August 17, 2023

Via email: comments@pcaobus.org

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re Proposing Release: Amendments to PCAOB Auditing Standards related to a Company’s Noncompliance with Laws and Regulations and Other Related Amendments; PCAOB Rulemaking Docket Matter No. 051

Dear Office of the Secretary:

I am writing on behalf of Leading Builders of America, a trade association representing 21 of the largest homebuilders in the United States, regarding the Public Company Accounting Oversight Board’s proposal, Amendments to PCAOB Auditing Standards related to a Company’s Noncompliance with Laws and Regulations and Other Related Amendments.

We support the PCAOB’s mission to protect investors by modernizing auditing standards that support the performance of continued high-quality audits in today’s complex business environment. However, we are concerned that the proposed amendments do not advance that mission. They risk reducing audit quality and lessening investor protections while unnecessarily increasing the cost and complexity of audits.

We share the concerns raised by PCAOB Board Members Duane DesParte and Christina Ho in the PCAOB’s June 7, 2023, open meeting.

Specifically, we are concerned that:

· The proposed scope is too broad.

· The proposal does not sufficiently take into account a company’s existing compliance function and the shared responsibility of the board of directors, the audit committee, the chief compliance officer, and the general counsel.

· Auditors are not lawyers and as a result the proposed amendments would expand the auditor’s role to include knowledge and expertise outside their core competencies. Homebuilders are subject to thousands of laws and regulations at the federal, state, county, regional and local levels. These laws vary widely by jurisdiction and compliance is typically a shared responsibility among division level employees, compliance staff and our general counsel’s office. Any expectation that auditors would be able to gain expertise into all of these areas is unrealistic.

· The proposal will substantially increase the cost of the audit without a commensurate benefit.

We respectfully suggest that:
1. Any change should keep the auditor focused on NOCLAR that could materially impact the financial statements, such as material penalties or loss contingencies.

2. Any requirement of the auditor should be risk-based and consider the role the company’s compliance program plays in detecting NOCLAR that could be material to the audited financial statements.

The proposal’s scope is simply too broad to provide a meaningful benefit.

The proposed requirement that auditors identify “laws and regulations with which noncompliance could reasonably have a material effect on financial statements” is duplicative and unnecessary.

Given that public companies, including production homebuilders, are subject to a vast number of laws and regulations and can be subject to hundreds of new laws and regulations in a single quarter, they already have extensive compliance processes in place to ensure compliance. The results of those processes are regularly reported to audit committees, as well as to the external auditors for their input regarding the process and evaluation of any significant matters. This system has proven to be an effective way of monitoring compliance.

According to a recent survey, the top three detection methods of fraud (approximately 70%) were as a result of tips, internal audit, and management review. The proposal does not sufficiently take into account a company’s existing compliance function and the shared responsibility of the board of directors, the audit committee, the chief compliance officer, and the general counsel.

We believe that it takes company management, audit committees, auditors, and regulators working in concert to foster a system that supports both high-quality financial statements and audits, all for the protection of investors. Rather than the overly broad approach taken in the proposal, we suggest a better approach could be one that is risk-based, and where the auditor considers the role the company’s compliance program plays in detecting non-compliance with laws and regulations that could be material to the audited financial statements.

Auditors are not lawyers.

In addition to being unnecessary and burdensome, the proposed amendments would expand the auditor’s role to include skills, knowledge, and expertise outside the auditor’s core competencies and expertise. The teams of in-house attorneys and outside counsel employed by publicly traded companies are better suited to monitor, identify, and investigate potential violations of laws and regulations.

The proposal will substantially increase the cost of the audit without a commensurate benefit.

The PCAOB acknowledges in its proposal that auditors may need to retain a range of legal experts to comply with the proposed standards but offers no projected cost beyond estimates. Additional effort should be made to study the costs and benefits of the proposal. We suggest that such an analysis will demonstrate that substantial increased costs will far outweigh any incremental benefits.

We appreciate the opportunity to share our views.

Sincerely,

Ken Gear

Kenneth Gear
CEO