic information. For example, a tendency to favor output generated from automated systems, even when

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[46] *See* AS 1105.02.

[47] For a discussion of confirmation bias, *see, e.g.*, Raymond S. Nickerson, *Confirmation Bias: A Ubiquitous Phenomenon in Many Guises*, 2 Review of General Psychology 175 (1998).

[48] *See, e.g.,* AS 2810 for examples of forms of management bias and the related auditor requirements.

contradictory information raises questions as to whether such output is reliable, illustrates a form of bias. Exercising professional skepticism, including critically assessing information related to the audit, helps the auditor address the effects of potential bias on professional judgment and decision-making.

AS 1015 states that "engagement team members should be assigned to tasks and supervised commensurate with their level of knowledge, skill, and ability so that they can evaluate the audit evidence they are examining."[49] Other PCAOB standards already include these requirements. Specifically, (i) AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*,[50] and proposed QC 1000[51] address the assignment of tasks, and (ii) AS 1201 addresses supervision.[52] Therefore, rather than repeating the requirements, we added references to AS 2301 and AS 1201 in the proposed standard.

4. Professional Judgment

See paragraph .12 of the proposed standard in Appendix 1.

Auditors exercise professional judgment throughout the audit. For example, the auditor exercises professional judgment in:

- Determining the areas to be tested and the nature, timing, and extent of the tests to be performed;
- Interpreting the results of audit testing and evaluating audit evidence;
- Evaluating the reasonableness of accounting estimates in significant accounts and disclosures, based on information that could reasonably be expected to be available through the date of the auditor's report;[53]

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49 *See* AS 1015.06.

50 *See* Appendix 4 for proposed amendment to AS 2301.05.

51 *See* proposed QC 1000.44c (providing, as a resource quality objective, that individuals who are assigned to engagements, including the engagement partner and engagement quality reviewer, have the competence, objectivity, and time to fulfill their responsibilities on such engagements in accordance with applicable professional and legal requirements and the firm's policies and procedures); PCAOB Release No. 2022-006.

52 *See* Appendix 3 for proposed amendment to AS 1201.06.

53 *See* AS 2501, *Auditing Accounting Estimates, Including Fair Value Measurements*, which discusses the auditor's responsibility to obtain sufficient appropriate evidence to determine whether accounting estimates in significant accounts and disclosures are properly accounted for and disclosed in the financial statements.

- Determining if there are any critical audit matters in the audit of the financial statements;[54] and
- Determining the nature and extent of documentation to comply with documentation requirements.[55]

Although the existing standards refer to the use of professional judgment, they do not explain what it means. We believe that describing professional judgment would be helpful because it is a general principle and responsibility. Therefore, the proposed standard would require the auditor to exercise professional judgment, and provides that professional judgment involves applying relevant training, knowledge, and experience to make informed decisions and reach well-reasoned conclusions about the courses of action that are appropriate in the circumstances such that the audit is planned and performed, and the report or reports are issued, in accordance with applicable professional and legal requirements.[56] The reference to professional and legal requirements would provide context for the exercise of professional judgment, and is not intended to create a new requirement.

5. Conducting an audit

See paragraphs .13 through .16 of the proposed standard in Appendix 1.

The proposed standard would require the auditor to plan and perform the audit to obtain sufficient appropriate audit evidence to (a) obtain reasonable assurance about whether: (1) in an audit of financial statements, the financial statements are free of material misstatement, whether due to error or fraud, or (2) in an audit of ICFR, material weaknesses exist as of the date specified in management's assessment; and (b) provide the auditor with a reasonable basis for forming an opinion. This requirement was retained from AS 1001 and AS 1015 but expanded to cover an audit of ICFR.

The proposed standard further retains the distinction between the responsibilities of the auditor and management and expands those responsibilities to include an audit of ICFR. We are proposing to streamline the language from AS 1001 and describe the respective responsibilities by leveraging the language used to describe the responsibilities in the auditor's reports on the audit of financial statements[57] and the audit of ICFR.[58] The phrase "the financial statements are management's responsibility" encompasses the preparation of the financial

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[54] *See* AS 3101 for requirements regarding critical audit matters.

[55] *See* AS 1215 for documentation requirements.

[56] The description of professional judgment is similar to the definition in the IAASB and AICPA standards.

[57] *See* AS 3101.09a-b.

[58] *See* AS 2201.85Da and c.

statements by management, including adopting sound accounting policies and establishing and maintaining internal control that will, among other things, initiate, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

We are proposing to retain the concept of reasonable assurance and the corresponding description from AS 1015 as a high level of assurance. The term "reasonable assurance" describes the level of assurance auditors are required to obtain by performing audit procedures and evaluating the resulting audit evidence when expressing an opinion that the financial statements are fairly presented in conformity with the applicable financial reporting framework or, in an audit of ICFR, about whether material weaknesses exist. Reasonable assurance refers to the auditor's degree of satisfaction that the evidence obtained during the performance of the audit supports the assertions embodied in the financial statements. It is obtained by reducing audit risk to an appropriately low level (i.e., the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated or in an audit of ICFR, when a material weakness exists) through applying due professional care, including obtaining sufficient appropriate audit evidence.[59]

The auditor's report on the audit of financial statements explicitly states that "the audit was conducted in accordance with the standards of the PCAOB" and that those "standards require that the auditor 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."[60] AS 1015 describes reasonable assurance with additional discussion of limitations of an audit.[61] We did not retain the descriptions of the limitations; rather we discussed how reasonable assurance can be obtained.

The proposed standard would also require the auditor to comply with applicable professional and legal requirements in conducting the audit. In fulfilling these requirements, the auditor should keep in mind their role in protecting investors. This provision emphasizes that the overall objective of the auditor is achieved by complying with more than just the standards of the PCAOB. This includes compliance with requirements of Section 10A of the Securities Exchange Act of 1934 related to illegal acts, related party transactions, and an evaluation of whether there is substantial doubt about the ability of the company to continue as a going concern.[62] The proposed requirement also reminds auditors of the importance of keeping investor protection in mind when complying with the applicable professional and legal requirements.

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[59] *See* AS 1101.03-04.

[60] *See* AS 3101.09c and d.

[61] *See, e.g.,* AS 1015.10-.13.

[62] *See* 15 U.S.C. § 78j-1.

The proposed standard would include a note providing that, as part of complying with all applicable professional and legal requirements in conducting the audit, the auditor should take into account relevant guidance applicable to the audit. This requirement is similar to the requirement in AS 1001 to consider the auditing interpretations issued by the AICPA in existence when the Board adopted the interim standards and which are still in effect.[63] The provision in the proposed standard, however, is not limited to those interpretations. It also includes taking into account relevant Board-issued guidance[64] and releases that accompany the rules and standards of the Board. The PCAOB supports the implementation of and compliance with its standards in many ways, including providing guidance in the rulemaking releases that accompany standards, amendments, or rules being adopted. We believe that it is important for auditors to take into account such guidance when conducting an audit in accordance with the standards of the PCAOB because it may help the auditor comply with complex provisions of those standards or rules. The proposed provision does not cover staff guidance.[65] Notwithstanding, auditors may find staff guidance useful to aid with the implementation and interpretation of PCAOB auditing standards.

The PCAOB has emphasized the importance of adequate audit documentation. When the PCAOB adopted the auditing standard on documentation (AS 1215), it stated that "the quality and integrity of an audit depends, in large part, on the existence of a complete and understandable record of the work the auditor performed, the conclusions the auditor reached, and the evidence the auditor obtained that supports those conclusions."[66] Because of the general importance of documentation to the planning and performance of the audit and to the supervision and review of work performed during the audit, the proposed standard would require the auditor to prepare audit documentation in accordance with AS 1215.

i. Auditor Communications

See paragraphs .17 through .19 of the proposed standard in Appendix 1.

AS 1001 describes the auditor's report as the medium through which the auditor communicates the results of the audit (i.e., expresses an opinion, or if circumstances require,

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[63] *See* AS 1001.11.

[64] *See, e.g.,* Policy Statement Regarding Implementation of Auditing Standard No. 2, *An Audit Of Internal Control Over Financial Reporting Performed In Conjunction With An Audit Of Financial Statements*

[65] The PCAOB staff develops guidance to assist in the implementation of PCAOB standards and rules. These documents represent the views of PCAOB staff and not necessarily those of the Board. The documents are not rules, policies, or statements of the Board. *See, e.g.,* PCAOB Staff Audit Practice Alerts, which highlight new, emerging, or otherwise noteworthy circumstances that may affect how auditors conduct audits under the existing requirements of PCAOB standards.

[66] *See* Paragraph A4 of AS 1215, Appendix A: Background and Basis for Conclusions.

asserts that an opinion cannot be expressed) to investors and other financial statement users. The proposed standard includes an explicit requirement for the auditor's report to contain: (i) an expression of opinion on the financial statements, taken as a whole, or an assertion that an opinion cannot be expressed; and if applicable, (ii) 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.

Under the proposed standard, the auditor would be in a position to express an unqualified opinion only when the auditor has performed the audit in accordance with standards of the PCAOB and has obtained sufficient appropriate audit evidence to conclude that: (i) in an audit of financial statements, the financial statements, taken as a whole, are presented fairly, in all material respects, in conformity with the applicable financial reporting framework; and (ii) in an audit of internal control over financial reporting, the company maintained in all material respects, effective internal control over financial reporting. This proposed requirement is consistent with provisions of AS 3101 and AS 2201, respectively.

The proposed standard briefly addresses when circumstances require an auditor to express a qualified opinion, adverse opinion, or disclaimer of opinion and refers to AS 3105, *Departures from Unqualified Opinions and Other Reporting Circumstances*, and AS 2201.90-.98 and Appendix C of AS 2201 for a description of circumstances that require that the auditor express a qualified opinion, adverse opinion, or disclaimer of opinion on the financial statements or the company's internal control over financial reporting, and state the reasons for the departure from the unqualified opinion. We believe that such reference, also included in AS 3101, would serve as a helpful reminder for auditors complying with this standard.

See paragraph .20 of the proposed standard in Appendix 1.

In addition to reporting externally on the results of the audit, the auditor has a responsibility to make other communications, such as communication about audit results to the audit committee. These various external communications are addressed by applicable professional and legal requirements. We believe it is important to describe this responsibility in the proposed standard as an overarching responsibility to communicate externally. Therefore, the proposed standard would state that one of the objectives of the auditor is to communicate externally, as required by applicable professional and legal requirements. The auditor would look to the underlying requirements for the nature and timing of these required external communications (e.g., AS 1301, *Communications with Audit Committees,* for the auditor's requirements related to communications with audit committees). The requirement is not intended to limit other appropriate communications made by the auditor.

C. Proposed Amendments Related to AS 1000

Appendices 2 through 4 to this release present proposed amendments to PCAOB standards related to AS 1000. The proposed amendments are described below.

1. Proposed amendments to AS 2810 and rescission of AS 2815 (Appendix 2)

We are proposing to rescind AS 2815 and incorporate its requirements into AS 2810 for a more logical presentation of requirements regarding whether the financial statements are presented fairly in conformity with the applicable financial reporting framework. Currently, AS 2810 requires the auditor to evaluate whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework, and AS 2815 describes the meaning of this evaluation. The cross references between AS 2810 and AS 2815 are unnecessary and may be confusing for auditors trying to navigate the requirements. The proposed approach would eliminate such potential confusion by retaining and incorporating requirements of AS 2815 into AS 2810. We are not proposing to retain the remaining paragraphs in AS 2815 because the paragraphs contain no requirements and are explanatory in nature.

Our proposed movement of requirements from AS 2815 into AS 2810 includes an important clarification of the auditor's existing responsibilities. Specifically, the amendments would clarify that the auditor's evaluation of fairness goes beyond the evaluation of whether the financial statements are presented in conformity with the applicable financial reporting framework. U.S. federal securities laws prohibit the financial statements and company disclosures from being materially misleading,[67] which is a broader concept than mere compliance with the applicable financial reporting framework. Presented fairly, under extant PCAOB standards, is a parallel concept that goes beyond mere technical compliance with the applicable financial reporting framework. However, the existing standards may not be sufficiently clear that the auditor's obligation concerning the fairness of the financial statements extends beyond compliance with the applicable financial reporting framework. See Appendix 2 for these proposed amendments.

In proposed AS 1000, we are proposing to include a reference to AS 2810 addressing the auditor's responsibilities to evaluate whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.

2. Proposed amendments related to engagement partner responsibilities (Appendix 3)

AS 1201 and AS 2101 establish the engagement partner's responsibility for the engagement and its performance, including planning, supervision, and review. They include provisions that enable the engagement partner to seek assistance in fulfilling those responsibilities. AS 1201 and AS 2101 use "seek assistance" to indicate that the engagement partner is allowed to use other engagement team members to help plan, supervise, and review

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67 Exchange Act Rule 12b-20, 17 C.F.R. § 240.12b-20, requires that issuers disclose "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."

the engagement; however, they do not allow the engagement partner to delegate his or her primary responsibility for the engagement to another person or persons. We are proposing to amend the existing requirements in AS 1201 and AS 2101 to clarify that even when the engagement partner seeks assistance from other engagement team members, the engagement partner retains the primary responsibility for the engagement and its performance.

In this regard, other proposed amendments to AS 1201 would clarify the extent of the planning, supervisory, review, and documentation activities to be performed by the engagement partner by aligning those activities with existing auditor responsibilities under AS 1015. The extent of supervision necessary by an engagement partner is addressed in AS 1201. The PCAOB release that adopted AS 1201 in 2010 (which was designated at that time as AS No. 10) states that, although the extent of supervision of the work of an individual engagement team member may increase or decrease (based on factors such as risk of material misstatement and the nature of work assigned), supervision cannot be eliminated. The release noted that "the extent of supervision should be commensurate with the risks of material misstatement … [and] that the higher risk areas of the audit require more supervisory attention from the engagement partner."[68]

Proper supervision by the engagement partner includes evaluating that the work of engagement team members was performed and documented.[69] As explained in the PCAOB's adopting release for the standard on audit documentation, "inadequate audit documentation diminishes audit quality on many levels. First, if audit documentation does not exist for a particular procedure or conclusion related to a significant matter, its absence casts doubt as to whether the necessary work was done. If the work was not documented, then it becomes difficult for members of the engagement team, and others, to know what was done, what conclusions were reached, and how those conclusions were reached."[70]

We believe that the engagement partner's review of audit documentation is an important part of supervision. The proposed amendments reaffirm the engagement partner's supervisory and review responsibilities in the context of exercising due professional care.[71] Specifically, we are proposing to add a note stating: notwithstanding assistance from other engagement team members performing supervisory activities, the engagement partner is required to review sufficient documentation to determine that (i) the engagement was performed as planned; (ii) significant judgments were appropriate and significant findings and issues, along with matters brought to the engagement partner's attention pursuant to

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68 *See Auditing Standards Related to the Auditor's Assessment of and Response to Risk and Related Amendments to PCAOB Standards*, Release No. 2010-004 (August 5, 2010), at A10-17.

69 *See* AS 1201.05.

70 *See Audit Documentation and Amendment to Interim Auditing Standards,* PCAOB Release No. 2004-006 (June 9, 2004), at A1-15.

71 *See* proposed AS 1000.09 discussed above.

paragraph .05b, were appropriately addressed; (iii) the conclusions expressed in the auditor's report are appropriate and supported by sufficient appropriate evidence; and (iv) matters requiring communication under applicable professional and legal requirements are appropriately identified and communicated. The proposed note also provides that the engagement partner's review includes review of documentation of significant findings or issues[72] and review of documentation that is also subject to review by the engagement quality reviewer.[73] We believe this amendment clarifies the engagement partner's existing obligations for supervision and review as the engagement team member with primary responsibility for the engagement.

We are also proposing other amendments to AS 1201 and AS 2101 to conform to proposed AS 1000. These technical and clarifying amendments include replacing references to titles of existing standards with the title of the proposed standard and updating cross-referenced terminology and paragraph citations.

3. Proposed amendments related to documentation (Appendix 3)

Good audit documentation improves the quality of the work performed in many ways, including, for example: (i) providing a record of actual work performed, which provides assurance that the auditor accomplished the planned objectives; (ii) facilitating the reviews performed by supervisors, managers, engagement partners, engagement quality reviewers, and internal and external inspection teams; and (iii) improving effectiveness and efficiency by reducing time-consuming, and sometimes inaccurate, oral explanations of what was done (or not done).[74] Documentation requirements should result in more effective and efficient oversight of registered public accounting firms and associated persons, thereby improving audit quality and enhancing investor confidence.[75]

AS 1215 provides that, prior to the report release date,[76] the auditor must have completed all necessary auditing procedures and obtain sufficient evidence to support the representations in the auditor's report.[77] Completing all necessary audit procedures includes "clearing review notes in audit workpapers and providing support for all final conclusions."[78]

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72 *See* AS 1215.12.

73 *See* AS 1220.09-.10 and .14-.15.

74 *See* Paragraph A8. of AS 1215, Appendix A: Background and Basis for Conclusions.

75 *See* AS 1215.A9.

76 AS 1215.14 indicates that the "report release date" is "the date the auditor grants permission to use the auditor's report in connection with the issuance of the company's financial statements."

77 *See* AS 1215.15.

78 *See Audit Documentation and Amendment to Interim Auditing Standards,* PCAOB Release No. 2004-006 (June 9, 2004), at 5.

AS 1201 requires the engagement partner and, as applicable, other engagement team members performing supervisory activities, to review the work and evaluate whether the work was performed and documented,[79] and AS 1215 requires audit documentation to contain sufficient detail to determine who reviewed the work and the date of such review.[80] We propose to clarify these standards to emphasize that the engagement partner and other reviewers are also required to review such audit procedures prior to the report release date.[81] We propose to emphasize that audit documentation must clearly demonstrate who performed the work, who reviewed the work, and the date of such review.[82] In order for an engagement partner to conclude that the audit evidence obtained is sufficient and appropriate to support the opinion expressed in the auditor's report,[83] the audit work is required to be reviewed in a timely manner. We are proposing to amend AS 1215.15 to clarify that, before the report release date, the engagement partner and other engagement team members performing supervisory activities have completed their reviews of audit documentation. We do not believe this would result in a change in current practice.

Additionally, a complete and final set of audit documentation is required to be assembled for retention (i.e., archived) as of a date not more than 45 days after the report release date, known as the documentation completion date.[84] The period between the report release date and the documentation completion date (archive period) allows the auditor to assemble the complete and final set of audit documentation.

If additional documentation is needed after the report release date, auditors are required to document the date the information was added, the name of the person who prepared the additional documentation, and the reason for adding the documentation. Furthermore, audit documentation must not be deleted or discarded after the documentation completion date.[85] In 2004, when AS 1215 was adopted, many firms documented their procedures, at least in part with a paper-based system. Based on our oversight activities, we understand that since the adoption of AS 1215, most firms have begun using electronic workpapers. The use of electronic workpapers may provide benefits to firms, such as: (i) enhancing the availability of documentation of audit procedures to engagement team members who are in different locations; (ii) facilitating the sharing of information across multi-office engagements; (iii) improving the ability to track the progress of the audit; (iv) facilitating

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79 *See* AS 1201.05c(1).

80 *See* AS 1215.06Ab (as proposed to be amended).

81 *See* AS 1201.05 and 1215.15 (as proposed to be amended).

82 *See* AS 1215.06 (as proposed to be amended).

83 *See* AS 2810.02.

84 *See* AS 1215.15.

85 *See* AS 1215.16.

the timely review and updating of workpapers; and (v) improving efficiency in compiling a complete set of audit documentation for archiving.

We are proposing to accelerate the documentation completion date by reducing the maximum period for the auditor to assemble a complete and final set of audit documentation from 45 days to 14 days. Documentation added to the workpapers after completion of the audit or other engagement is likely to be of a lesser quality than that produced contemporaneously when the procedures were performed because it is difficult to reconstruct documentation after the work was performed.[86] The current archive period may also provide opportunities for unintentional mistakes (e.g., as memories fade and other assignments arise) and intentional manipulation (e.g., additional procedures and documentation completed after the report release date).[87] A 14-day period between the report release date and the documentation completion date would enable the Board to potentially begin the inspection process sooner after completion of an audit, which could enhance investor protection, ultimately enhancing investor confidence. We believe that this approach is consistent with the current financial reporting and auditing environment. For example, developments in the availability of financial reporting software enabled the acceleration of other regulatory reporting dates, such as periodic public company report filing dates.[88] Additionally, through our oversight activities, we are aware that some firms have already accelerated their archive period to less than 14 days.[89]

While we preliminarily believe that a 14-day archive period is appropriate, we acknowledge that in most situations firms currently have 35 days to file Form AP.[90] Part IV of the instructions to Form AP requires that a firm document the computation of total audit hours

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[86] *See* Paragraph A59. of AS 1215, Appendix A: Background and Basis for Conclusions.

[87] *See, e.g., In the Matter of KPMG Assurance and Consulting Services LLP and Sagar Pravin Lakhani*, PCAOB Release No. 105-2022-033 (Dec. 6, 2022); *In the Matter of Deloitte LLP*, PCAOB Release No. 105-2021-014 (Sept. 29, 2021); and *In the Matter of Richard J. Bertuglia, CPA, John W. Green, CPA, and Lev Nagdimov, CPA*, SEC Release No. 34-84419 (Oct. 12, 2018).

[88] *See, e.g., Acceleration of Periodic Report Filing Dates and Disclosure Concerning Website Access to Reports,* SEC Release No. 33-8128 (Sept. 5, 2002); and *Additional Form 8-K Disclosure Requirements and Acceleration of Filing Date*, SEC Release No. 33-8400 (Mar. 16, 2004).

[89] *See* Section IV.A.3. for discussion regarding current practices in archiving date of audit documentation.

[90] *See* Form AP – Auditor Reporting of Certain Audit Participants. Form AP has a filing deadline of 35 days after the date the auditor's report is first included in a document filed with the SEC, or 10 days after the auditor's report is first included in a document filed with the SEC for a registration statement under the Securities Act of 1933.

and include that computation in the files[91]. If auditors are unable to complete the computation of total audit hours, either actual or estimated, prior to the documentation completion date, the existing provisions of AS 1215 allow the auditor to add to the audit documentation and require an indication of the date the information was added, the name of the person who prepared the additional documentation, and the reason for adding it.[92]

We are also proposing other amendments to AS 1215 to conform to proposed AS 1000. These technical and clarifying amendments include replacing references to titles of existing standards with the title of the proposed standard and updating cross-referenced terminology and paragraph citations.

4. Other proposed amendments (Appendix 4)

In connection with proposed AS 1000, we are proposing other amendments to several of the Board's auditing standards to conform to proposed AS 1000, proposed amendments to AS 2810, and proposed rescission of AS 2815. These amendments include superseding the foundational auditing standards.

The other changes include replacing references to titles of existing standards with the title of the proposed standard and updating cross-referenced terminology and paragraph citations. See Appendix 4 for these proposed amendments.

IV. ECONOMIC ANALYSIS

The Board is mindful of the economic impacts of its standard setting. This section describes the economic baseline, need, and expected economic impacts of the proposed standard and related amendments, as well as alternative approaches considered by the Board. Due to data limitations, the economic analysis is generally qualitative in nature.

A. Baseline

Section II describes important components of the baseline against which the economic impact of the proposed standard can be considered, including an overview of existing requirements. In the following subsections, we discuss additional matters that inform our understanding of the baseline for each of the proposed changes.

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[91] *See Improving the Transparency of Audits: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form and Related Amendments to Auditing Standards*, PCAOB Release No. 2015-008 (Dec. 15, 2015).

[92] *See* AS 1215.16.

1. Modernization of the foundational standards

Section II.A provides an overview of existing requirements of the auditing standards that describe the general principles and responsibilities of the auditor in conducting an audit in accordance with the standards of the PCAOB (i.e., foundational standards). The general principles and responsibilities addressed by the foundational standards are described in Section III.B and include reasonable assurance, due professional care, professional skepticism, independence, competence, and professional judgment.

The foundational standards are required to be followed in every audit conducted in accordance with PCAOB standards. The general principles and responsibilities in the foundational standards are reflected in firm methodologies, commercially published guidance, and other technical tools. Although there may be circumstances where some auditors' understanding of the general principles and responsibilities is made more difficult than necessary by how the foundational standards are organized and written, we do not have evidence that auditors are systematically confused about the meaning of the general principles and responsibilities or that the foundational standards as they are in effect today are insufficiently robust to support high-quality audits, when applied appropriately.

2. Clarification of engagement partner review

Under PCAOB standards, engagement partners are responsible for the engagement and its performance, including the proper planning and supervision of the engagement and its compliance with PCAOB standards. While engagement partners are permitted to seek assistance from other team members performing supervisory activities, engagement partners are responsible for proper supervision of the engagement and have primary responsibility for the engagement.

To obtain an understanding of firms' policies and practices for engagement partner review, the staff reviewed firms' available methodology documentation. A number of larger firms have developed specific guidance, checklists, and other tools to facilitate the engagement partner's review. For example, some firms mandate the use of tools that specify workpapers or topics that engagement partners are required to review directly. These tools require the engagement partner to document their review. Conversely, similar policies of some smaller firms are designed to be applied at a higher level and are not as specific about the required review.[93]

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[93] The observations in this paragraph are based on the staff's review of the policies of U.S. global network firms ("GNFs") and U.S. non-affiliate firms ("NAFs"). GNFs are the member firms of the six global accounting firm networks (BDO International Ltd., Deloitte Touche Tohmatsu Ltd., Ernst & Young Global Ltd., Grant Thornton International Ltd., KPMG International Ltd., and PricewaterhouseCoopers International Ltd.). Some of the GNF member firms are based in the United States and others are based

3. Accelerating the documentation completion date

The auditor is required to complete all necessary auditing procedures, review those procedures, and obtain sufficient appropriate audit evidence prior to the report release date. Auditors may need some time after the report release date to assemble the final audit file and complete the audit documentation. The PCAOB standard for completing audit documentation currently requires completion within 45 days after the report release date. To obtain an understanding of firms' policies and practices for completing audit documentation, the staff reviewed firms' stated archiving policies and firms' archiving practices. We found a wide range of archiving periods among firms, from the full 45-day period to a much shorter period. In addition, PCAOB staff has observed that certain firms require audit documentation to be archive-ready upon completion of interim audit procedures. The PCAOB established the 45-day period when firms used paper documentation and needed time to copy, collate, finalize, and file workpapers. PCAOB staff has observed that most firms today have electronic audit tools and audit software that either make those tasks unnecessary or enable the tasks to be performed much faster.

Some U.S. GNFs require engagement teams to archive audit documentation within 10 days after the report release date. Other firms require engagement teams to archive audit documentation within longer periods (ranging from 30 to 45 days after the report release date). Of the firms with policies that allow longer periods, certain of them express expectations to complete documentation within a much shorter period.

All GNFs have established global policies for archiving to be used by their respective non-U.S. affiliate firms. The global policies generally allow for completion of documentation not more than 45 days after the report release date. The global policies of certain GNFs specify a documentation completion date within 14 days after the report release date, or sooner when required by local laws or regulations. In addition to the global policies, certain non-U.S. affiliates of GNFs have local policies requiring documentation completion dates earlier than their respective global policies. Examples observed through the PCAOB's 2022 inspections include non-U.S. affiliates that have local policies specifying completion of documentation by deadlines such as 2 days, 7 days, 10 days, 14 days, and 30 days after the report release date. Additionally, even among certain non-U.S. affiliates that have stated policies of 45 days after the report release date, their documentation systems require completion of documentation within 15 to 40 days (depending on the firm). Generally, non-U.S. affiliates of GNFs use electronic audit documentation systems for documentation and archiving.

The archiving policies of NAFs generally specify a documentation completion date of 45 days after the report release date. PCAOB staff has observed certain NAFs annually inspected by the PCAOB that, in practice, typically archive documentation within 40 days of the report

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outside the United States. NAFs are U.S. or non-U.S. accounting firms that are registered with the Board but are not GNFs. Some NAFs belong to international networks other than GNF networks.

release date. In addition, PCAOB staff has noted that certain other NAFs generally wait the full 45-day archiving period before completing their documentation. While most NAFs use electronic audit documentation systems, PCAOB staff is aware that some small firms still use paper-based workpapers.

B. Need

The proposed changes are part of the Board's effort to continuously improve and update PCAOB standards. In practice, PCAOB standards are used primarily by auditors, who are responsible for applying the general principles and requirements of the foundational standards. Investors and other stakeholders may also rely on the foundational standards (directly or indirectly) to establish expectations about auditor responsibilities.

1. Problem to be addressed

i. Modernization of the foundational standards

Three concerns that could be raised about the foundational standards are: (i) compliance with the standards, (ii) soundness of the general principles and responsibilities, and (iii) clarity of the standards. The next three subsections explain that we do not see a need to make significant changes to the standards based on compliance with the standards or soundness of the general principles and responsibilities, but we do see a need to make changes to modernize and enhance the clarity of the foundational standards.

a. Compliance with the foundational standards

In some instances, auditors have not performed audits in accordance with the foundational standards. For example, for the years 2018-2022, the PCAOB issued almost two dozen enforcement orders that described the violation of at least one of the foundational standards (i.e., AS 1001, AS 1005, AS 1010, or AS 1015). However, lack of compliance with any auditing standard does not necessarily imply that the standard is wrong or needs to be amended because, for example, the auditor may not have been aware of the standard or may have chosen not to make the effort to comply.

b. Soundness of the general principles and responsibilities

The foundational standards address the general principles and responsibilities of due professional care, professional skepticism, reasonable assurance, independence, competence, and professional judgment. These principles are interconnected. For example, due professional care requires the auditor to exercise professional skepticism and allows the auditor to obtain reasonable assurance. Reasonable assurance involves professional judgment. There is ample published research that studies alternative versions of the general principles. We summarize here several papers that demonstrate an ongoing debate regarding alternatives.

Academic research on professional skepticism provides a model that identifies two components – skeptical judgment and skeptical action – that are necessary for the effective exercise of professional skepticism.[94] In a synthesis of literature on professional skepticism, researchers conclude that professional skepticism is foundational to the performance of a high-quality audit, and they note that academic research tends to focus on skeptical judgment while PCAOB inspections tend to focus on skeptical action.[95] When accountability to regulators is an incentive based on principles, research suggests that auditors may exhibit more skeptical judgment.[96] When accountability is based on a checklist mentality of following a set of strictly specific requirements, research suggests that auditors may engage in cognitive processing that reduces skeptical judgment.[97] On the other hand, a principles-only approach to standards may provide insufficient guidance to support the exercise of judgment.[98] Overall, therefore, there is a spectrum of possible approaches to audit regulation that lies between excessively vague principles and excessively specific requirements. In practice, effective auditing standards may fit into the middle of that spectrum by emphasizing core principles while including some specific requirements to help support skeptical judgment and skeptical action.[99] Monitoring whether auditors in practice are achieving the correct balance of those two objectives can inform a standard setter about whether a standard is properly situated along the spectrum.

Research also offers insights on the appropriate level of assurance for investors and other users of financial statements. Early research on the audit expectations gap concludes that the majority of investors prefer absolute assurance that financial statements are free of material misstatement, in contrast to the profession's standard that an audit should provide

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94 *See* Mark W. Nelson, *A Model and Literature Review of Professional Skepticism in Auditing*, 28(2) Auditing: A Journal of Practice & Theory 5 (2009).

95 *See* R. Kathy Hurtt, Helen Brown-Liburd, Christine E. Earley, and Ganesh Krishnamoorthy, *Research on Auditor Professional Skepticism: Literature Synthesis and Opportunities for Future Research*, 32 Auditing: A Journal of Practice & Theory 71-72 (2013). According to the authors, "Skeptical judgment occurs when an auditor recognizes that a potential issue may exist and that more work or effort is necessary. Skeptical action occurs when an auditor changes his/her behavior based on the skeptical judgment. Both skeptical judgment and skeptical action are essential to the audit, with skeptical judgment being a necessary condition for skeptical action."

96 *See* Hurtt, et al., *Research on Auditor* 62.

97 *See* M. David Piercey, *Documentation Requirements and Quantified versus Qualitative Audit Risk Assessments*, 30(4) Auditing: A Journal of Practice & Theory 242-243 (2011).

98 *See, e.g.*, SEC, *Study Pursuant to Section 108(d) of the Sarbanes-Oxley Act of 2002 on the Adoption by the United States Financial Reporting System of a Principles-Based Accounting System* (Jul. 25, 2003).

99 *See, e.g.,* AS 1210, *Using the Work of an Auditor-Engaged Specialist*.

reasonable assurance.[100] Similarly, a more recent multi-country study finds that survey respondents appear to expect much more than reasonable assurance from auditors in order to prevent fraud and company failure.[101] However, the standard for reasonable assurance is driven by the benefits and costs of an audit engagement.[102]

Based on this cross-section of research, there is no clear mandate for changing the general principles and responsibilities of the foundational standards. The synthesis research supports professional skepticism as foundational to the performance of effective audits. Likewise, the research on audit assurance supports the principle of reasonable assurance as an appropriate level of assurance based on the underlying economics of an audit engagement.

c. Clarity of the foundational standards

Some current features of the foundational standards do not support the most efficient use of the standards. The general principles and responsibilities are currently spread across multiple standards, including AS 1001, AS 1005, AS 1010, and AS 1015, which were not developed originally as a cohesive whole. Their current organization continues to reflect their origin as separate requirements that were not drafted to be read together. In addition, the foundational standards contain language that was used in the AICPA's former standards but is outdated and inconsistent for audits conducted today under the standards of the PCAOB. This could undermine understanding of the general responsibilities of the auditor for audits conducted in accordance with PCAOB standards. The foundational standards also do not conform to the structure of Board-issued standards, which may hinder an auditor's navigation of the requirements. Finally, the foundational standards do not reflect developments in the auditing environment since their adoption in 2003, including the PCAOB's adoption of standards and rules, such as standards on audit documentation and engagement supervision, and this lack of consistency or alignment may draw attention away from the general principles and responsibilities.

Overall, these current features of the foundational standards may reduce efficient use of the standards by requiring more time and attention than necessary to read, understand, and apply the standards and may lead to inconsistent application, potential misinterpretation, and ineffective regulatory intervention. Clarity of auditing standards requires effective communication through features such as relevant language, consistency with Board-issued standards and rules, and well-organized presentation, which appear throughout PCAOB and SEC rulemaking initiatives.

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[100] *See* Marc J. Epstein and Marshall A. Geiger, *Investor Views of Audit Assurance: Recent Evidence of the Expectation Gap*, 177 Journal of Accountancy 64 (1994).

[101] *See* The Association of Chartered Certified Accountants, *Closing the Expectation Gap in Audit* 12, 14-15 (May 2019).

[102] *See* Ernest L. Hicks, *Materiality*, 2(2) Journal of Accounting Research 158 (1964).

(1) Characteristics of Modernized Auditing Standards

Academic research identifies three characteristics of effective disclosure documents that align well with the proposed features of modernized auditing standards: simplicity,[103] salience,[104] and standardization.[105] Simplicity can be achieved with an auditing standard that eliminates language that is outdated and inconsistent. Salience can be achieved with an auditing standard that emphasizes requirements while including explanations in the Board's release rather than the rule text and that incorporates the latest developments in the auditing environment, including the adoption of Board-issued standards and rules. Standardization can be achieved with an auditing standard that is well-organized, with general principles and responsibilities presented in a single standard that is structured similar to other standards.

In addition, we are aware of other regulatory initiatives that emphasize clear, well-organized writing as characteristics of effective communication with stakeholders. Two examples of other regulatory initiatives are the SEC Plain English Disclosure rule[106] for issuers' prospectuses, and the Plain Writing Act of 2010[107] for government communications with the public. The purpose of the Plain English Disclosure rule was to make financial and business information available to investors in a form they could read and understand, and the rule includes specific guidance for clear, concise language.[108] The purpose of the Plain Writing Act was to improve the effectiveness and accountability of federal agencies to the public by promoting clear communication that the public can understand and use, and the statute defines plain writing as writing that is clear, concise, and well-organized, and that follows other

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[103] *See, e.g.,* R.E. Nisbett and L. Ross, *Human Inference: Strategies and Shortcomings of Social Judgment* (1980), finding that individuals have limited cognitive resources to absorb and process information.

[104] *See* Daniel Kahneman, *Thinking, Fast and Slow* (2013), which suggests that individuals who focus their limited cognitive resources on a subset of information are able to give more weight to the subset when making decisions.

[105] *See* Jeffrey R. Kling, Sendhil Mullainathan, Eldar Shafir, Lee C. Vermeulen, and Marian V. Wrobel, *Comparison Friction: Experimental Evidence from Medicare Drug Plans*, 127 The Quarterly Journal of Economics 199 (2012), finding that standardized information better enables individuals to assess tradeoffs and make coherent, rational decisions.

[106] *Plain English Disclosure*, SEC Release No. 33-7497 (Oct. 1, 1998).

[107] *Plain Writing Act of 2010*, Public Law 111-274.

[108] The economic effects of easy-to-read disclosure documents are quantified in research that demonstrates a significant decrease in company valuation caused by a decrease in readability of disclosure documents. *See* Byoung-Hyoun Hwang and Hugh Hokwang Kim, *It Pays to Write Well*, 124 Journal of Financial Economics 373 (2017).

best practices appropriate to the subject and the intended audience.[109] While neither the Plain English Disclosure rule nor the Plain Writing Act imposes obligations on the PCAOB, their overall objective to promote effective communication for efficiency of stakeholders' understanding is aligned with the objectives of and approach to our proposed modernization of the foundational standards.

(2) Useability of Modernized Auditing Standards

We believe that auditors generally understand their responsibilities under the foundational standards. Nonetheless, there could be certain circumstances where some auditors' understanding of the general principles and responsibilities is made more difficult than necessary by the current language and organization of the foundational standards. New entrants, for example, may need to spend more time navigating and distilling the general principles and responsibilities than they would with more modernized language and organization. These new entrants may include accounting students seeking to enter the auditing profession. They may also include auditors who are experienced in applying other auditing or attestation standards, such as those of the AICPA for entities other than issuers, but who are seeking to perform an audit under PCAOB standards for the first time and who need to confirm their responsibilities under PCAOB rules.

In addition, the current language and organization of the foundational standards could impede investors' abilities to form accurate expectations about auditor responsibilities under PCAOB standards. Investors form expectations from a number of sources, including potentially the language of the standards themselves, but also from third parties (e.g., media) who may write about PCAOB standards. Standards that are not modernized could contribute to an expectations gap—in this case, a gap between what investors expect from an audit and what audit standards require.[110] Such a gap could in principle exist in either direction. Investors could be led to expect more than what an audit is required to deliver, and thereby fail to price the risk appropriately. Alternatively, investors could be led to expect less than what an audit is required

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[109] Using the Plain Writing Act as an exogenous event, research has found that the Plain Writing Act resulted in improved readability of 10-Ks that caused stock price crash risk to fall. *See* Shiyan Yin, Thanaset Chevapatrakul, and Kai Yao, *The Causal Effect of Improved Readability of Financial Reporting on Stock Price Crash Risk: Evidence from the Plain Writing Act of 2010*, 216 Economics Letters (2022).

[110] Research finds evidence of a persistent gap between investors' expectations of an audit and auditors' performance based on requirements under audit standards. *See, e.g.*, Klaus Ruhnke and Martin Schmidt, *The Audit Expectation Gap: Existence, causes, and the impact of changes*, 44 Accounting and Business Research 572 (2014) (finding that the public has expectations of auditors' responsibilities that do not exist under audit standards, such as conducting a management audit); and The Association of Chartered Certified Accountants, *Closing the Expectation Gap in Audit* (May 2019) (finding that the persistence of the audit expectation gap reflects, in part, the fact that public expectations of audit can grow in line with what auditors can accomplish).

to deliver, and thereby fail to appreciate the important functions performed by auditors regarding reasonable assurance.

Audit committees may also form inaccurate expectations about the content of PCAOB standards if the standards are not modernized, via mechanisms similar to investors. While we believe this is less likely to occur for audit committees than for investors, given audit committee members' greater familiarity with auditing through their position and responsibilities with the issuer and other relevant professional background, the negative impact of an audit committee member failing to correctly comprehend the auditor's general responsibilities under PCAOB standards could be more severe, given the audit committee's greater role in supervising the audit and the auditor under the Sarbanes-Oxley Act for the benefit of investors.

ii. Clarification of engagement partner review

One of the responsibilities of engagement partners is to review the work of engagement team members. Any uncertainty under the extant standards may give engagement partners an incentive, particularly under time pressures, to deemphasize or omit the review of workpapers. For example, PCAOB staff has observed instances in which engagement partners did not fulfill their responsibilities for review.[111] However, engagement partner review of workpapers is a critical step to promote audit quality. As noted in Section IV.A.2, firms have varying policies and tools on the extent of review required by the engagement partner. Clarification of the engagement partner's responsibility to review certain audit documentation is necessary to reinforce the existing minimum level of performance and promote consistency across audits regarding an engagement partner's oversight of the audit.

iii. Accelerating the documentation completion date

Section III.B. 5 and Section III.C.3 emphasize the importance of adequate audit documentation and the auditor's responsibilities for documentation under AS 1215, which currently specifies an audit documentation completion date no more than 45 days after the report release date. PCAOB standards require auditors to complete all necessary auditing procedures, review those procedures, and obtain sufficient appropriate audit evidence prior to the report release date. Separately, significant advancements in electronic audit tools and the use of audit software have occurred over the last two decades. Based on these observations and some firms' policies and practices summarized in section IV.A.3, the current documentation completion date that is 45 days after the report release date may provide more time than necessary to complete and finalize the audit documentation.

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[111] *See, e.g., In the Matter of Jin Tae Kim*, PCAOB Release No. 105-2022-013 (Aug. 16, 2022); *In the Matter of KPMG Assurance and Consulting Services LLP and Sagar Pravin Lakhani*, PCAOB Release No. 105-2022-033 (Dec. 6, 2022).

The PCAOB inspection process generally cannot begin until after the documentation completion date, even if there is a potential problem with the firm or the audit. In cases where the PCAOB would like to initiate inspections earlier, the 45-day period imposes an unnecessarily long lag before PCAOB can provide notice of inspection and access audit documentation, which may prevent timely identification and resolution of audit deficiencies and delay information on firm performance that is useful to investors.

In addition, the 45-day period may increase the risk of improper alteration of audit documentation. Specifically, a lengthy period to finalize audit documentation may reduce firms' incentives to proactively complete all necessary auditing procedures, review those procedures, and collect sufficient appropriate audit evidence prior to releasing the audit report, as required under AS 1215.[112]

2. How the proposed changes would address the need

i. Modernization of the foundational standards

Some current features of the foundational standards would be changed to create a modernized standard with enhanced useability.

First, the proposed changes would reorganize and consolidate multiple standards by: (i) replacing AS 1001, AS 1005, AS 1010, and AS 1015 with one standard, AS 1000, and (ii) updating and incorporating the underlying requirements of AS 2815 into AS 2810 and rescinding AS 2815.

Second, the proposed changes would eliminate language that is no longer relevant by: (i) retaining existing requirements but replacing language with updated and modernized language used in other Board-issued standards and (ii) removing legacy AICPA language that is no longer relevant to audits conducted under the standards of the PCAOB.

Third, the proposed changes would establish conformity with the structure of Board-issued standards by: (i) including an introduction and objective; (ii) clarifying auditor responsibilities by expressing the requirements using Rule 3101 terms (e.g., "must" and "should"); and (iii) minimizing explanatory material that could instead be included in the release discussion.

Finally, the proposed changes would harmonize with PCAOB standards and rules issued after adoption of the interim standards in 2003. The proposed changes include updates related to: (i) changes to auditing requirements through Board-issued standards, such as using

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112 *See, e.g., In the Matter of KPMG Assurance and Consulting Services LLP and Sagar Pravin Lakhani*, PCAOB Release No. 105-2022-033 (Dec. 6, 2022); *In the Matter of Deloitte LLP*, PCAOB Release No. 105-2021-014 (Sept. 29, 2021); *In the Matter of Richard J. Bertuglia, CPA, John W. Green, CPA, and Lev Nagdimov, CPA*, SEC Release No. 84419 (Oct. 12, 2018).

framework neutral terms; (ii) clarifying the meaning of present fairly; (iii) an overarching objective for integrated audits; and (iv) new rules issued by the Board, such as additional incremental independence obligations.

These changes are designed to make AS 1000 a more efficiently used standard through a well-organized presentation with relevant language that is more consistent with other PCAOB standards.

ii. Clarification of engagement partner review

Paragraph .09 of the proposed standard specifies the engagement partner's due professional care responsibilities, including evaluating that significant findings are appropriately addressed and determining that significant judgments are appropriate and supported by sufficient evidence. In addition, related proposed amendments to AS 1201 and AS 2101 explicitly state that the engagement partner has primary responsibility for the engagement and its performance and that assistance provided by other engagement team members to supervise and review work does not reduce the engagement partner's responsibility. These changes would reinforce the existing responsibilities under due professional care and promote consistency across audits regarding an engagement partner's oversight of the audit.

iii. Accelerating the documentation completion date

Paragraph .16 of the proposed standard explains the fundamental role of audit documentation and the auditor's responsibility for preparing audit documentation. The related proposed amendment to AS 1215 would accelerate the documentation completion date by reducing the maximum period for the auditor to assemble a complete and final set of audit documentation from 45 days to 14 days after the report release date. This change would enable PCAOB inspections staff earlier access to audit documentation. The change would also reduce the window of opportunity for improper alteration of audit documentation.

C. Economic Impacts

This section discusses the expected benefits and costs of the proposed changes and potential unintended consequences. Overall, we expect that the economic impacts of the proposed changes, including both benefits and costs, would be relatively modest, especially for those firms that have already incorporated in practice an engagement partner's responsibility for review and an accelerated documentation completion date. We also expect that the benefits of the proposed changes would justify the costs and any unintended negative effects.

1. Benefits

i. Modernization of the foundational standards

To the extent that the current features of the foundational standards reduce efficient use of the standards, the proposed changes should help enhance useability by making AS 1000 easier to read, understand, and apply in practice.

For users trying to navigate and understand the general principles and responsibilities, efficiency gains may be associated with each of the proposed changes as follows:

- The proposed change to reorganize and consolidate multiple standards into a single standard would reduce time and attention required to navigate several standards to locate the general principles and ensure relevant requirements are met.

- The proposed changes to eliminate language that is no longer relevant would reduce time and attention required to read, understand, and apply the standard by facilitating a focus on core requirements of the standard.

- The proposed changes to establish conformity with the structure of Board-issued standards would provide more uniformity among the PCAOB standards, which would help expedite navigation of the requirements and ensure relevant requirements are met.

- The proposed changes to harmonize with PCAOB-issued standards and rules since adoption of the interim standards in 2003 would reduce time and attention required to read, understand, and apply the standard by drawing attention to the underlying requirements and enhancing clarity of the Board’s expectations about auditor responsibilities.

Auditors learning the general principles and responsibilities for the first time may do so more quickly and easily, thereby reducing the cost of training and potentially facilitating entry into the PCAOB audit environment.

In addition, a modernized standard may enhance investors’ and audit committees’ awareness and understanding of the auditor’s responsibilities. Investors would be able to more appropriately price financial statement risk by better understanding the nature and extent of auditor responsibilities. Audit committees’ oversight of the auditor would be enhanced, including if enhanced clarity of standards facilitates communication between the audit committee and the auditor.

ii. Clarification of engagement partner review

To the extent that engagement partners currently do not fulfill their responsibilities for an appropriate review of the work of other engagement team members as required under the existing standards,[113] the proposed changes should improve auditor performance and audit quality by: (i) improving the engagement partner's timing and evaluation of significant findings and judgments and audit evidence; (ii) enhancing the ability of the engagement partner to prevent or detect deficiencies; and (iii) facilitating improvements in the quality of the work of other engagement team members.

iii. Accelerating the documentation completion date

The proposed amendment to accelerate the documentation completion date by reducing the maximum period for the auditor to assemble a complete and final set of audit documentation from 45 days to 14 days after the report release date would likely support PCAOB efforts to enhance audit quality via timelier identification and resolution of audit deficiencies in cases where inspections are initiated earlier. In such cases, the proposed amendment could also facilitate earlier issuance of inspection reports and their availability to investors. In addition, the proposed amendment could enhance auditor performance and audit quality for firms that do not currently implement best practices, but would be more inclined to do so, by proactively focusing on sequencing of work, allocation of resources, and other operating practices.

The benefits associated with an accelerated documentation completion date are likely to be greater for firms that currently make use of the entire 45-day period permitted under current PCAOB standards due to current operating circumstances. These firms would need to make more significant adjustments to their sequencing of work and allocation of effort to archiving to meet the proposed accelerated period and the concomitant benefits to audit quality would therefore be greater. Based on firms' current archiving policies and practices summarized in Section IV.A, the benefits associated with an accelerated documentation completion date are likely to be higher for NAFs than for GNFs in cases where NAFs experience operating efficiencies associated with changes in their sequencing of work, allocation of resources, and other operating practices to comply with the proposed documentation completion date.

The benefits associated with an accelerated documentation completion date would be lower for firms that either (i) have a policy that requires that documentation be completed in 14 days or fewer or (ii) have a policy that is closer to or equal to the current 45-day period but in practice complete their documentation in line with the proposed documentation completion date. Specifically, the benefits to audit quality would be lower for these firms, but the benefits

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113 *See Jin Tae Kim*, PCAOB Release No. 105-2022-013; *KPMG Assurance and Consulting Services LLP*, PCAOB Release No. 105-2022-033.

to investors of earlier PCAOB inspections would still be achieved in cases where inspections are initiated earlier.

2. Costs

i. Modernization of the foundational standards

The primary costs of the modernization efforts reflected in the proposed standard would be one-time costs to firms for updating references within firm methodologies and related guidance to reflect the proposed standard and related conforming amendments. Large firms that develop their own methodologies would update references directly in those methodologies. Small firms generally purchase methodologies from third-party vendors. The implementation costs of the proposed changes may be offset over time because a more logical and easy-to-read-and-navigate standard could enable auditors to save time reading, understanding, and applying the standard. Third parties that refer to PCAOB standards (e.g., in textbooks, training, or review materials) would also need to update those materials.

To the extent that auditors are not taking into account relevant guidance applicable to the audit, as proposed in paragraph .15 of the proposed standard, those firms would also incur one-time and ongoing costs related to methodology and periodic training for relevant guidance.

ii. Clarification of engagement partner review

To the extent that the engagement partners of a firm currently do not fulfill their responsibilities for an appropriate review of the work of other engagement team members as a result of any uncertainty under the extant standards, those firms may incur one-time costs to update firm methodologies and ongoing costs related to appropriate review. Large firms that develop their own methodologies would update references directly in those methodologies. Small firms generally purchase methodologies from third-party vendors.

iii. Accelerating the documentation completion date

The proposed amendment to accelerate the documentation completion date by reducing the maximum period for the auditor to assemble a complete and final set of audit documentation from 45 days to 14 days after the report release date would allow less time to assemble the final set of workpapers after the audit report is released. However, the PCAOB requirement to complete necessary auditing procedures, review those procedures, and collect sufficient appropriate audit evidence prior to the report release date should help limit any costs to implement the proposed amendment because the only activities that remain are assembling a complete and final set of audit documentation. In addition, the widespread use of electronic audit tools and audit software should help mitigate any costs associated with the proposed amendment.

The costs associated with an accelerated documentation completion date are likely to be greater for firms that currently specify by policy an archiving period that is near or equal to the maximum permitted under current AS 1215.15 and that currently take all or more of the full 45-day period to complete their archiving because of operating circumstances that inhibit faster completion. These firms will have to invest additional resources to enhance sequencing of their work, allocation of resources, and other operating practices, or may have to enhance their audit documentation systems, or both, in order to comply with the proposed documentation completion date. Based on firms' current archiving policies and practices summarized in Section IV.A, the costs associated with an accelerated documentation completion date are likely to be higher for NAFs than for GNFs in cases where NAFs currently use the entire 45-day period. By contrast, GNFs that already require the completion of documentation by a date no longer than the proposed 14-day period would likely not incur substantial additional costs to comply with the proposed requirement.

Electronic audit tools and audit software may facilitate compliance with the proposed requirement in that they can automate, and thereby perform more quickly, certain processes. For firms without electronic systems in place, costs associated with an accelerated documentation completion date may include additional resources, such as in-house personnel or capital investments in audit software, that would be useful to assemble a complete and final set of audit documentation in the proposed time period. PCAOB staff is aware that some small NAFs still use paper-based systems. However, these firms generally perform smaller, less sophisticated audits, such that the firms do not have to mail audit workpapers from multiple locations; therefore, even with a paper-based system, effective sequencing of work, allocation of resources, and other operating practices could enable them to meet the proposed documentation completion date.

For 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. Some firms already have policies that require documentation completion within 14 days of the report release date, and some firms require audit documentation to be archive-ready upon completion of interim procedures. These practices suggest that much of the process involved in assembling a complete and final set of audit documentation, such as assembly, cleanup, and retention, is substantially finished in advance of 45 days. Any firms that currently have a policy or practice of completing audit documentation on or near the 45^{th} day may do so merely because the current standard allows 45 days, and thus would not incur costs to meet the accelerated documentation completion date. Alternatively, any firms that currently complete audit documentation on or near the 45^{th} day because of operating circumstances may incur costs associated with implementing best practices to effectively sequence work, allocate resources, and incorporate other operating practices to comply with the accelerated documentation completion date. In this case, we would expect the costs to be offset over time by improvements in operating efficiencies to the extent that operating circumstances are within the firm's control.

An accelerated documentation completion date may also impose costs on multi-firm audits if electronic audit documentation systems are not integrated across firms. GNFs are more likely than NAFs to perform multi-firm audits, but some NAFs do perform multi-firm audits.[114] If electronic systems are not integrated across firms, which is more likely for NAFs, other auditors may need to transmit documentation to the lead auditor to assemble the final set of workpapers. If electronic systems are integrated across firms, the lead auditor may be able to seamlessly archive the work of other auditors.

Any costs associated with the proposed requirements may be passed through to investors, or costs may be internalized by firms. The audit market is competitive, and issuers that engage audit firms that pass through any costs may switch firms.

3. Potential unintended consequences

In addition to the benefits and costs discussed above, the new proposed standard could have unintended economic impacts. The following discussion describes potential unintended consequences and, where applicable, factors that mitigate the potential negative consequences, such as existing auditing requirements or the existence of other countervailing forces.

i. Modernization of the foundational standards

The proposed changes to modernize the foundational standards do not impose new requirements on auditors or significantly change the requirements of PCAOB standards. Thus, no unintended consequences were identified apart from the benefits and costs discussed above.

ii. Clarification of engagement partner review

An unintended consequence of the proposal to clarify engagement partner review would occur if, contrary to the Board’s expectations, some firms whose engagement partners currently do more than would be required under the proposal to meet the minimum requirement for engagement partner review, do less in the future to merely meet the minimum requirement.

This potential unintended consequence is mitigated by the extent to which engagement partners are aware that review is primarily their responsibility. In addition, economic reasons that generate enhanced performance in the first place, such as partner compensation, inspections, and litigation threat, help to mitigate this potential unintended consequence.

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[114] *See* PCAOB Release No. 2022-002, at 26-52.

iii. Accelerating the documentation completion date

Unintended consequences of the proposal to accelerate the documentation completion date would occur if, contrary to the Board's expectations, (i) auditor time prior to the report release date that would previously have been spent focusing on audit procedures is now spent on assembling final workpapers or (ii) the proposed archiving period results in higher costs that cause firms with paper-based documentation systems to exit the audit market.

These potential unintended consequences are mitigated by the requirement that all necessary auditing procedures, review of those procedures, and collection of sufficient appropriate audit evidence be completed prior to the report release date[115] and by firms that proactively sequence work, allocate resources, and incorporate other operating efficiencies. In addition, the widespread use of electronic audit tools and audit software by most firms mitigates these potential unintended consequences.

D. Alternatives Considered

We have considered whether to update the foundational standards and keep them as individual standards, but we believe that combining general principles and responsibilities into one standard would be more logical and easier to navigate. This approach would also be consistent with the approaches of other standard-setters. For example, both the IAASB and the ASB address general responsibilities of the auditor in one standard (see IAASB's ISA 200 and ASB's AU-C 200).

We have also considered whether to incorporate the requirements of AS 2815 into AS 1000, but we believe that it would be more logical to incorporate the requirements of AS 2815 into AS 2810 because both standards address requirements for concluding audit procedures. This approach would also eliminate unnecessary cross-references between the two standards and make the auditor's responsibilities easier to locate. AS 1000 would include a reference to AS 2810 for the auditor's responsibilities related to the evaluation of whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.

With respect to the engagement partner's responsibilities, we considered retaining the language of AS 1010 that describes the use of judgment in the context of the partner's responsibilities for supervision. However, we believe that leveraging the requirements of AS 1201, a more recent standard, would avoid potential confusion and align the engagement partner's responsibilities with Board-issued standards.

For the documentation completion date, we considered whether to propose a length of time between the current 45-day period and the 14-day period proposed herein, such as 21

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115 *See* AS 1215.15 (as proposed to be amended).

days or 30 days. We believe that a shorter period of time may provide better protection for investors than a longer period: it could permit acceleration of PCAOB inspections and provide the strongest incentives for firms to implement operating efficiencies. Thus, in principle, the shortest feasible documentation completion date could achieve more benefits than a longer period. Our assessment of existing firm practice as described in Section IV.A leads us to believe that 14 days could be feasible for firms and that a longer period may therefore be unnecessary and could erode the benefits that could otherwise be achieved.

We also considered whether to specify different documentation completion dates for different classes of firms, based on specific firm characteristics that may make compliance with an accelerated documentation completion date especially challenging because of some practical obstacle or because of significant expense that is common to that class of firms. For example, we considered specifying a longer documentation completion date for NAFs as compared with GNFs. However, as noted above, we believe that the 14-day period could be a feasible period for all firms; we are not currently aware of any practical obstacle or significant expense that would make compliance with a 14-day period especially challenging for all firms within a particular class. In contrast, a uniform and consistent archiving period for all firms could facilitate implementation and compliance, especially for audits that involve multiple firms that could be subject to different archiving periods.

V. SPECIAL CONSIDERATIONS FOR AUDITS OF EMERGING GROWTH COMPANIES

Pursuant to Section 104 of the Jumpstart Our Business Startups ("JOBS") Act, rules adopted by the Board subsequent to April 5, 2012, generally do not apply to the audits of emerging growth companies ("EGCs"), as defined in Section 3(a)(80) of the Securities Exchange Act of 1934 ("Exchange Act"), unless the SEC "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."[116] As a result of the JOBS Act, the rules and related amendments to PCAOB standards that the Board adopts are generally subject to a separate determination by the SEC regarding their applicability to audits of EGCs.

To inform consideration of the application of auditing standards to audits of EGCs, PCAOB staff prepares a white paper annually that provides general information about

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[116] *See* Pub. L. No. 112-106 (Apr. 5, 2012). Section 103(a)(3)(C) of Sarbanes-Oxley, as added by Section 104 of the JOBS Act, also provides that any rules of the Board requiring (1) mandatory audit firm rotation or (2) a supplement to the auditor's report in which the auditor would be required to provide additional information about the audit and the financial statements of the issuer (auditor discussion and analysis) shall not apply to an audit of an EGC. The proposed standard does not fall within either of these two categories.

characteristics of EGCs.[117] As of the November 15, 2021, measurement date, PCAOB staff identified 3,092 companies that self-identified as EGCs and filed audited financial statements with the SEC between May 16, 2020, and November 15, 2021, that included an audit report signed by a firm.[118]

The discussion of the economic impacts of the proposed standard in Section IV.C is generally applicable to audits of EGCs. The proposed amendment to accelerate the documentation completion date by reducing the maximum period for the auditor to assemble a complete and final set of audit documentation from 45 days to 14 days could impact the audits of EGCs more than the audits of non-EGCs. Compared to non-EGCs, EGCs are more likely to be audited by NAFs.[119] As discussed in Section IV.C, NAFs are expected to require more changes than GNFs in their sequencing of work, allocation of resources, and other operating practices to comply with the proposed accelerated documentation completion date. Therefore, all else equal, both the benefits and costs of the proposed amendments, including the amendment to accelerate the documentation completion date, may be higher for EGC audits than for non-EGC audits.

While both the benefits and costs of the proposed amendment to accelerate the documentation completion date may be higher for EGC audits, the costs are unlikely to be more than proportional to the benefits based on certain characteristics of EGCs. For example, to the extent that EGCs are small companies, EGC audits may be less complex, which potentially facilitates expeditious assembly of the final workpapers.[120] In addition, as EGCs are not large accelerated filers ("LAFs"), the SEC Form 10-K filing deadline would be extended from 60 days after the fiscal year end to 75 days for accelerated filers or to 90 days for non-accelerated filers, which potentially delays the required assembly of the final workpapers by 15 or 30 days into an archiving period that may be proportionately less busy.[121]

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117 For the most recent EGC report, *see Characteristics of Emerging Growth Companies and Their Audit Firms at November 15, 2021* (Jan. 5, 2023), *available at* https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/economicandriskanalysis/projectsother/documents/white-paper-on-characteristics-of-emerging-growth-companies-as-of-nov-15-2021.pdf?sfvrsn=3be9c6f2_3.

118 *See id.* at 1. Based on staff analysis as of the Nov. 15, 2021, measurement date, 86 percent of firms that audited EGCs, audited both EGC and non-EGC issuer clients.

119 *See id.* at 22. Based on staff analysis as of the Nov. 15, 2021, measurement date, U.S. firms audited 2,634 EGCs, of which 1,035 were audited by annually inspected U.S. NAFs and 825 were audited by triennially inspected U.S. NAFs.

120 *See id.* at 30. Based on staff analysis as of the Nov. 15, 2021, measurement date, the average reported revenue for EGCs was $65.5 million, and the average reported revenue for non-EGCs was $5.8 billion.

121 *See id.* at 26. Based on staff analysis as of the Nov. 15, 2021, measurement date, no EGC that filed a periodic report identified as an LAF.

The proposed amendment to accelerate the documentation completion date could improve efficiency and capital formation for EGCs to the extent that the amendment reduces uncertainty about the reliability of an EGC's financial statements via enhanced audit quality. Investors who face uncertainty 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. Thus, any reduction of uncertainty via enhanced audit quality, including from firms' implementation of operating efficiencies, could improve the efficiency of capital allocation, lower the cost of capital, and enhance capital formation for those EGCs.

The proposed amendment to accelerate the documentation completion date could also impact competition in an EGC product market if any indirect costs to audited companies disproportionately affect EGCs relative to their competitors. For example, if EGCs are forced to raise prices in order to remain viable but their non-EGC competitors are not forced to raise prices, this may divert market share toward their competitors. This could increase competition in markets where EGCs have a dominant market share and decrease competition in markets where EGCs have a less than dominant market share. However, the incentives for firms to pass costs onto EGCs may also be limited by the competitive market for audits. Therefore, the potential impact of the proposed requirement on competition in EGC product markets is expected to be limited.

Overall, the proposed amendment to accelerate the documentation completion date by reducing the maximum period for the auditor to assemble a complete and final set of audit documentation from 45 days to 14 days is expected to enhance audit quality and protection of investors by supporting timelier inspections and by providing the strongest incentives for firms to implement operating efficiencies. We expect these benefits to be greater on EGC audits than non-EGC audits because EGCs are more likely to be audited by NAFs; however, costs of implementation may also be incrementally higher for audits of EGCs. On a net basis, we expect that the overall impact of the proposed amendment on EGC audits would not be disproportionate to the impact on non-EGC audits.

Accordingly, and for the reasons explained above, the Board anticipates that, if it adopts the proposed standard and related amendments, it will request that the Commission determine that it 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, to apply the proposed standard and related amendments to audits of EGCs.

VI. EFFECTIVE DATE

The Board seeks comment on the amount of time auditors would need before the proposed standard and related proposed amendments would become effective, if adopted by the Board and approved by the SEC. We are considering whether compliance with the proposed standard and related proposed amendments should be required by June 30 in the year after they are approved by the SEC.

VII. LIST OF QUESTIONS

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?

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

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

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

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

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

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?

8. Are the general principles and responsibilities appropriate in light of the availability of electronic audit tools and the use of audit software by both larger and smaller firms? If not, what changes should be made?

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?

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

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

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

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?

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?

15. Does the size of a firm or type of engagement affect the time necessary to assemble a complete and final set of audit documentation? If so, please describe which sizes of firms or types of engagements may need additional time and what period of time should be required?

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?

17. Are the amendments to the general principles and responsibilities described in AS 4105, *Reviews of Interim Financial Information*, appropriate? Should other relevant amendments be made to AS 4105? If so, what are they?

18. We request comment generally on the baseline for evaluating the economic impacts of the proposed standard. Are there additional factors we should consider? If so, what are they? Is there any evidence that auditors are failing to understand their obligations under today's standards, or that the standards set insufficiently robust expectations and obligations associated with the performance of an audit? If so, please explain.

19. We request comment generally on the analysis provided above regarding the need for the proposal. Should we consider any additional arguments, academic studies, or sources related to the need for standard setting? If so, please specify.

20. Are there additional potential benefits and costs that should be considered? If so, what are they? Please provide relevant data or other reference information.

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?

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

23. What academic studies or data should the Board consider in evaluating the potential benefits and costs of the proposed requirements? Please provide citations and other reference information for such studies and data.

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.

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?

VIII. OPPORTUNITY FOR PUBLIC COMMENT

The Board is seeking comments on all aspects of its proposal, as well as specific comments on the proposed standard and amendments. Among other things, the Board is seeking comment on the economic analysis relating to its proposal, including potential costs. To assist the Board in evaluating such matters, the Board is requesting relevant information and empirical data regarding the proposed standard and amendments.

Comments should be sent by e-mail to comments@pcaobus.org or through the Board's website at www.pcaobus.org. Comments may also be sent to the Office of the Secretary, PCAOB, 1666 K Street, NW, Washington, DC 20006-2803. All comments should refer to PCAOB Rulemaking Docket Matter No. 049 in the subject or reference line and should be received by the Board by May 30, 2023.

The Board will consider all comments received. After the close of the comment period, the Board will determine whether to adopt final rules, with or without changes from the proposal. Any final rules adopted will be submitted to the SEC for approval. Pursuant to Section 107 of Sarbanes-Oxley, proposed rules of the Board do not take effect unless approved by the SEC. Standards are rules of the Board under Sarbanes-Oxley.

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On the 28th day of March, in the year 2023, the foregoing was, in accordance with the bylaws of the Public Company Accounting Oversight Board,

ADOPTED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

March 28, 2023

APPENDIX 1 – Proposed Auditing Standard

AS 1000: General Responsibilities of the Auditor in Conducting an Audit

INTRODUCTION

.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 the standards of the PCAOB. An audit primarily benefits investors, who rely on the audit to provide an objective and independent opinion on whether the company's financial statements are presented fairly and, if applicable, on the effectiveness of the company's internal control over financial reporting. A properly conducted audit and the related auditor's report enhance the confidence of investors and other market participants in the company's financial statements and, if applicable, internal control over financial reporting.

.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, and describes auditing principles relevant to conducting the audit.

OBJECTIVES OF THE AUDITOR

.03 The objectives of the auditor are as follows:

a. In an audit of financial statements – To (1) obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud; and (2) issue an auditor's report that expresses an opinion about whether the financial statements, taken as a whole, are presented fairly, in all material respects, in conformity with the applicable financial reporting framework;

b. In an audit of internal control over financial reporting – To (1) obtain reasonable assurance about whether, material weaknesses exist as of the date specified in management's assessment; and (2) issue an auditor's report that expresses an opinion on the effectiveness of the company's internal control over financial reporting; and

c. Communicate externally, as required by applicable professional and legal requirements.[1]

PROFESSIONAL QUALIFICATIONS OF THE AUDITOR

Independence and Ethics

.04 The auditor must be independent of its audit client both in fact and in appearance throughout the audit and professional engagement period.[2] The auditor is not independent with respect to an audit client if the auditor is not, or a reasonable investor with knowledge of all relevant facts and circumstances would conclude that the auditor is not, capable of exercising objective and impartial judgment on all matters encompassed within the engagement.[3]

.05 The auditor must satisfy the independence criteria set out in the rules and standards of the PCAOB, and satisfy all other independence criteria applicable to the engagement, including the independence criteria set out in the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") under the federal securities laws.[4]

.06 The auditor must comply with applicable ethics requirements, including the rules and standards of the PCAOB.[5]

Competence

.07 The audit must be performed by an auditor who has the competence to conduct an

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[1] The term "applicable professional and legal requirements," as used in this standard, has the same meaning as defined in Appendix A of [proposed QC 1000, *A Firm's System of Quality Control,* PCAOB Release No. 2022-006 (Nov. 18, 2022)], which includes professional standards as defined in PCAOB Rule 1001(p)(vi) (i.e., certain accounting principles and other standards) and rules of the PCAOB that are not professional standards. This definition also includes statutes with which the auditor is required to comply. *See, e.g.,* Section 10A of the Securities Exchange Act of 1934, 15 U.S.C. § 78j-1.

[2] *See* PCAOB Rule 3501, *Definitions of Terms Employed in Section 3, Part 5 of the Rules*, for the definition of the term "audit and professional engagement period."

[3] *See* Regulation S-X Rule 2-01, 17 C.F.R. § 210.2-01.

[4] *See, e.g.,* Regulation S-X Rule 2-01, 17 C.F.R. § 210.2-01, and Section 3, Part 5 of PCAOB rules. To the extent that a provision of one rule is more restrictive than that of another rule, the auditor is required to comply with the more restrictive provision. *See* Rule 3500T, *Interim Ethics and Independence Standards*.

[5] *See, e.g.,* Section 3, Part 5 of PCAOB rules; [proposed EI 1000, *Integrity and Objectivity*, PCAOB Release No. 2022-006].

audit in accordance with applicable professional and legal requirements.[6] Competence consists of having the knowledge, skill, and ability that enable an auditor to perform the assigned activities in accordance with applicable professional and legal requirements and the firm's policies and procedures. The measure of competence is qualitative rather than quantitative because quantitative measurement may not accurately reflect the experience gained over time.

> Note: Competence includes knowledge and expertise 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.

.08 The auditor should develop and maintain competence through an appropriate combination of:

a. Academic education;

b. Professional experience in accounting and auditing, with proper supervision;[7] and

c. Training, including accounting, auditing, independence, ethics, and other relevant continuing professional education.[8]

DUE PROFESSIONAL CARE, INCLUDING PROFESSIONAL SKEPTICISM

.09 The auditor must exercise due professional care in all matters related to the audit.[9] Due professional care concerns what the auditor does and how well the auditor does it. Due professional care means acting with reasonable care and diligence, exercising professional

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6 *See also* [proposed QC 1000.44c, PCAOB Release No. 2022-006 (providing, as a resource quality objective, that individuals who are assigned to engagements, including the engagement partner and engagement quality reviewer, have the competence, objectivity, and time to fulfill their responsibilities on such engagements in accordance with applicable professional and legal requirements and the firm's policies and procedures)].

7 Paragraphs .05 and .06 of AS 1201, *Supervision of the Audit Engagement,* (as proposed to be amended) describe the nature and extent of supervisory activities necessary for proper supervision of engagement team members.

8 *See also* [proposed QC 1000.36 and .48, PCAOB Release No. 2022-006], for the requirements for the firm to provide mandatory training. In addition to mandatory training provided by the firm, auditors may need to undertake additional training to develop and maintain their competence.

9 For audits that involve other auditors, the other auditors are responsible for performing their work with due professional care. The lead auditor's responsibilities for planning the audit and supervising the other auditors' work are set forth in AS 2101, *Audit Planning*, and AS 1201 (as proposed to be amended).

skepticism, acting with integrity, and complying with applicable professional and legal requirements.[10] For engagement partners,[11] due professional care includes (1) appropriately assigning responsibilities to,[12] and supervising,[13] engagement team members;[14] (2) determining that the audit is properly planned[15] and performed to obtain reasonable assurance;[16] (3) evaluating that significant findings or issues are appropriately addressed;[17] (4) determining that significant judgments and conclusions on which the auditor's report is based are appropriate and supported by sufficient appropriate audit evidence;[18] and (5) determining that required communications under applicable professional and legal requirements have been made.[19]

.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 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]

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[10] *See also* note to AS 1201.05b (as proposed to be amended).

[11] The term "engagement partner," as used in this standard, has the same meaning as defined in Appendix A of AS 1201.

[12] Paragraph .05 of AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*, establishes requirements regarding the assignment of engagement team members.

[13] *See* AS 1201 (as proposed to be amended).

[14] The term "engagement team," as used in this standard, has the same meaning as defined in Appendix A of AS 2101. [As adopted by PCAOB and approved by SEC, *see* SEC Release No. 34-95488 (Aug. 12, 2022)].

[15] *See* AS 2101.03, which describes the engagement partner's responsibilities for planning an audit.

[16] *See* paragraph .13 of this standard.

[17] *See* paragraph .12 of AS 1215, *Audit Documentation*.

[18] *See* AS 2810, *Evaluating Audit Results*.

[19] *See* paragraph .20 of this standard.

[20] *See* AS 1105, *Audit Evidence*, which explains what constitutes audit evidence and establishes requirements regarding designing and performing audit procedures to obtain sufficient appropriate audit evidence.

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.

PROFESSIONAL JUDGMENT

.12 The auditor must exercise professional judgment, which involves applying relevant training, knowledge, and experience to make informed decisions and reach well-reasoned conclusions about the courses of action that are appropriate in the circumstances such that the audit is planned and performed, and the report or reports are issued, in accordance with applicable professional and legal requirements.[21]

CONDUCTING AN AUDIT

.13 The auditor must plan and perform the audit to obtain sufficient appropriate audit evidence to:

a. Obtain reasonable assurance about whether:

(1) In an audit of financial statements, the financial statements are free of material misstatement,[22] whether due to error or fraud;[23]

(2) In an audit of internal control over financial reporting, material weaknesses exist as of the date specified in management's assessment; and

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[21] References to judgment of the auditor in other PCAOB standards have the same meaning as "professional judgment." *See, e.g.*, AS 1215.07, and paragraph .02 of AS 1220*, Engagement Quality Review*.

[22] The term "misstatement," as used in this standard, has the same meaning as defined in Appendix A of AS 2810, *Evaluating Audit Results*.

[23] *See* AS 2105, *Consideration of Materiality in Planning and Performing an Audit*, for requirements regarding the auditor's consideration of materiality in planning and performing an audit. *See* AS 2401, *Consideration of Fraud in a Financial Statement Audit*. *See also* paragraph .05 of AS 2405, *Illegal Acts by Clients.*

b. Provide the auditor with a reasonable basis for forming an opinion.[24]

Note: In an audit of financial statements, the financial statements are management's responsibility and the auditor's responsibility is to express an opinion on the financial statements. In an audit of internal control over financial reporting, management is responsible for maintaining effective internal control over financial reporting and for assessing the effectiveness of internal control over financial reporting, and the auditor's responsibility is to express an opinion on the effectiveness of the company's internal control over financial reporting.

.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) misstatements 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.

.15 The auditor must comply with applicable professional and legal requirements in conducting an audit. In fulfilling these requirements, the auditor should keep in mind their role in protecting investors.

Note: The auditor should take into account relevant guidance[26] applicable to the audit.

.16 The auditor must prepare audit documentation in connection with each engagement conducted in accordance with the standards of the PCAOB.[27] Audit documentation facilitates the planning, performance, and supervision of the engagement and is the basis for reviewing the quality of the work performed in an audit because it provides the engagement partner and other reviewers with written documentation of the evidence supporting the auditor's

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24 In circumstances when the auditor is not able to obtain sufficient appropriate audit evidence to provide a reasonable basis for forming an opinion, PCAOB standards require the auditor to disclaim an opinion or withdraw (or resign) from the engagement. *See* AS 3105, *Departures from Unqualified Opinions and Other Reporting Circumstances*, for a financial statement audit and paragraphs .90 through .98 of AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*, and Appendix C of AS 2201, for an audit of internal control over financial reporting.

25 *See* paragraph .03 of AS 1101, *Audit Risk*.

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

27 *See, e.g.,* AS 1215; AS 1301, *Communications with Audit Committees*; and AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.

significant conclusions.[28] AS 1215 also sets forth requirements for the assembly and retention of audit documentation.[29]

Auditor Communications

.17 The auditor's report must contain:

a. 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.

.18 The auditor should express an unqualified opinion only when the auditor has performed the audit in accordance with the standards of the PCAOB and has obtained sufficient appropriate audit evidence to conclude that:

a. In an audit of financial statements, the financial statements, taken as a whole, are presented fairly,[31] in all material respects, in conformity with the applicable financial reporting framework;[32]

b. In an audit of internal control over financial reporting, the company maintained, in all material respects, effective internal control over financial reporting.[33]

.19 When the auditor conducts an audit in accordance with the standards of the PCAOB,

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28 *See generally* AS 1215.

29 *See* AS 1215.14-.20.

30 The auditor's report also contains other elements, such as those included in the basis for opinion or basis for disclaimer of opinion sections, and, if applicable, critical audit matters. *See* AS 3101 and AS 3105.

31 Paragraphs .30-.31 of AS 2810 (as proposed to be amended) describe the auditor's responsibilities related to the evaluation of whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.

32 *See* AS 3101 for requirements regarding the content of the auditor's written report when the auditor expresses an unqualified opinion on the financial statements. The auditor should look to the requirements of the SEC for the company under audit with respect to the accounting principles applicable to that company.

33 *See* AS 2201.85-.98 for the form and content of the auditor's report when the auditor conducts an audit of internal control over financial reporting.

some circumstances require that the auditor express a qualified opinion, adverse opinion, or disclaimer of opinion on the financial statements or the company's internal control over financial reporting, and state the reasons for the departure from the unqualified opinion.[34]

.20 The auditor must communicate externally, as required by applicable professional and legal requirements.[35]

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[34] *See* AS 3105 for reporting requirements related to departures from unqualified opinions and other reporting circumstances. *See also* AS 2201.90-.98 and Appendix C of AS 2201, for special reporting situations in an audit of internal control over financial reporting.

[35] *See, e.g.,* AS 1301; PCAOB Rule 3211.

APPENDIX 2 – Proposed Amendments to AS 2810; Rescission of AS 2815

Language that would be deleted by the proposed amendments to AS 2810 is ~~struck through~~. Language that would be added is underlined.

AS 2810: Evaluating Audit Results

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.17 *Evaluation of the Effect of Uncorrected Misstatements.* The auditor should evaluate whether uncorrected misstatements are material, individually or in combination with other misstatements. In making this evaluation, the auditor should evaluate the misstatements in relation to the specific accounts and disclosures involved and to the financial statements as a whole, taking into account relevant quantitative and qualitative factors. (*See* Appendix B.)

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Note: As a result of the interaction of quantitative and qualitative considerations in materiality judgments[9A], uncorrected misstatements of relatively small amounts could have a material effect on the financial statements. For example, an illegal payment of an otherwise immaterial amount could be material if there is a reasonable possibility[10] that it could lead to a material contingent liability or a material loss of revenue.[11] Also, a misstatement made intentionally could be material for qualitative reasons, even if relatively small in amount.

[9A] Reference to the judgment of the auditor throughout this standard has the same meaning as "professional judgment" as described in proposed AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*.

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Evaluating the Presentation of the Financial Statements, Including the Disclosures

.30 The auditor must evaluate whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.[17A]

> ~~Note: AS 2815, *The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles,"* establishes requirements for evaluating the presentation of the financial statements. AS 2820, *Evaluating Consistency of Financial Statements*, establishes requirements regarding evaluating the consistency of the accounting principles used in financial statements.~~
>
> Note: The auditor should look to the requirements of the Securities and Exchange Commission for the company under audit with respect to the accounting principles applicable to that company.[17B]

[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 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.").

[17B] AS 2820, *Evaluating Consistency of Financial Statements,* establishes requirements regarding evaluating the consistency of the accounting principles used in financial statements.

.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 evaluate whether:[17C]

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

b. The accounting principles selected and applied by the company's management are in conformity with the applicable financial reporting framework and appropriate in the circumstances; and

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

[17C] The concept of materiality is inherent in the auditor's judgment. That concept involves qualitative as well as quantitative factors (*see* AS 2105*, Consideration of Materiality in Planning and Performing an Audit*).

.31 As part of the evaluation of the presentation of the financial statements, 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: ~~According to AS 3105, if the financial statements, including the accompanying notes, fail to disclose information that is required by the applicable financial reporting framework, the auditor should express a qualified or adverse opinion and should provide the information in the report, if practicable, unless its omission from the report is recognized as appropriate by a specific auditing~~

~~standard.~~~~[18]~~ The auditor should also evaluate whether the substance of transactions or events differs materially from their form.

[18] *See* AS 3105.24–.27 for auditor reporting considerations related to inadequate disclosures.

~~[18] AS 3105.24–.27.~~

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~~AS 2815: The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles~~

~~.01 An independent auditor's report contains an opinion as to whether the financial statements present fairly, in all material respects, an entity's financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. An identification of the applicable financial reporting framework is required (see paragraph .08e of the AS 3101, The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion).~~

~~The purpose of this section is to explain the meaning of "present fairly" as used in the phrase "present fairly . . . in conformity with generally accepted accounting principles." In applying this section, the auditor should look to the requirements of the Securities and Exchange Commission for the company under audit with respect to the accounting principles applicable to that company.~~

~~[.02] [Paragraph deleted.]~~

~~.03 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.~~

~~.04 The auditor's opinion that financial statements present fairly an entity's financial position, results of operations, and cash flows in conformity with generally accepted accounting principles should be based on his or her judgment as to whether (a) the accounting principles selected and applied have general acceptance; (b) the accounting principles are appropriate in the circumstances; (c) the financial statements, including the related notes, are informative of matters that may affect their use, understanding, and interpretation (see paragraph .31 of AS 2810, Evaluating Audit Results); (d) the information presented in the financial statements is classified and summarized in a reasonable manner, that is, neither too detailed nor too condensed (see AS 2810.31); and (e) the financial statements reflect the underlying~~

~~transactions and events in a manner that presents the financial position, results of operations, and cash flows stated within a range of acceptable limits, that is, limits that are reasonable and practicable to attain in financial statements.[1]~~

~~[1] The concept of materiality is inherent in the auditor's judgments. That concept involves qualitative as well as quantitative judgments (see AS 2105, *Consideration of Materiality in Planning and Performing an Audit*, and AS 3105.19).~~

~~[.05] [Paragraph deleted.]~~

~~.06 Generally accepted accounting principles recognize the importance of reporting transactions and events in accordance with their substance. The auditor should consider whether the substance of transactions or events differs materially from their form.~~

~~[.07] [Paragraph deleted.]~~

~~.08 The auditor should be aware that the accounting requirements adopted by regulatory agencies for reports filed with them may differ from generally accepted accounting principles in certain respects. Paragraph .04 of AS 3310, *Special Reports on Regulated Companies*, and AS 3305, *Special Reports*, provide guidance if the auditor is reporting on financial statements prepared in conformity with a comprehensive basis of accounting other than generally accepted accounting principles.~~

~~[.09-.18] [Paragraphs deleted.]~~

APPENDIX 3 – Proposed Amendments to AS 1201; AS 1215; and AS 2101

Language that would be deleted by the proposed amendments to AS 1201, AS 1215, and AS 2101 is ~~struck through~~. Language that would be added is <u>underlined</u>.

AS 1201: Supervision of the Audit Engagement

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Responsibility of the Engagement Partner for Supervision

.03 The **engagement partner**[1A] is responsible for the engagement and its performance. Accordingly, the engagement partner is responsible for proper supervision of the work of engagement team members<u>[1B]</u> including engagement team members outside the engagement partner's firm). The engagement partner also is responsible for compliance with PCAOB standards, including standards regarding: using the work of specialists,[2] internal auditors,[4] and others who are involved in testing controls;[5] and dividing responsibility with another accounting firm.[5A] Paragraphs .05–.06 of this standard describe the nature and extent of supervisory activities necessary for proper supervision of engagement team members. Paragraphs .07–.15 of this standard further describe procedures to be performed by the lead auditor with respect to the supervision of the work of other auditors in conjunction with the required supervisory activities set forth in this standard.[6A] [As adopted by PCAOB and approved by SEC, *see* SEC Release No. 34-95488 (Aug. 12, 2022)]

<u>[1B] *See also* paragraph .09 of AS 1000, *General Responsibilities of the Auditor in Conducting an Audit,* for an additional description of due professional care as it relates to engagement partners.</u>

~~[6] *See also* paragraph .06 of AS 1015, *Due Professional Care in the Performance of Work.*~~

<u>[6] [Footnote deleted.]</u>

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Responsibility of the Engagement Partner for Supervision

.04 The engagement partner may seek assistance from appropriate engagement team members (which may include engagement team members outside the engagement partner's firm) in fulfilling his or her responsibilities pursuant to this standard. Engagement team members who assist the engagement partner with supervision of the work of other engagement team members also should comply with the requirements in this standard with respect to the supervisory responsibilities assigned to them. [As adopted by PCAOB and approved by SEC, *see* SEC Release No. 34-95488 (Aug. 12, 2022)].

> Note: Even when the engagement partner seeks assistance, the engagement partner retains primary responsibility for the engagement and its performance. The assistance provided by appropriate engagement team members to supervise, including review, the work of other engagement team members does not replace or reduce the engagement partner's responsibility.

Supervision of Engagement Team Members

.05 The engagement partner and, as applicable, other engagement team members performing supervisory activities, should:

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a. Inform engagement team members of their responsibilities,[7] including:

[7] ~~AS 1015.06 and p~~Paragraph .05 of AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*, establishes requirements regarding the appropriate assignment of engagement team members. *See also* AS 1000.09, for an additional description of due professional care as it relates to engagement partners.

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b. Direct engagement team members to bring significant accounting and auditing issues arising during the audit to the attention of the engagement partner or other engagement team members performing supervisory activities so they can evaluate those issues and determine that appropriate actions are taken in accordance with PCAOB standards;

> Note: In applying due professional care in accordance with ~~AS 1015~~ AS 1000, each engagement team member has a responsibility to bring to the attention of appropriate persons, disagreements or concerns the engagement team member might have with respect to accounting and auditing issues that he or she believes are of significance to the financial statements or the auditor's report regardless of how those disagreements or concerns may have arisen.

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c. Review the work of engagement team members to evaluate whether:

(1) The work was performed and documented;

(2) The objectives of the procedures were achieved; and

(3) The results of the work support the conclusions reached.[10]

Note 1: The review and evaluation must be completed prior to the report release date (*see* AS 1215.06 and .15).

Note 2: Notwithstanding assistance from other engagement team members performing supervisory activities, the engagement partner, as the individual primarily responsible for the engagement and its performance, must review sufficient documentation to determine that (i) the engagement was performed as planned; (ii) significant judgments were appropriate and significant findings and issues, along with matters brought to the engagement partner's attention pursuant to paragraph .05b, were appropriately addressed; (iii) the conclusions expressed in the auditor's report are appropriate and supported by sufficient appropriate evidence; and (iv) matters requiring communication under applicable professional and legal requirements are appropriately identified and communicated. The engagement partner's review should include review of documentation of significant findings or issues (see AS 1215.12) and review of documentation subject to review by the engagement quality reviewer (see paragraphs .09-.10 and .14-.15 of AS 1220, *Engagement Quality Review*).

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.06 To determine the extent of supervision necessary for engagement team members to perform their work as directed and form appropriate conclusions, the engagement partner and other engagement team members performing supervisory activities should take into account:

d. The knowledge, skill, and ability of each engagement team member.[12]

[12] *See also* AS 2301.05a~~ and AS 1015.06~~.

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Appendix C – Supervision of the Work of Auditor-Employed Specialists

.C4 Pursuant to paragraph .05a(3) of this standard, the engagement partner and, as applicable, other engagement team members performing supervisory activities should inform the specialist about matters that could affect the specialist's work. This includes, as applicable, information about the company and its environment, the company's processes for developing the related accounting estimate, the company's use of specialists in developing the estimate, relevant requirements of the applicable financial reporting framework, possible accounting and auditing issues, and the need to apply professional skepticism.[1]

[1] *See* paragraphs .10-.11 of AS 1000, *General Responsibilities of the Auditor in Conducting an Audit,* for further discussion of the concept of professional skepticism ~~AS 1015.07–.09~~.

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AS 1215: Audit Documentation

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.02 *Audit documentation* is the written record of the basis for the auditor's conclusions that provides the support for the auditor's representations, whether those representations are contained in the auditor's report or otherwise. Audit documentation also facilitates the planning, performance, and supervision of the engagement, and is the basis for the review of the quality of the work because it provides the reviewer (e.g., engagement partner or other reviewers) with written documentation of the evidence supporting the auditor's significant conclusions. Among other things, audit documentation includes records of the planning and performance of the work, the procedures performed, evidence obtained, and conclusions reached by the auditor. Audit documentation also may be referred to as *work papers* or *working papers*.

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.06 The auditor must document the procedures performed, evidence obtained, and conclusions reached with respect to relevant financial statement assertions.[2] Audit documentation must clearly demonstrate that the work was in fact performed, who performed the work, the person or persons who reviewed the work, and the date of such review. This documentation requirement applies to the work of all those who participate in the engagement as well as to the work of specialists the auditor uses as evidential matter in evaluating relevant financial statement assertions.

.06A Audit documentation must contain sufficient information to enable an experienced auditor, having no previous connection with the engagement:

a. To understand the nature, timing, extent, and results of the procedures performed, evidence obtained, and conclusions reached, and

b. To determine who performed the work and the date such work was completed as well as the person or persons who reviewed the work and the date of such review.

.07 In determining the nature and extent of the documentation for a financial statement assertion, the auditor should consider the following factors:

- Nature of the auditing procedure;
- Risk of material misstatement associated with the assertion;
- Extent of judgment[2A] required in performing the work and evaluating the results, for example, accounting estimates require greater judgment and commensurately more extensive documentation;

[2A] Reference to the judgment of the auditor has the same meaning as "professional judgment" as described in AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*.

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.11 Certain matters, such as auditor independence, staff competence and training, ~~and proficiency~~ and client acceptance and retention, 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.

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.15 Prior to the report release date, (i) the auditor must have completed all necessary auditing procedures and obtained sufficient evidence to support the representations in the auditor's report, and (ii) the engagement partner and other engagement team members performing supervisory activities must have completed their reviews of audit documentation. A complete and final set of audit documentation should be assembled for retention (i.e., archived) as of a date not more than ~~45~~14 days after the report release date (*documentation completion date*). If a report is not issued in connection with an engagement, then the documentation completion date should not be more than ~~45~~14 days from the date that fieldwork was substantially completed. If the auditor was unable to complete the engagement, then the documentation completion date should not be more than ~~45~~14 days from the date the engagement ceased.

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AS 2101: Audit Planning

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.03 The **engagement partner**[1] is responsible for the engagement and its performance. Accordingly, the engagement partner is responsible for planning the audit and may seek assistance from appropriate **engagement team** members (which may include engagement team members outside the engagement partner's firm) in fulfilling this responsibility. Engagement team members who assist the engagement partner with audit planning also should comply with the relevant requirements in this standard. [As adopted by PCAOB and approved by SEC, *see* SEC Release No. 34-95488 (Aug. 12, 2022)]

> Note: Even when the engagement partner seeks assistance, the engagement partner retains primary responsibility for the engagement and its performance. The assistance provided by appropriate engagement team members to supervise, including review, the work of other engagement team members does not replace or reduce the engagement partner's responsibility.

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Planning Activities

.07 The nature and extent of planning activities that are necessary depend on the size and complexity of the company, the auditor's previous experience with the company, and changes in circumstances that occur during the audit. When developing the audit strategy and audit plan, as discussed in paragraphs .08-.10, the auditor should evaluate whether the following matters are important to the company's financial statements and internal control over financial reporting and, if so, how they will affect the auditor's procedures:

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- The auditor's preliminary judgments[4A] about materiality,[5] risk, and, in integrated audits, other factors relating to the determination of material weaknesses;

[4A] Reference to the judgment of the auditor throughout this standard has the same meaning as "professional judgment" as described in AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*.

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.09 In establishing the overall audit strategy, the auditor should take into account:

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d. The nature, timing, and extent of resources necessary to perform the engagement.[10]

[10] *See, e.g.*, ~~AS 1015.06,~~ paragraph .16 of this standard, and AS 2301.05a. [As adopted by PCAOB and approved by SEC, *see* SEC Release No. 34-95488]

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APPENDIX 4 – Other Proposed Amendments to Related PCAOB Auditing Standards

In connection with the proposal of AS 1000, *General Responsibilities of the Auditor in Conducting an Audit* ("AS 1000"), the Board is proposing related amendments to several of its auditing standards.[1] We are also proposing other technical and clarifying amendments.

The following PCAOB interim auditing standards would be superseded in their entirety.

- 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*
- AS 2815: *The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles"*

Language that would be deleted by the proposed amendments is ~~struck through~~. Language that would be added is underlined.

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[1] The Board's pending rulemaking projects, *A Firm's System of Quality Control and Other Proposed Amendments to PCAOB Standards, Rules, and Forms,* PCAOB Release No. 2022-006 (Nov. 18, 2022), and *Proposed Auditing Standard – The Auditor's Use of Confirmation, and Other Proposed Amendments to PCAOB Standards*, PCAOB Release No. 2022-09 (Dec. 20, 2022), include proposed changes that may supersede, amend, or delete paragraphs of PCAOB auditing standards for which other proposed amendments are included in this appendix. If, prior to the conclusion of this rulemaking, the Board adopts standards and related amendments that affect the proposed amendments in this release, the Board may make conforming changes to the proposed amendments.

OTHER PCAOB STANDARDS PROPOSED TO BE AMENDED[2]

PCAOB Standard	Paragraphs	Subject Heading of Paragraph Affected	Action(s)	Page(s)
AS 1101, *Audit Risk*	.03	Audit Risk	Make conforming amendment to footnote 3	p.A4-10
AS 1105, *Audit Evidence*	.B2	N/A	Add footnote 1A	p.A4-10
AS 1220, *Engagement Quality Review*	.02	Objective	Add footnote 1A	p.A4-11
AS 1220	.12	Concurring Approval of Issuance	Make conforming amendment to footnote 6	p.A4-11
AS 2201, *An Audit of Internal Control Over Financial Reporting that is integrated with An Audit of Financial Statements*	.03	Introduction	Make conforming amendment to footnote 5	p.A4-11
AS 2201	.04	Introduction	Make conforming amendment	p.A4-12
AS 2201	.09	Planning the Audit	Add footnote 8A	p.A4-12

[2] This table is a reference tool for the proposed amendments that follow. “Add” refers to a new footnote or other text proposed to be added to existing PCAOB standards. “Make conforming amendment” refers to proposed technical changes to existing PCAOB standards, such as changes to cross-references and defined terms. “Delete” refers to removing an existing paragraph, footnote, or other text. “Move” refers to moving an existing footnote to another location within the same standard.

PCAOB Standard	Paragraphs	Subject Heading of Paragraph Affected	Action(s)	Page(s)
AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*	.05a	Overall Response	Delete footnote 1	p.A4-13
AS 2301	.05d	Overall Response	Make conforming amendment to footnote 3	p.A4-13
AS 2301	.07	Overall Response	Make conforming amendment to footnote 4	p.A4-13
AS 2305, *Substantive Analytical Procedures*	.09	Analytical Procedures Used as Substantive Tests	Add footnote 1A	p.A4-14
AS 2310, *The Confirmation Process*	.15	The Confirmation Process	Make conforming amendment	p.A4-14
AS 2315, *Audit Sampling*	.02	N/A	Add footnote 2A	p.A4-15
AS 2401, *Consideration of Fraud in a Financial Statement Audit*	.01	Introduction and Overview	Make conforming amendment	p.A4-15
AS 2401	.04	Introduction and Overview	Amend	p.A4-15
AS 2401	.12	Description and Characteristics of Fraud	Make conforming amendment to .12 and footnote 7	p.A4-16

PCAOB Standard	Paragraphs	Subject Heading of Paragraph Affected	Action(s)	Page(s)
AS 2401	.13	The Importance of Exercising Professional Skepticism	Make conforming amendments	p.A4-16
AS 2405, *Illegal Acts by Clients*	.05	Relation to Financial Statements	Make conforming amendment	p.A4-16
AS 2410, *Related Parties*	.02	Objective	Make conforming amendment to footnote 2	p.A4-17
AS 2501, *Auditing Accounting Estimates, Including Fair Value Measurements*	.27	Evaluating Audit Evidence from Events or Transactions Occurring After the Measurement Date	Make conforming amendment to footnote 23	p.A4-17
AS 2501	.30	Evaluating Audit Results	Make conforming amendment to footnote 28	p.A4-18
AS 2505, *Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments*	.13	Limitations on the Scope of a Lawyer's Response	Make conforming amendment to footnote 7	p.A4-18
AS 2601, *Consideration of an Entity's Use of a Service Organization*	.32	Reports on Controls Placed in Operation	Add footnote 2A	p.A4-19
AS 2605, *Consideration of the Internal Audit Function*	.19	Extent of the Effect of the Internal Auditors' Work	Add footnote 6A	p.A4-19

PCAOB Standard	Paragraphs	Subject Heading of Paragraph Affected	Action(s)	Page(s)
AS 2610, *Initial Audits—Communications Between Predecessor and Successor Auditors*	.11	Other Communications	Add footnote 7A	p.A4-20
AS 2710, *Other Information in Documents Containing Audited Financial Statements*	.05	N/A	Add footnote 3	p.A4-20
AS 2805, *Management Representations*	.02	Reliance on Management Representations	Make conforming amendments to footnote 1	p.A4-21
AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*	.01	Introduction	Delete the first sentence, move location of footnote 1 within the same paragraph, move footnote 2 to paragraph .02 and delete footnote 3	p.A4-22
AS 3101	.02	Introduction	Move footnote 2 from paragraph .01, make	p.A4-22

PCAOB Standard	Paragraphs	Subject Heading of Paragraph Affected	Action(s)	Page(s)
			conforming amendment to footnote 4	
AS 3101	.11	Critical Audit Matters Determination of Critical Audit Matters	Add footnote 20A	p.A4-23
AS 3105, *Departures from Unqualified Opinions and Other Reporting Circumstances*	.50	Reports on Comparative Financial Statements	Make conforming amendment	p.A4-23
AS 3305, *Special Reports*	.03	Financial Statements Prepared in Conformity With a Comprehensive Basis of Accounting Other Than Generally Accepted Accounting Principles	Make conforming amendment, add footnote 1A	p.A4-24
AS 3305	.09	Evaluating the Adequacy of Disclosure in Financial Statements Prepared in Conformity With an Other Comprehensive Basis of Accounting	Make conforming amendment	p.A4-24
AS 4105, *Reviews of Interim Financial Information*	.01	Introduction	Make conforming amendment, delete Footnote 1A	p.A4-24
AS 4105	.07	Objective of a Review of Interim Financial Information	Add footnote 5A	p.A4-25
AS 6105, *Reports on the Application of Accounting Principles*	.07	Performance Standards	Make conforming amendment	p.A4-26

PCAOB Standard	Paragraphs	Subject Heading of Paragraph Affected	Action(s)	Page(s)
AS 6105	.08	Performance Standards	Make conforming amendment, add footnote 5A	p.A4-26
AS 6115, *Reporting on Whether a Previously Reported Material Weakness Continues to Exist*	.21	Applying the Standards of the PCAOB	Make conforming amendment	p.A4-26
AS 6115	.38	Using the Work of Others	Add footnote 4	p.A4-27
AI 11, *Using the Work of a Specialist: Auditing Interpretations*	.04	1. The Use of Legal Interpretations As Evidential Matter to Support Management's Assertion That a Transfer of Financial Assets Has Met the Isolation Criterion in Paragraph 9(a) of Financial Accounting Standards Board Statement No. 140	Add footnote 4A	p.A4-27
AI 18, *Consideration of an Entity's Use of a Service Organization: Auditing Interpretations of AS 2601*	.03	1.Describing Tests of Operating Effectiveness and the Results of Such Tests	Add footnote 1A	p.A4-27
AI 23, *Departures from Unqualified Opinions and Other Reporting*	.06	1. Report of an Outside Inventory-Taking Firm as an Alternative Procedure for Observing Inventories	Add footnote 1C	p.A4-28

PCAOB Standard	Paragraphs	Subject Heading of Paragraph Affected	Action(s)	Page(s)
Circumstances: Auditing Interpretations of AS 3105				
AI 24, *Special Reports – Auditing Interpretations of AS 3305*	.61	12.Evaluation of the Appropriateness of Informative Disclosures in Insurance Enterprises' Financial Statements Prepared on a Statutory Basis	Make conforming amendment, add footnote 12	p.A4-28
AT No.1, *Examination Engagements Regarding Compliance Reports of Brokers and Dealers*	.06	Performing the Examination Engagement General Requirements	Make conforming amendment, add footnotes 10A, 11A, and 11B, delete footnote 11	p.A4-29
AT No.1	.07	Performing the Examination Engagement General Requirements	Add footnote 12A	p.A4-30
AT No.2, Review *Engagements Regarding Exemption Reports of Brokers and Dealers*	.05	Performing the Review Engagement General Requirements	Make conforming amendment, add footnotes 7A, 8A, and 8B, delete footnote 8	p.A4-31
AT No.2	.06	Performing the Review Engagement General Requirements	Add note 9A	p.A4-32
AT Section 101, *Attest Engagements*	.40	Due Professional Care	Make conforming amendment, add footnote 7A and 7B	p.A4-32

PCAOB Standard	Paragraphs	Subject Heading of Paragraph Affected	Action(s)	Page(s)
AT Section 101	.41	Due Professional Care	Delete	p.A4-33
AT Section 301, *Financial Forecasts and Projections*	.66	Other Information	Add footnote 2A	p.A4-33
AT Section 601, Compliance *Attestation*	.31	Attestation Risk	Add footnote 8A	p.A4-34
AT Section 701, *Management's Discussion and Analysis*	.29	Attestation Risk	Add footnote 17A	p.A4-34

AS 1101: Audit Risk

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.03 To form an appropriate basis for expressing an opinion on the financial statements, the auditor must plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement[2] due to error or fraud. Reasonable assurance[3] is obtained by reducing audit risk to an appropriately low level through applying due professional care, including obtaining sufficient appropriate audit evidence.

[3] *See* paragraph .14 of AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*~~AS 1001, Responsibilities and Functions of the Independent Auditor, and paragraph .10 of AS 1015, Due Professional Care in the Performance of Work~~, for a ~~further~~ discussion of reasonable assurance.

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AS 1105: Audit Evidence

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Appendix B—Audit Evidence Regarding Valuation of Investments Based on Investee Financial Results

.B2 If in the auditor's judgment[1A] additional evidence is needed, the auditor should perform procedures to gather such evidence. For example, the auditor may conclude that additional evidence is needed because of its concerns about the professional reputation or independence of the investee's auditor, significant differences in fiscal year-ends, significant differences in accounting principles, changes in ownership, changes in conditions affecting the use of the equity method, or the materiality of the investment to the investor's financial position or results of operations. Examples of procedures the auditor may perform are reviewing information in the investor's files that relates to the investee such as investee minutes and budgets and cash flows information about the investee and making inquiries of investor management about the investee's financial results. [As adopted by PCAOB and approved by SEC, *see* SEC Release No. 34-95488 (Aug. 12, 2022)]

[1A] Reference to the judgment of the auditor has the same meaning as "professional judgment" as described in AS 1000, *General Responsibilities of the Auditor in Conducting and Audit.*

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AS 1220: Engagement Quality Review

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Objective

.02 The objective of the engagement quality reviewer is to perform an evaluation of the significant judgments[1B] made by the engagement team[1A] and the related conclusions reached in forming the overall conclusion on the engagement and in preparing the engagement report, if a report is to be issued, in order to determine whether to provide concurring approval of issuance.[1] [As adopted by PCAOB and approved by SEC, *see* SEC Release No. 34-95488 (Aug. 12, 2022)]

[1B] Reference to the judgment of the auditor throughout this standard has the same meaning as "professional judgment" as described in AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*.

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Concurring Approval of Issuance

.12 In an audit, the engagement quality reviewer may provide concurring approval of issuance only if, after performing with due professional care[6] the review required by this standard, he or she is not aware of a significant engagement deficiency.

> Note: A significant engagement deficiency in an audit exists when (1) the engagement team failed to obtain sufficient appropriate evidence in accordance with the standards of the PCAOB, (2) the engagement team reached an inappropriate overall conclusion on the subject matter of the engagement, (3) the engagement report is not appropriate in the circumstances, or (4) the firm is not independent of its client.

[6] *See* AS 1000.09-.11 for a discussion of the concept of due professional care.~~AS 1015, *Due Professional Care in the Performance of Work*.~~

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AS 2201: An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements

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.03 The auditor's objective in an audit of internal control over financial reporting is to express an opinion on the effectiveness of the company's internal control over financial reporting. Because a company's internal control cannot be considered effective if one or more material weaknesses exist, to form a basis for expressing an opinion, the auditor must plan and perform the audit to obtain appropriate evidence that is sufficient to obtain reasonable assurance[5] about whether material weaknesses exist as of the date specified in management's assessment. A material weakness in internal control over financial reporting may exist even when financial statements are not materially misstated.

[5] *See* paragraph .14 of AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*~~AS 1015, *Due Professional Care in the Performance of Work*,~~ for ~~further~~ a discussion of the concept of reasonable assurance in an audit.

.04 ~~The standards, AS 1005, *Independence*, AS 1010, *Training and Proficiency of the Independent Auditor*, and AS 1015, *Due Professional Care in the Performance of Work*,~~ AS 1000 is ~~are~~ applicable to an audit of internal control over financial reporting. ~~Those~~ That standard~~s~~ requires the auditor to be independent and to comply with independence and ethics requirements, be competent, ~~technical training and proficiency as an auditor, independence,~~ and ~~the~~ to exercise ~~of~~ due professional care, including professional skepticism. This standard establishes the fieldwork and reporting standards applicable to an audit of internal control over financial reporting.

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Planning the Audit

.09 The auditor should properly plan the audit of internal control over financial reporting and properly supervise the engagement team[7A] members. When planning an integrated audit, the auditor should evaluate whether the following matters are important to the company's financial statements and internal control over financial reporting and, if so, how they will affect the auditor's procedures – [As adopted by PCAOB and approved by SEC, *see* SEC Release No. 34-95488 (Aug. 12, 2022)]

- The auditor's preliminary judgments[8A] about materiality, risk, and other factors relating to the determination of material weaknesses;

[8A] Reference to the judgment of the auditor throughout this standard has the same meaning as "professional judgment" as described in AS 1000.

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AS 2301: The Auditor's Responses to the Risks of Material Misstatement

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Overall Responses

.05 The auditor should design and implement overall responses to address the assessed risks of material misstatement as follows:

a. Making appropriate assignments of significant engagement responsibilities. The knowledge, skill, and ability of engagement team[1A] members with significant engagement responsibilities should be commensurate with the assessed risks of material misstatement.~~[1]~~[As adopted by PCAOB and approved by SEC, *see* SEC Release No. 34-95488 (Aug. 12, 2022)]

~~1~~ ~~*See also* paragraph .06 of AS 1015, *Due Professional Care in the Performance of Work.*~~

[1] [Footnote deleted.]

***

d. Evaluating the company's selection and application of significant accounting principles. The auditor should evaluate whether the company's selection and application of significant accounting principles, particularly those related to subjective measurements and complex transactions,[3] are indicative of bias that could lead to material misstatement of the financial statements.

3 AS 2110.12-.13 discuss the auditor's responsibilities regarding obtaining an understanding of the company's selection and application of accounting principles. See also paragraphs .66-.67A of AS 2401, *Consideration of Fraud in a Financial Statement Audit*, and paragraphs .30-.31~~04 and 06~~ of AS 2810, *Evaluating Audit Results*.~~AS 2815, *The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles."*~~

***

.07 Due professional care requires the auditor to exercise professional skepticism.[4] Professional skepticism is an attitude that includes a questioning mind and a critical assessment of the appropriateness and sufficiency of audit evidence. The auditor's responses to the assessed risks of material misstatement, particularly fraud risks, should involve the application of professional skepticism in gathering and evaluating audit evidence. Examples of the application of professional skepticism in response to the assessed fraud risks are (a) modifying the planned audit procedures to obtain more reliable evidence regarding relevant assertions and (b) obtaining sufficient appropriate evidence to corroborate management's explanations or representations concerning important matters, such as through third-party confirmation, use of a specialist engaged or employed by the auditor, or examination of documentation from independent sources.

4 AS 1000.10-.11~~AS 1015.07-.09~~.

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AS 2305: Substantive Analytical Procedures

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Analytical Procedures Used as Substantive Tests

.09 The auditor's reliance on substantive tests to achieve an audit objective related to a particular assertion[1] may be derived from tests of details, from analytical procedures, or from a combination of both. The decision about which procedure or procedures to use to achieve a particular audit objective is based on the auditor's judgment[1A] on the expected effectiveness and efficiency of the available procedures. For significant risks of material misstatement, it is unlikely that audit evidence obtained from substantive analytical procedures alone will be sufficient. (See paragraph .11 of AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*.)

1A Reference to the judgment of the auditor has the same meaning as "professional judgment" as described in AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*.

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AS 2310: The Confirmation Process

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The Confirmation Process

.15 The auditor should exercise ~~an appropriate level of~~ professional skepticism throughout the confirmation process (*see* AS 1000, *General Responsibilities of the Auditor in Conducting an Audit* ~~AS 1015, *Due Professional Care in the Performance of Work*~~). Professional skepticism is important in designing the confirmation request, performing the confirmation procedures, and evaluating the results of the confirmation procedures.

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AS 2315: Audit Sampling

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.02 The auditor often is aware of account balances and transactions that may be more likely to contain misstatements.[2] He considers this knowledge in planning his procedures, including audit sampling. The auditor usually will have no special knowledge about other account balances and transactions that, in his judgment,[2A] will need to be tested to fulfill his audit objectives. Audit sampling is especially useful in these cases.

[2A] Reference to the judgment of the auditor throughout this standard has the same meaning as "professional judgment" as described in AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*.

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AS 2401: Consideration of Fraud in a Financial Statement Audit

Introduction and Overview

.01 Paragraph ~~.02~~.13 of AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*~~AS 1001, Responsibilities and Functions of the Independent Auditor~~, ~~states,~~ requires ~~"~~the auditor to~~has a responsibility~~ plan and perform the audit to obtain sufficient appropriate audit evidence to obtain reasonable assurance about whether the financial statements, are free of material misstatement, whether due to ~~caused by~~ error or fraud. ~~[footnote omitted]"~~[1] This section establishes requirements and provides direction relevant to fulfilling that responsibility, as it relates to fraud, in an audit of financial statements.

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.04 Although this section focuses on the auditor's consideration of fraud in an audit of financial statements, it is management's responsibility to design and implement programs and controls to prevent, deter, and detect fraud. ~~That responsibility is described in AS 1001.03, which states, "~~Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.~~"~~ Management, along with those who have responsibility for oversight of the financial reporting process (such as the audit committee, board of trustees, board of directors, or the owner in owner-managed entities), should set the proper tone; create and maintain a culture of honesty and high ethical standards; and establish appropriate controls to prevent, deter, and detect fraud. When management and those responsible for the oversight of the financial reporting process fulfill those responsibilities, the opportunities to commit fraud can be reduced significantly.

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.12 As indicated in paragraph .01, the auditor has a responsibility to plan and perform the audit to obtain sufficient appropriate audit evidence for the auditor to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to~~caused by~~ fraud or error.[7] However, absolute assurance is not attainable and thus even a properly planned and performed audit may not detect a material misstatement resulting from fraud. A material misstatement may not be detected because of the nature of audit evidence or because the characteristics of fraud as discussed above may cause the auditor to rely unknowingly on audit evidence that appears to be valid, but is, in fact, false and fraudulent. Furthermore, audit procedures that are effective for detecting an error may be ineffective for detecting fraud.

[7] For a ~~further~~ discussion of the concept of reasonable assurance, see AS 1000.14~~10 through .13 of AS 1015, *Due Professional Care in the Performance of Work*~~.***

.13 Due professional care requires the auditor to exercise professional skepticism. *See* AS 1000.10 and .11 ~~AS 1015.07 through .09~~. Because of the characteristics of fraud, the auditor's exercise of professional skepticism is important when considering the fraud risks. Professional skepticism is an attitude that includes a questioning mind and a critical assessment of information related to the audit~~audit evidence~~. The auditor should conduct the engagement with a mindset that recognizes the possibility that a material misstatement due to fraud could be present, regardless of any past experience with the entity and regardless of the auditor's belief about management's honesty and integrity. Furthermore, professional skepticism requires an ongoing questioning of whether the information and evidence obtained suggests that a material misstatement due to fraud has occurred. In exercising professional skepticism in gathering and evaluating evidence, the auditor should not rely on~~be satisfied with less-than persuasive~~ evidence that is less than persuasive and avoid assumptions ~~because of a belief~~ that management is honest or dishonest.

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AS 2405: Illegal Acts by Clients

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.05 The auditor considers laws and regulations that are generally recognized by auditors to have a direct and material effect on the determination of financial statement amounts. For example, tax laws affect accruals and the amount recognized as expense in the accounting period; applicable laws and regulations may affect the amount of revenue accrued under government contracts. However, the auditor considers such laws or regulations from the perspective of their known relation to audit objectives derived from financial statements assertions rather than from the perspective of legality per se. The auditor's responsibility to detect and report misstatements resulting from illegal acts having a direct and material effect on the determination of financial statement amounts is the same as that for misstatements due to error or fraud as described in ~~AS 1001, *Responsibilities and Functions of the Independent Auditor*~~paragraph .13 of AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*.

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AS 2410: Related Parties

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Objective

.02 The objective of the auditor is to obtain sufficient appropriate audit evidence to determine whether related parties and relationships and transactions with related parties have been properly identified, accounted for, and disclosed in the financial statements.[2]

[2] *See, e.g.,* paragraphs .30-.31 of AS 2810, *Evaluating Audit Results*. ~~*See also* paragraph .04 of AS 2815, *The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles."*~~

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AS 2501: Auditing Accounting Estimates, Including Fair Value Measurements

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Evaluating Audit Evidence from Events or Transactions Occurring After the Measurement Date

.27 Events and transactions that occur after the measurement date can provide relevant evidence to the extent they reflect conditions at the measurement date.23

[23] Evaluating audit evidence from events or transactions occurring after the measurement date, as contemplated in this standard, is a substantive test that differs from the other auditing procedures performed under paragraph .12 of AS 2801, *Subsequent Events*. ~~See also paragraph .11 of AS 1015, *Due Professional Care in the Performance of Work*, which provides that the auditor's evaluation of accounting estimates is to be based on information that could reasonably be expected to be available through the date of the auditor's report~~.

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Evaluating Audit Results

.30 AS 2810 requires the auditor to evaluate the results of audit procedures performed on accounting estimates. This includes:

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d. Evaluating the presentation of the financial statements, including the disclosures and whether the financial statements contain the information essential for a fair presentation of the financial statements in conformity with the applicable financial reporting framework.[28]

[28] *See* AS 2810.<u>30-</u>31.

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AS 2505: Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments

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.13 A lawyer's refusal to furnish the information requested in an inquiry letter either in writing or orally (*see* paragraphs .09 and .10) would be a limitation on the scope of the audit sufficient to preclude an unqualified opinion (*see* paragraphs .05 and .06 of AS 3105, *Departures from Unqualified Opinions and Other Reporting Circumstances*).[7] A lawyer's response to such an inquiry and the procedures set forth in paragraph .05 provide the auditor with sufficient evidential matter to satisfy himself concerning the accounting for and reporting of pending and threatened litigation, claims and assessments. The auditor obtains sufficient evidential matter to satisfy himself concerning reporting for those unasserted claims and assessments required to be disclosed in financial statements from the foregoing procedures and the lawyer's specific acknowledgement of his responsibility to his client in respect of disclosure obligations (*see* paragraph .09*g*). This approach with respect to unasserted claims and assessments is necessitated by the public interest in protecting the confidentiality of lawyer-client communications.

[7] A refusal to respond should be distinguished from an inability to form a conclusion with respect to certain matters of judgment (see paragraph .14). Also, lawyers outside the United States sometimes follow practices at variance with those contemplated by this section to the extent that different procedures from those outlined herein may be necessary. In such

circumstances, the auditor should exercise professional judgment in determining whether alternative procedures are adequate to comply with the requirements of this section.

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AS 2601: Consideration of an Entity's Use of a Service Organization

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.32 The service auditor should consider conditions that come to his or her attention that, in the service auditor's judgment,[2A] represent significant deficiencies in the design or operation of the service organization's controls that preclude the service auditor from obtaining reasonable assurance that specified control objectives would be achieved. The service auditor should also consider whether any other information, irrespective of specified control objectives, has come to his or her attention that causes him or her to conclude (a) that design deficiencies exist that could adversely affect the ability to initiate, record, process, or report financial data to user organizations without error, and (b) that user organizations would not generally be expected to have controls in place to mitigate such design deficiencies.

[2A] Reference to the judgment of the auditor throughout this standard has the same meaning as "professional judgment" as described in AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*.

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AS 2605: Consideration of the Internal Audit Function

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.19 The responsibility to report on the financial statements rests solely with the auditor. Unlike the situation in which the auditor divides responsibility for the audit with another public accounting firm,[6] this responsibility cannot be shared with the internal auditors. Because the auditor has the ultimate responsibility to express an opinion on the financial statements, judgments[6A] about assessments of inherent and control risks, the materiality of misstatements, the sufficiency of tests performed, the evaluation of significant accounting estimates, and other matters affecting the auditor's report should always be those of the auditor. [As adopted by PCAOB and approved by SEC, *see* SEC Release No. 34-95488 (Aug. 12, 2022)]

[6A] Reference to the judgment of the auditor throughout this standard has the same meaning as "professional judgment" as described in AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*.

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AS 2610: Initial Audits—Communications Between Predecessor and Successor Auditors

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Other Communications

.11 The successor auditor should request that the client authorize the predecessor auditor to allow a review of the predecessor auditor's working papers. The predecessor auditor may wish to request a consent and acknowledgment letter from the client to document this authorization in an effort to reduce misunderstandings about the scope of the communications being authorized.[6] It is customary in such circumstances for the predecessor auditor to make himself or herself available to the successor auditor and make available for review certain of the working papers. The predecessor auditor should determine which working papers are to be made available for review and which may be copied. The predecessor auditor should ordinarily permit the successor auditor to review working papers, including documentation of planning, internal control, audit results, and other matters of continuing accounting and auditing significance, such as the working papers containing an analysis of balance sheet accounts, those relating to contingencies, related parties, and significant unusual transactions. Also, the predecessor auditor should reach an understanding with the successor auditor as to the use of the working papers.[7] The extent, if any, to which a predecessor auditor permits access to the working papers is a matter of judgment.[7A]

[7A] Reference to the judgment of the auditor throughout this standard has the same meaning as "professional judgment" as described in AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*.

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AS 2710: Other Information in Documents Containing Audited Financial Statements

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.05 If, while reading the other information for the reasons set forth in paragraph .04, the auditor becomes aware of information that he believes is a material misstatement of fact that is not a material inconsistency as described in paragraph .04, he should discuss the matter with the client. In connection with this discussion, the auditor should consider that he may not have the expertise to assess the validity of the statement, that there may be no standards by which to assess its presentation, and that there may be valid differences of judgment[3] or opinion between the auditor and client. If the auditor concludes he has a valid basis for concern he should propose that the client consult with some other party whose advice might be useful to the client, such as the client's legal counsel.

3 Reference to the judgment of the auditor throughout this standard has the same meaning as "professional judgment" as described in AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*.

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AS 2805: Management Representations

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Reliance on Management Representations

.02 During an audit, management makes many representations to the auditor, both oral and written, in response to specific inquiries or through the financial statements. Such representations from management are part of the evidential matter the independent auditor obtains, but they are not a substitute for the application of those auditing procedures necessary to afford a reasonable basis for an opinion regarding the financial statements under audit. Written representations from management ordinarily confirm representations explicitly or implicitly given to the auditor, indicate and document the continuing appropriateness of such representations, and reduce the possibility of misunderstanding concerning the matters that are the subject of the representations.[1]

1 *See* AS 1000~~15~~, ~~Due Professional Care in the Performance of Work~~ *General Responsibilities of the Auditor in Conducting an Audit*, ~~states, "The auditor neither assumes that management is dishonest nor assumes unquestioned honesty. In exercising professional skepticism, the auditor should not be satisfied with less than persuasive evidence because of a belief that management is honest~~which describes the auditor's general responsibilities, including the responsibility for exercising professional skepticism, which includes not relying on evidence that is less than persuasive and not assuming that management is honest or dishonest.

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AS 3101: The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion

Introduction

.01 ~~The auditor's report contains either an expression of opinion on the financial statements,[1] taken as a whole,[2] or an assertion that an opinion cannot be expressed.~~ This standard establishes requirements regarding the content of the auditor's written report when the auditor expresses an unqualified opinion on the financial statements[1] (the "auditor's unqualified report").~~[3]~~

~~[1] This standard uses the term "financial statements" as used by the U.S. Securities and Exchange Commission ("SEC") to include all notes to the statements and all related schedules. *See* Regulation S-X Rule 1-01(b), 17 CFR 210.1-01(b). This and other PCAOB standards often refer to the notes as disclosures; *see, e.g.,* AS 2110, *Identifying and Assessing Risks of Material Misstatement*.~~

[1] This standard uses the term "financial statements" as used by the U.S. Securities and Exchange Commission ("SEC") to include all notes to the statements and all related schedules. *See* Regulation S-X Rule 1-01(b), 17 C.F.R. 210.1-01(b). This and other PCAOB standards often refer to the notes as disclosures; *see, e.g.,* AS 2110, *Identifying and Assessing Risks of Material Misstatement*.

~~[2] "Taken as a whole" applies equally to a complete set of financial statements and to an individual financial statement with appropriate disclosures.~~

~~[3] Paragraphs .85–.98 and Appendix C, *Special Reporting Situations*, of AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*, address the form and content of the auditor's report when the auditor performs an audit of internal control over financial reporting~~

[3] [Footnote deleted.]

.02 The auditor is in a position to express an unqualified opinion on the financial statements when the auditor conducted an audit in accordance with the standards of the Public Company Accounting Oversight Board ("PCAOB") and concludes that the financial statements, taken as a whole,[2] are presented fairly, in all material respects,[4] in conformity with the applicable financial reporting framework.[5]

[2] "Taken as a whole" applies equally to a complete set of financial statements and to an individual financial statement with appropriate disclosures.

[4] ~~AS 2815, *The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles*," describes the basis for an auditor's responsibility for forming an opinion on whether the company's financial statements are presented fairly in conformity with the applicable financial reporting framework.~~AS 2810.30-.31 describe the auditor's responsibilities related to the evaluation of whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.

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Determination of Critical Audit Matters

.11 The auditor must determine whether there are any critical audit matters in the audit of the current period's financial statements. A critical audit matter is any matter arising from the audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved especially challenging, subjective, or complex auditor judgment. [20A] Critical audit matters are not a substitute for the auditor's departure from an unqualified opinion (i.e., a qualified opinion, adverse opinion, or disclaimer of opinion on the financial statements as described in AS 3105).

[20A] Reference to the judgment of the auditor throughout this standard has the same meaning as "professional judgment" as described in AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*.

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AS 3105: Departures from Unqualified Opinions and Other Reporting Circumstances

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.50 During the audit of the current-period financial statements, the auditor should be alert for circumstances or events that affect the prior-period financial statements presented (*see* paragraph .52) or the adequacy of informative disclosures concerning those statements. (*See* AS 2810.30-31.) In updating his or her report on the prior-period financial statements, the auditor should consider the effects of any such circumstances or events coming to his or her attention.

***

AS 3305: Special Reports

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.03 An independent auditor's judgment[1A] concerning the overall presentation of financial statements should be applied within an applicable financial reporting~~identifiable~~ framework (*see* AS 2810, *Evaluating Audit Results*~~AS 2815, *The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles"*~~). Normally, the framework is provided by generally accepted accounting principles, and the auditor's judgment in forming an opinion is applied accordingly ~~(*see* 2815.05)~~. In some circumstances, however, a comprehensive basis of accounting other than generally accepted accounting principles may be used.

[1A] Reference to the judgment of the auditor throughout this standard has the same meaning as "professional judgment" as described in AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*.

***

.09 When reporting on financial statements prepared on a comprehensive basis of accounting other than generally accepted accounting principles, the auditor should consider whether the financial statements (including the accompanying notes) include all informative disclosures that are appropriate for the basis of accounting used. The auditor should apply essentially the same criteria to financial statements prepared on an other comprehensive basis of accounting as he or she does to financial statements prepared in conformity with generally accepted accounting principles. Therefore, the auditor's opinion should be based on his or her judgment regarding whether the financial statements, including the related notes, are informative of matters that may affect their use, understanding, and interpretation as discussed in AS 2810.30A ~~AS 2815.04~~.

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AS 4105: Reviews of Interim Financial Information

Introduction

.01 The purpose of this section is to establish standards and provide guidance on the nature, timing, and extent of the procedures to be performed by an independent accountant when conducting a review of interim financial information (as that term is defined in paragraph .02 of this section). AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*, requires the auditor to comply with independence and ethics requirements, be competent, and exercise due professional care, including professional skepticism. The same professional qualifications and general principles ~~The general standards[1A]~~ are applicable to a review of interim financial information conducted in accordance with this section. This section provides guidance on the application of the field work and reporting standards to a review of interim financial information, to the extent those standards are relevant.

~~[1A] *See* AS 1005, *Independence*, AS 1010, *Training and Proficiency of the Independent Auditor*, and AS 1015, *Due Professional Care in the Performance of Work*.~~

[1A] [Footnote deleted.]

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Objective of a Review of Interim Financial Information

.07 The objective of a review of interim financial information pursuant to this section is to provide the accountant with a basis for communicating whether he or she is aware of any material modifications that should be made to the interim financial information for it to conform with generally accepted accounting principles. The objective of a review of interim financial information differs significantly from that of an audit conducted in accordance with the standards of the PCAOB. A review of interim financial information does not provide a basis for expressing an opinion about whether the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles. A review consists principally of performing analytical procedures and making inquiries of persons responsible for financial and accounting matters, and does not contemplate (a) tests of accounting records through inspection, observation, or confirmation; (b) tests of controls to evaluate their effectiveness; (c) obtaining corroborating evidence in response to inquiries; or (d) performing certain other procedures ordinarily performed in an audit. A review may bring to the accountant's attention significant matters affecting the interim financial information, but it does not provide assurance that the accountant will become aware of all significant matters that would be identified in an audit. Paragraph .22 of this section provides guidance to the accountant if he or she becomes aware of information that leads him or her to believe that the interim financial information may not be in conformity with generally accepted accounting principles. Likewise, the auditor's responsibility as it relates to management's quarterly certifications on internal control over financial reporting is different from the auditor's responsibility as it relates to management's annual assessment of internal control over financial reporting. The auditor should perform limited procedures quarterly to provide a basis for determining whether he or she has become aware of any material modifications that, in the auditor's judgment,[5A] should be made to the disclosures about changes in internal control over financial reporting in order for the certifications to be accurate and to comply with the requirements of Section 302 of the Act.

[5A] Reference to the judgment of the auditor throughout this standard has the same meaning as "professional judgment" as described in AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*.

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AS 6105: Reports on the Application of Accounting Principles

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Performance Standards

.07 The reporting accountant should exercise due professional care in performing the engagement and should have the competence to conduct such an engagement~~adequate technical training and proficiency~~. The reporting accountant should also plan the engagement adequately, supervise the work of assistants, if any, and accumulate sufficient information to provide a reasonable basis for the professional judgment described in the report. The reporting accountant should consider the circumstances under which the written report or oral advice is requested, the purpose of the request, and the intended use of the written report or oral advice.

.08 To aid in forming a judgment,[5A] the reporting accountant should perform the following procedures: (*a*) obtain an understanding of the form and substance of the transaction(s); (*b*) review applicable ~~generally accepted~~ accounting principles (*see* AS 2810, *Evaluating Audit Results*~~AS 2815, *The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles"*~~); (*c*) if appropriate, consult with other professionals or experts; and (*d*) if appropriate, perform research or other procedures to ascertain and consider the existence of creditable precedents or analogies.

[5A] Reference to the judgment of the auditor throughout this standard has the same meaning as "professional judgment" as described in AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*.

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AS 6115: Reporting on Whether a Previously Reported Material Weakness Continues to Exist

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.21 The engagement to report on whether a previously reported material weakness continues to exist must be performed by a person or persons having the competence ~~adequate technical training and proficiency as an auditor~~to conduct such an engagement. In all matters related to the assignment, an independence in mental attitude must be maintained. Due professional care must be exercised in the performance of the engagement and the preparation of the report.

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.38 AS 2201.18-.19 should be applied in the context of the engagement to report on whether a previously reported material weakness continues to exist. There may, therefore, be some circumstances in which the scope of the audit procedures to be performed in this engagement will be so limited that using the work of others will not provide any tangible benefit to the company or its auditor. Additionally, the auditor should perform any walkthroughs himself or herself because of the degree of judgment[4] required in performing this work.

[4] Reference to the judgment of the auditor throughout this standard has the same meaning as "professional judgment" as described in AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*.

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AI 11: Using the Work of a Specialist: Auditing Interpretations

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.04 *Interpretation*—During the audit, an auditor may encounter complex or subjective matters potentially material to the financial statements. Such matters may require special skill or knowledge and in the auditor's judgment[4A] require using the work of a specialist to obtain appropriate evidential matter.

[4A] Reference to the judgment of the auditor throughout this interpretation has the same meaning as "professional judgment" as described in AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*.

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AI 18: Consideration of an Entity's Use of a Service Organization: Auditing Interpretations of AS 2601

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.03 In describing the nature, timing, and extent of the tests applied, the service auditor also should indicate whether the items tested represent a sample or all of the items in the population, but need not indicate the size of the population. In describing the results of the tests, the service auditor should include exceptions and other information that in the service auditor's judgment[1A] could be relevant to user auditors. Such exceptions and other information should be included for each control objective, whether or not the service auditor concludes that the control objective has been achieved. When exceptions that could be relevant to user auditors are noted, the description also should include the following information:

[1A] Reference to the judgment of the auditor throughout this interpretation has the same meaning as "professional judgment" as described in AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*.

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AI 23: Departures from Unqualified Opinions and Other Reporting Circumstances: Auditing Interpretations of AS 3105

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.06 Thus, the auditor would examine the outside firm's program, observe its procedures and controls, make or observe some physical counts of the inventory, recompute calculations of the submitted inventory on a test basis and apply appropriate tests to the intervening transactions. The independent auditor ordinarily may reduce the extent of the work on the physical count of inventory because of the work of an outside inventory firm, but any restriction on the auditor's judgment[1C] concerning the extent of his or her contact with the inventory would be a scope restriction.

[1C] Reference to the judgment of the auditor throughout this interpretation has the same meaning as "professional judgment" as described in AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*.

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AI 24: Special Reports: Auditing Interpretations of AS 3305

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.61 *Interpretation*—Financial statements prepared on a statutory basis are financial statements prepared on a comprehensive basis of accounting other than GAAP according to AS 3305.04. AS 3305.09 states that "When reporting on financial statements prepared on a comprehensive basis of accounting other than generally accepted accounting principles, the auditor should consider whether the financial statements (including the accompanying notes) include all informative disclosures that are appropriate for the basis of accounting used. The auditor should apply essentially the same criteria to financial statements prepared on an other comprehensive basis of accounting as those applied to financial statements prepared in conformity with generally accepted accounting principles. Therefore, the auditor's opinion should be based on his or her judgment[12] regarding whether the financial statements, including the related notes, are informative of matters that may affect their use, understanding, and interpretation as discussed in paragraphs .30A-.31 ~~.04~~ of AS 2810, *Evaluating Audit Results*. ~~AS 2815, *The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles."*~~

12 Reference to the judgment of the auditor throughout this interpretation has the same meaning as "professional judgment" as described in AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*.

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Attestation Standard No. 1: Examination Engagements Regarding Compliance Reports of Brokers and Dealers

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Performing the Examination Engagement

General Requirements

06. An auditor who performs an examination engagement pursuant to this standard must:

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d. Exercise due professional care, ~~which includes~~including the application of professional skepticism[11A], in planning and performing the examination and the preparation of the report.

   Note: Due professional care concerns what the auditor does and how well the auditor does it. Due professional care means acting with reasonable care and diligence; exercising professional skepticism; acting with integrity; and complying with applicable professional and legal requirements.[11B] ~~Due professional care imposes a responsibility on each engagement team[10A] member to comply with this standard.~~ The exercise of due professional care requires critical review at every level of supervision of the work done and the judgment[11C] exercised by those assisting in the engagement, including preparing the report. ~~[11]~~

~~10A The term "engagement team," as used in this standard for examination engagements, has a meaning analogous to the term's definition in Appendix A of AS~~

~~2101, *Audit Planning*, for audit engagements.~~ [As adopted by PCAOB and approved by SEC, *see* SEC Release No. 34-95488 (Aug. 12, 2022)]

~~[11] The auditor's responsibility to exercise due professional care is consistent with the description in paragraphs .40-.41 of AT sec. 101, *Attest Engagements*.~~

[11A] Professional skepticism is an attitude that includes a questioning mind and a critical assessment of information related to the audit. *See* paragraphs .10-.11 of AS 1000, *General Responsibilities of the Auditor in Conducting an Audit,* for further discussion of the concept of professional skepticism.

[11B] The term "applicable professional and legal requirements," as used in this standard, has the same meaning as defined in paragraph .A2 of Appendix A of [proposed QC 1000, *see* PCAOB Release No. 2022-006], which includes professional standards as defined in PCAOB Rule 1001(p)(vi) (i.e., certain accounting principles and other standards) and rules of the PCAOB that are not professional standards. This definition also includes statutes with which the auditor is required to comply. *See, e.g.,* Section 10A of the Securities Exchange Act of 1934, 15 U.S.C. § 78j-1.

[11C] Reference to the judgment of the practitioner throughout this standard has the same meaning as "professional judgment" as described in AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*.

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07. The engagement partner is responsible for the examination engagement and performance of the examination procedures. Accordingly, the engagement partner is responsible for proper planning of the examination engagement, proper supervision of the work of engagement team[12A] members, and compliance with the requirements of this standard. The engagement partner may seek assistance from appropriate engagement team members in fulfilling these responsibilities.

[12A] The term "engagement team," as used in this standard for examination engagements, has a meaning analogous to the term's definition in Appendix A of AS 2101, *Audit Planning*, for audit engagements. [As adopted by PCAOB and approved by SEC, *see* SEC Release No. 34-95488 (Aug. 12, 2022)]

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Attestation Standard No. 2: Review Engagements Regarding Exemption Reports of Brokers and Dealers

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Performing the Review Engagement

General Requirements

05. An auditor who performs a review engagement must:

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d. Exercise due professional care, ~~which includes~~including the application of professional skepticism[8A], in planning and performing the review and preparation of the report.

   Note: Due professional care concerns what the auditor does and how well the auditor does it. Due professional care means acting with reasonable care and diligence; exercising professional skepticism; acting with integrity; and complying with applicable professional and legal requirements.[8B] ~~Due professional care imposes a responsibility on each engagement team[7A] member to comply with this standard.~~ The exercise of due professional care requires critical review at every level of supervision of the work done and the judgment[8C] exercised by those assisting in the engagement, including preparing the report.~~[8]~~

~~7A~~ ~~The term "engagement team," as used in this standard for review engagements, has a meaning analogous to the term's definition in Appendix A of AS 2101, Audit Planning, for audit engagements.~~ [As adopted by PCAOB and approved by SEC, *see* SEC Release No. 34-95488 (Aug. 12, 2022)]

~~8~~ ~~The auditor's responsibility to exercise due professional care is consistent with the description in paragraphs .40-.41 of AT sec. 101.~~

8B Professional skepticism is an attitude that includes a questioning mind and a critical assessment of information related to the audit. *See* paragraphs .10-.11 of AS 1000, *General Responsibilities of the Auditor in Conducting an Audit,* for further discussion of the concept of professional skepticism.

8C The term "applicable professional and legal requirements," as used in this standard, has the same meaning as defined in paragraph .A2 of Appendix A of [proposed QC 1000, *see* PCAOB Release No. 2022-006], which includes professional standards as defined in PCAOB Rule 1001(p)(vi) (i.e., certain accounting principles and other standards) and rules of the PCAOB that are not professional standards. This definition also includes statutes with which the auditor is required to comply. *See, e.g.,* Section 10A of the Securities Exchange Act of 1934, 15 U.S.C. § 78j-1.

[8C] Reference to the judgment of the practitioner throughout this standard has the same meaning as "professional judgment" as described in AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*.

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6. The engagement partner is responsible for the review engagement and performance of the review procedures. Accordingly, the engagement partner is responsible for proper planning of the review engagement, proper supervision of the work of engagement team[9A] members, and compliance with the requirements of this standard. The engagement partner may seek assistance from appropriate engagement team members in fulfilling these responsibilities.

[9A] The term "engagement team," as used in this standard for examination engagements, has a meaning analogous to the term's definition in Appendix A of AS 2101, *Audit Planning*, for audit engagements. [As adopted by PCAOB and approved by SEC, *see* SEC Release No. 34-95488 (Aug. 12, 2022)]

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AT Section 101: Attest Engagements

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Due Professional Care

.40 Due professional care concerns what the practitioner does and how well the practitioner does it. Due professional care means acting with reasonable care and diligence; exercising professional skepticism[fn 7A]; acting with integrity; and complying with applicable professional and legal requirements.[fn 7B] ~~imposes a responsibility on each practitioner involved with the engagement to observe each of the attestation standards.~~ The ~~e~~Exercise of due professional care requires critical review at every level of supervision of the work done and the judgment exercised by those assisting in the engagement, including the preparation of the report.

[fn 7A] Professional skepticism is an attitude that includes a questioning mind and a critical assessment of information related to the audit. *See* paragraphs .10-.11 of AS 1000, *General Responsibilities of the Auditor in Conducting an Audit,* for further discussion of the concept of professional skepticism.

fn 7B The term "applicable professional and legal requirements," as used in this standard, has the same meaning as defined in in paragraph .A2 of Appendix A of [proposed QC 1000, *see* PCAOB Release No. 2022-006], which includes professional standards as defined in PCAOB Rule 1001(p)(vi) (i.e., certain accounting principles and other standards) and rules of the PCAOB that are not professional standards. This definition also includes statutes with which the auditor is required to comply. *See, e.g.,* Section 10A of the Securities Exchange Act of 1934, 15 U.S.C. § 78j-1.

~~.41 *Cooley on Torts*, a legal treatise, describes the obligation for due care as follows:~~

~~Every man who offers his services to another and is employed assumes the duty to exercise in the employment such skill as he possesses with reasonable care and diligence. In all these employments where peculiar skill is requisite, if one offers his services, he is understood as holding himself out to the public as possessing the degree of skill commonly possessed by others in the same employment, and if his pretentions are unfounded, he commits a species of fraud upon every man who employs him in reliance on his public profession. But no man, whether skilled or unskilled, undertakes that the task he assumes shall be performed successfully, and without fault or error; he undertakes for good faith and integrity, but not for infallibility, and he is liable to his employer for negligence, bad faith, or dishonesty, but not for losses consequent upon mere errors of judgment.~~[~~fn 8~~]

~~fn 8 D. Haggard, *Cooley on Torts*, 472 (4th ed., 1932).~~

[.41] [Paragraph deleted.]

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AT Section 301: Financial Forecasts and Projections

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.66 If, after discussing the matter as described in paragraph .65, the practitioner concludes that a material misstatement of fact remains, the action he or she takes will depend on his or her judgment[fn2A] in the particular circumstances. The practitioner should consider steps such as notifying the responsible party in writing of his or her views concerning the information and consulting his or her legal counsel about further appropriate action in the circumstances.

fn2A Reference to the judgment of the practitioner throughout this standard has the same meaning as "professional judgment" as described in AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*.

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AT Section 601: Compliance Attestation

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.31 In an engagement to examine compliance with specified requirements, the practitioner seeks to obtain reasonable assurance that the entity complied, in all material respects, based on the specified criteria. This includes designing the examination to detect both intentional and unintentional material noncompliance. Absolute assurance is not attainable because of factors such as the need for judgment[fn8A], the use of sampling, and the inherent limitations of internal control over compliance and because much of the evidence available to the practitioner is persuasive rather than conclusive in nature. Also, procedures that are effective for detecting noncompliance that is unintentional may be ineffective for detecting noncompliance that is intentional and concealed through collusion between personnel of the entity and a third party or among management or employees of the entity. Therefore, the subsequent discovery that material noncompliance exists does not, in and of itself, evidence inadequate planning, performance, or judgment on the part of the practitioner.

[fn8A] Reference to the judgment of the practitioner throughout this standard has the same meaning as "professional judgment" as described in AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*.

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AT Section 701: Management's Discussion and Analysis

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.29 In an engagement to examine MD&A, the practitioner plans and performs the examination to obtain reasonable assurance of detecting both intentional and unintentional misstatements that are material to the MD&A presentation taken as a whole. Absolute assurance is not attainable because of factors such as the need for judgment[fn17A] regarding the areas to be tested and the nature, timing, and extent of tests to be performed; the concept of selective testing of the data; and the inherent limitations of the controls applicable to the preparation of MD&A. The practitioner exercises professional judgment in assessing the significant determinations made by management as to the relevancy of information to be included, and the estimates and assumptions that affect reported information. As a result of these factors, in the great majority of cases, the practitioner has to rely on evidence that is persuasive rather than convincing. Also, procedures may be ineffective for detecting an intentional misstatement that is concealed through collusion among client personnel and third parties or among management or employees of the client. Therefore, the subsequent discovery that a material misstatement exists in the MD&A does not, in and of itself, evidence (a) failure to obtain reasonable assurance; (b) inadequate planning, performance, or judgment on the part of the practitioner; (c) the absence of due professional care; or (d) a failure to comply with this section.

[fn17A] Reference to the judgment of the practitioner throughout this standard has the same meaning as "professional judgment" as described in AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*.