



KPMG LLP  
345 Park Avenue  
New York, N.Y. 10154-0102

Telephone +1 212 758 9700  
Fax +1 212 758 9819  
Internet www.us.kpmg.com

March 18, 2024

By email: [comments@pcaobus.org](mailto:comments@pcaobus.org)

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

**RE: PCAOB Staff Briefing Paper Roundtable Discussion of PCAOB Release 2023-003 –  
*Amendments to PCAOB Auditing Standards related to a Company’s Noncompliance with Laws  
and Regulations***

Dear Office of the Secretary:

We appreciate the opportunity to submit additional feedback on the Public Company Accounting Oversight Board’s (PCAOB or the Board) Release No. 2023-003 – *Amendments to PCAOB Auditing Standards related to a Company’s Noncompliance with Laws and Regulations and Other Related Amendments (the Proposing Release)* and on points raised during the PCAOB’s March 6, 2024, roundtable discussion (the Roundtable).

We commend the Board for holding the Roundtable to enable meaningful dialogue about the Proposing Release and thank the Board for the opportunity to participate. The Roundtable is responsive to previous stakeholder requests for expanded transparency in the standard setting process, and many of the panelists on the Roundtable acknowledged their appreciation for the Board holding the Roundtable. We therefore strongly encourage the Board to use roundtables and other mechanisms, including meaningful engagement with the Standards and Emerging Issues Advisory Group and the Investor Advisory Group, as a consistent part of the standard-setting process in future projects.

Roundtable participants discussed differing interpretations of aspects of the Proposing Release, which reflected their unique perspectives and highlighted that the intent and requirements of the Proposing Release are not clear. We are pleased to hear that investors do not expect auditors to identify all laws and regulations relevant to an entity and that performing audits of an entity’s compliance with laws and regulations should not be the objective of a new standard. However, certain stakeholders are reading the Proposing Release to require those actions, and the lack of clarity in how auditors should interpret and execute on the language of the Proposing Release will result in inconsistent application of the requirements and could further widen the expectation gap between what auditors do and what investors expect. A final standard should contain auditor performance requirements that are subject to consistent interpretation by differing stakeholders.

We are providing our feedback in overall support of the PCAOB’s efforts, and this letter should be read in conjunction with our letter dated August 7, 2023. The Appendix to this letter responds to the request in the briefing paper dated February 26, 2024, for information on how auditors currently respond to identified instances of noncompliance with laws and regulations (NOCLAR) under extant AS 2405, *Illegal Acts by Clients* (AS 2405) and Section 10A of the Securities and Exchange Act of 1934, 15 U.S.C. § 78j-1 (Section 10A).

### **The objective of the Proposing Release is unclear**

The Roundtable reinforced that the objective of the Proposing Release is not clear. Accordingly, public stakeholders are challenged to provide feedback about whether the Proposing Release will achieve its intended outcomes. For example:

- If the objective is to reduce instances of noncompliance with laws and regulations (i.e., prevention), then changes to auditing standards will be inadequate. First, the existing framework for risks of material misstatement, which several panelists said should be the anchor for the auditing standard on NOCLAR, would not work if the objective is prevention, because the risk of material misstatement concept relates to the accuracy of financial statements, and not the prevention of noncompliance. That is, auditors are currently required to perform procedures to ascertain whether a contingency is accurately and completely reflected in the financial statements, but neither management nor auditors have standards around what is adequate or inadequate to prevent noncompliance in the first instance. For this reason, testing controls to prevent instances of noncompliance would require significant guidance for both management and auditors like guidance related to internal control over financial reporting promulgated for both preparers and auditors prior to the effective date of AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements* (AS 2201). The Roundtable displayed a moderate degree of, but not entirely overwhelming, consensus for *not* requiring the auditors to perform procedures to prevent noncompliance, but that concept is scattered throughout the Proposing Release<sup>1</sup>.
- If the objective is for auditors to become aware of instances of noncompliance for which they are not currently becoming aware under extant standards, then enhanced risk assessment and other procedures could be appropriate. However, if this is the objective, there is language in the Proposing Release that would need to be carefully altered to remove the requirements around prevention of NOCLAR or to clarify how the auditor is expected to comply with the requirements.
- If the objective is for auditors to provide reasonable assurance that all instances of noncompliance with laws and regulations that could reasonably have a material effect on the financial statements have been identified (i.e., detection), additional procedures like those performed in accordance with AICPA AT-C 315, *Compliance Attestation*, over an entity's compliance with identified laws and regulations may be necessary. For example, rather than requiring the auditor to test controls specifically around preventing and detecting FCPA violations, the Proposing Release could focus on testing programs such as hotlines and other detective programs the entity has in place. We believe this may be more consistent with the expectations of those Roundtable panelists who want the auditor to perform robust procedures but not necessarily test controls specific to each possible law or regulation that may eventually lead to a material liability (e.g., FCPA, OSHA, etc.). This is consistent with the way management generally conducts their procedures for identifying instances of noncompliance for financial reporting purposes.

---

<sup>1</sup> Examples include: 1) Paragraph .26 of the proposed amendments to AS 2110 on page A2-7 of the Proposing Release adds requirements to obtain an understanding of management's process related to preventing [...] instances of noncompliance, among other additions to the risk assessment component of internal control. Extant AS 2110.20 states that "obtaining an understanding of internal control includes evaluating the design [and implementation] of controls that are relevant to the audit." The proposed amendments when read together with extant requirements of AS 2110, would require auditors to identify and test controls related to preventing noncompliance, among other things. 2) Examples on Page 32 of the Proposing Release are discussed in additional detail below. 3) The potential benefits discussed in the Proposing Release include protecting investors "from the resulting harm of noncompliance," implying the proposed changes to the auditing standards can prevent such noncompliance from even occurring.

- Finally, if, consistent with some investor and other perspectives expressed during the Roundtable, the objective is earlier recognition and disclosure of contingencies (i.e., the typical effect of noncompliance on the financial statements), then the Proposing Release is inadequate (as discussed in the example below of a typical contingency scenario that preparers and auditors face in financial reporting and auditing). If this is the objective, no changes to the NOCLAR standard will suffice; rather, the SEC and accounting standard setters (i.e., FASB and IASB) would need to act to change the recognition and disclosure requirements in the financial reporting frameworks.

### **Identification of laws and regulations and instances of noncompliance**

Several panelists during the Roundtable expressed a view that the Proposing Release does not require auditors to obtain and evaluate a complete list of laws and regulations or to perform a compliance examination. We acknowledge, consistent with certain panelists during the Roundtable, that each reader interprets the language of the Proposing Release relative to their unique perspective. We also acknowledge that the Proposing Release explicitly acknowledges that auditors are not required to consider all laws and regulations.<sup>2</sup> However, we reiterate the practical challenge of how an auditor could comply with the Proposing Release without considering all laws and regulations relevant to an entity (i.e. If the auditor is unaware of all the laws, how can they identify the ones they have missed?).

The stated objective in proposed paragraph .04a is for the auditor to identify the laws and regulations with which noncompliance could reasonably have a material effect on the financial statements. This is repeated in the performance requirement of paragraph .05a. Both the objective and performance requirement are clear that only those laws and regulations that *could reasonably have a material effect on the financial statements* need to be identified by the auditor. While we acknowledge that this is less than a complete population of all laws and regulations relevant to an entity, to comply with the unconditional performance obligation (i.e., “must plan and perform procedures to identify”) of proposed paragraph .05a, auditors will need to include in their audit documentation a listing of all laws and regulations identified that meet the specified threshold. When a listing is required to be identified, the completeness of that listing is a relevant attribute, particularly when considering that audits are subject to the Board’s inspection and enforcement regimes that can consider information that was not reasonably known or knowable to an auditor at the time of the audit. The concerns about auditors identifying complete lists of laws and regulations and information about noncompliance are further heightened when contemplating the Board’s proposed changes related to the concept of professional judgment in the General Standards.<sup>3</sup> The combined effect of the consideration of facts not known at the time and the potential removal of the acknowledgment of the importance of professional judgment in the General Standards will likely cause auditors to perform procedures beyond those expected by the Board.

The following are additional drivers of these concerns:

- Certain Roundtable panelists and many commenters to the Proposing Release indicated that accumulating a complete listing of all laws and regulations relevant to an entity is not practical due to the expansiveness of that population<sup>4</sup>. As indicated above, we share the concern to understand how a complete listing of laws and regulations that meet the specified threshold of proposed paragraphs .04a and .05a can be accumulated. To mitigate the concerns over the completeness of the population of relevant laws and regulations, we ask the PCAOB to present guidance on how an auditor can

---

<sup>2</sup> See Proposing Release, page 22.

<sup>3</sup> See PCAOB Release No. 23-001 and KPMG’s response to question 7 of the PCAOB’s release in our letter dated May 30, 2023.

<sup>4</sup> Roundtable Panel 1 video: John Coates 28:20, Robert Jackson 35:03

comply with proposed paragraphs .04a and .05a without considering all laws and regulations for discussion with stakeholders at future outreach sessions.

- The requirement of proposed paragraph .05c is anchored directly to the population of laws and regulations identified in proposed paragraph .05a rather than risks of material misstatement arising out of the relevant accounting and reporting framework (e.g., ASC Topic 450, *Contingencies* (ASC 450)). Unlike other auditing standards where the auditor's response is targeted at risks of material misstatement identified under AS 2110, *Identifying and Assessing Risks of Material Misstatement*, the proposed paragraph .05 goes further by requiring identification of individual laws and regulations and information indicating noncompliance with such laws and regulations. While paragraph .05b requires assessing and responding to risks of material misstatement, that response is separate from the requirement to identify information indicating noncompliance with the laws and regulations identified in .05a. As a result, the proposed standard focuses on the identification of a complete population of the underlying conditions that give rise to the risks of material misstatement and of information suggesting the conditions are present rather than the risk itself. The unconditional obligation (i.e., "must") to identify information indicating noncompliance has or may have occurred under proposed .05c means auditors will need to accumulate a complete listing of such information. We believe the only way auditors may be reasonably able to identify all information that could meet the criteria of proposed paragraph .05c is to perform specific procedures like those performed in a compliance examination for each law and regulation identified that meets the threshold in proposed paragraph .05a, regardless of the intention of the Board. This is inconsistent with investor expectations expressed during the Roundtable.
- We also believe the Proposing Release suggests auditors need to perform procedures to audit compliance<sup>5</sup> because of certain examples and language included in the Proposing Release explaining the intended auditor performance under the proposed standard that appears to go beyond the requirements of the proposed standard itself. For example, the Proposing Release does not require an auditor to test the operating effectiveness of controls over noncompliance.<sup>6</sup> However, the two examples contained on page 32 of the Proposing Release, when describing the types of procedures an auditor would perform after identifying a specific law or regulation that could reasonably have a material effect on the financial statements, both indicate the auditor would test the operating effectiveness of controls. The first example is specific that the auditor would "test relevant controls that were put in place **to maintain compliance**" [**emphasis added**]. Similarly, the controls in the second example are identified as those related to "management's process for maintaining compliance". Recognizing the Board intends for release text to be relevant application guidance, as described in the Board's Proposed Auditing Standard for General Responsibilities of the Auditor in Conducting an Audit<sup>7</sup>, the Proposing Release could be read to indicate that the Board expects auditors to perform tests of controls over management's compliance with laws and regulations, akin to compliance examination procedures. This differs from existing general requirements pursuant to AS 2201<sup>8</sup> for auditors to test controls focused on how the entity becomes aware of potential

---

<sup>5</sup> Compliance examination procedures may be like those pursuant to AICPA AT-C 315, *Compliance Attestation* because there are currently no equivalent auditing standards (with the exception of governmental compliance audits under AU-C 935).

<sup>6</sup> Proposed paragraph .06a(2) only requires the auditor to obtain an understanding of management's process related to noncompliance.

<sup>7</sup> See PCAOB Release No. 23-001, page A1-6, footnote 26 which states "Relevant guidance includes PCAOB auditing interpretations, Board-issued guidance and releases accompanying the standards and rules of the board."; and see KPMG's response to question 9 of the PCAOB's release in our letter dated May 30, 2023.

<sup>8</sup> Pursuant to PCAOB AS 2201.22 "the auditor must test those entity-level controls that are important to the auditor's conclusion about whether the company has effective internal control over financial reporting." AS 2201.39 states "The auditor should test those controls that are important to the auditor's conclusion about whether the company's controls sufficiently address the assessed risk of misstatement to each relevant assertion".

noncompliance with laws and regulations relating to the risk of inaccurate and/or incomplete recognition and disclosure of contingency matters resulting from such noncompliance when such controls are important to the auditor's conclusion about the effectiveness of internal control over financial reporting.

We continue to support the Board's efforts to modernize the auditing standards, including through alignment with Section 10A and additional requirements for enhanced risk assessment. However, we continue to have significant concerns about the scope of the Proposing Release, which has not only led to confusion amongst stakeholders but made it difficult for them to prepare a suitable economic analysis. We recommend that the Board continue to engage with relevant stakeholders to develop an operable standard that clarifies the objectives of the Proposing Release. Additionally, we recommend the Board use its target team inspectors to obtain a further understanding of how the current standards are applied by auditors in practice, including inconsistencies and best practices. That knowledge can then be used to identify incremental procedures deemed appropriate to achieve the desired outcomes.

We believe that re-exposure of any change in scope will best serve the public interest, help clarify objectives, identify unintended consequences, and allow for auditors to better understand the Board's desired implementation and execution of a new NOCLAR standard to enable consistent application in practice. We have a strong desire to continue meeting the needs of the Board and investors and want to execute our audits consistent with both the requirements and intent of the auditing standards. Given the significant uncertainty related to the interpretive matters raised by the auditing profession, we encourage the Board to not only re-expose the next version of the proposed standard but to consider developing other means to address implementation challenges that will likely exist upon adoption. These could include PCAOB staff-led implementation task forces or mechanisms by which audit firms may seek interpretative guidance from the PCAOB's Office of the Chief Auditor.

### **Recommendations for operability of a NOCLAR standard**

#### *Direct vs. indirect laws and regulations*

We believe it is appropriate to maintain a distinction between laws and regulations with a direct effect on the form and content of the financial statements from those with a potential indirect effect through accrual or disclosure of contingencies under ASC 450, as it relates to becoming aware of noncompliance. We are less concerned with how the distinction of "direct" vs. "indirect" laws or regulations is described, but because we believe the existing auditing standards sufficiently address the direct laws or regulations, we recommend that any revision to AS 2405 continue to focus on those laws and regulations currently referred to as "indirect".

For laws and regulations that are directly related to the determination of material amounts and disclosures in the financial statements (such as income tax laws and regulations), pursuant to existing PCAOB standards, auditors obtain an understanding of the business processes (activities) that are designed to comply with those laws and regulations. Auditors perform risk assessment in accordance with AS 2110 to determine specific risks of material misstatement.

For those laws and regulations where the risk relates to potential material misstatement of the financial statements associated with accrual or disclosure of contingencies under ASC 450, the standard could specifically require assessment of risks of material misstatement related to the accounting for potential NOCLAR contingencies and the auditor could perform enhanced procedures to become aware of noncompliance. These procedures should be scalable based on inherent risk factors.

*Enhanced risk assessment and other procedures to become aware of actual or suspected NOCLAR*

We believe the Proposing Release should include enhanced procedures to increase the likelihood of auditors *becoming aware* of instances of noncompliance which could result in potential risks of material misstatement from inaccurate and/or incomplete recognition and disclosure of contingency matters. To obtain an understanding of the entity's legal and regulatory framework for laws and regulations that may be expected to have a *fundamental effect on the operations of the entity* (similar to *AICPA AU-C 250 and ISA 250*), and to become aware of potential NOCLAR, auditors could perform additional procedures such as those described below<sup>9</sup>:

- Understanding the laws or regulations applicable to the entity, considering:
  - the auditor's existing understanding of the entity's legal and regulatory framework, including history of noncompliance with laws and regulations
  - the auditor's knowledge from working with similar entities within the industry or sector and the relevant legal and regulatory frameworks in which the entity operates
  - laws and regulations identified in the entity's financial statements or other public communications
- Inquiring of management (including those with knowledge of compliance matters such as general counsel, compliance officers, those charged with governance, or internal audit) as to:
  - laws and regulations most applicable to the entity\*
  - other laws and regulations that may be expected to have a fundamental effect on the operations of the entity, such as laws relating to bribery and corruption, compliance with operating permits, health, safety, environmental and security risks, infringement of intellectual property of others, etc.\*
- Inspecting information documenting discussions between management and those charged with governance related to applicable laws and regulations (e.g., board minutes) and reports provided to those charged with governance regarding actual, suspected or alleged noncompliance with laws or regulations, if any
- Reviewing other information in the entity's financial statements, including disclosures outside the audited financial statements for consistency with the auditor's understanding
- Inspecting legal expense accounts detail and related invoices and other documentation for indications of matters related to potential NOCLAR
- Evaluating unauthorized, improperly recorded or otherwise unusual (e.g., large, unspecified, excessive, made in cash) payments or transactions identified during the audit

\* We believe that auditors should be able to consider the work of management in identifying relevant laws and regulations (e.g., compliance policies, programs, processes, and controls). However, existing standards do not require, nor is it common practice for, management to compile and track any specific list of laws and regulations applicable to the entity or its operations.

**Challenges to the desired outcomes of the proposed audit standards, driven by the accounting standards**

During the Roundtable, investor representatives indicated a desire for additional and earlier transparency pertaining to the effects on the financial statements of potential noncompliance with laws and regulations. For most entities, such interests are intrinsically tied to the reporting and recognition criteria in ASC 450, as established by the FASB. Under these criteria, disclosure or recognition in the financial statements may not be required for multiple reporting periods, or even greater than one year. The timeline of a

---

<sup>9</sup> This listing does not include items already specifically included in Proposing Release. We previously commented on those procedures in our comment letter dated August 7, 2023.

regulatory inquiry regarding potential NOCLAR and the required recognition or disclosure in financial statements often includes a lengthy and uncertain process of clarifying the scope of the regulatory inquiry, understanding, investigating, and communicating relevant facts, as well as interpreting applicable laws and regulations to determine whether a violation has occurred. The process also includes evaluating the probability of such a claim and whether any probable or reasonably possible estimate of loss contingency can be determined. When initial regulatory allegations do not clearly indicate violations of laws or regulations, entities typically conduct comprehensive analyses involving inquiries, interviews, and data collection and review. During this time, there may be no indication of violations or potential losses, and thus no disclosure or recognition under ASC 450's requirements.

To illustrate such a contingency with an extended lifecycle, consider a hypothetical issuer (the Issuer) whose operations in December 2021 impacted consumer safety for which ultimate settlement with a federal agency occurred in December 2023 (24 months later) in the amount of \$100 million. Assume the federal agency issued a notification inquiring about potential violations of federal law in February 2022. An investigation ensued and continued through October 2023 (a 20-month investigation) at which time the federal agency completed its investigation and notified the Issuer of its conclusion that federal laws had been violated. Settlement negotiations regarding the alleged violation occurred beginning in November 2023 and ended with the December 2023 settlement. In applying the ASC 450 accounting framework:

- Prior to December 2022, based on the results of management's investigative procedures, the Issuer did not consider it probable that an unfavorable assessment would be made, and the federal agency had not communicated that it had concluded that violations had occurred. Therefore, no disclosure of the matter was included in the Issuer's annual 2021 or 2022 interim financial statements.
- Through its own investigative procedures, management determined in January 2023 that an unfavorable assessment was probable but that a reasonable loss estimate could not be made. As such, in its annual 2022 financial statements and interim financial statements for Q1-Q3 2023, the Issuer disclosed the nature of the contingency, with a conclusion that the Issuer was not able to estimate a range of possible loss for such items.
- After settlement procedures commenced in November 2023, management of the Issuer was able to make a reliable estimate of the range of loss, however such range was not required to be disclosed as the final amount (\$100 million) was agreed to in December 2023 and therefore disclosed in the Issuer's annual 2023 financial statements.

In most common contingency scenarios like the one described above, changes to the auditing standards alone would not result in additional or earlier transparency pertaining to the effects on the financial statements. Assume in the scenario above that management had not reached appropriate conclusions relating to the probability of loss and/or the ability to reasonably estimate. Under both the extant standard and the Proposing Release, at the point of initial identification of potential noncompliance, the auditor would follow its required procedures (see Appendix for details of example procedures) which includes consideration of potential impact to the financial statements through the time at which the matter is resolved. To the extent a misstatement in the financial statements was identified by the auditor that is not trivial at any point in this timeline, the misstatement would be evaluated individually and in the aggregate with others for material misstatement of the financial statements and communicated to the audit committee. The incremental impact of the Proposing Release in this scenario might be (a) the auditor identifying the law or regulation as relevant, and (b) possibly becoming aware earlier of the noncompliance and communication with the audit committee. However, we believe the only way auditors are reasonably able to detect such instances at the time they occur is to specifically audit whether the entity complied with each law and regulation throughout the period being audited.

Office of the Secretary  
Public Company Accounting Oversight Board  
March 18, 2024  
Page 8

In summary, while the potential benefits discussed in the Proposing Release suggest that the proposed changes can prevent noncompliance and protect investors from resulting harm, the proposed amendments do not address the financial reporting requirements of entities. Exclusively establishing new requirements for auditors without corresponding changes for entities will not improve financial reporting quality. Instead, we recommend that the Board actively collaborate with the SEC and accounting standard setters to consider modifying requirements for entities related to noncompliance with laws and regulations, specifically the financial reporting internal control requirements, to better align with the Board's views on investor protection.

\*\*\*\*\*

We appreciate the Board's consideration of our feedback and look forward to continuing our engagement with the Board and its staff in support of our shared commitment to investor protection and audit quality.

Sincerely,

A handwritten signature in black ink that reads "KPMG LLP". The letters are bold and slightly slanted, with a casual, professional appearance.

KPMG LLP



## Appendix

### *How we currently respond to identified instances of noncompliance with laws and regulations*

We are providing the following information in response to questions raised in topic 1 of panel II within the Roundtable briefing paper about how auditors respond to identified instances on NOCLAR.

When we identify that possible noncompliance with laws and regulations has occurred (regardless of the nature of the underlying law or regulation or whether it directly or indirectly impacts the financial statements), we perform audit procedures to ascertain (a) whether such an act has occurred and if so, the nature of the noncompliance, (b) the circumstances in which it occurred, and (c) sufficient information to allow us to evaluate the possible effect on the financial statements in accordance with extant AS 2405, Section 10A(b)(1), and the relevant financial reporting framework.

We first perform procedures to evaluate whether the NOCLAR matter is clearly inconsequential. In making this evaluation, we may involve forensic specialists. If we conclude a matter is clearly inconsequential, we document this conclusion. If we conclude that a matter is other than clearly inconsequential, we communicate with the audit committee and we perform additional procedures to evaluate whether the entity is taking timely and appropriate remedial action. We also communicate to the SEC if we conclude that timely and appropriate remedial action is not taken.

For potential violations of direct laws that are addressed by the entity in the ordinary course of business (e.g., standard compliance audits, examinations and inquiries conducted by government agencies such as tax audits), these may be addressed through direct procedures performed over the related accounts and/or disclosures. This aligns with the requirements of extant AS 2405, which states “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.” Commonly, the related accounting standard includes a framework for evaluating direct laws and regulations as part of the procedures performed in response to identified risks of material misstatement (e.g. uncertain tax positions in accordance with ASC 740). If we identify a violation of a direct law that we conclude is the result of intentional noncompliance or fraud or that is not dealt with in the ordinary course, including timely and appropriate remedial action by the entity, we follow the requirements of AS 2405 as described further below.

For potential violations of indirect laws, we perform specific procedures required by extant AS 2405 to ascertain whether known or potential noncompliance has occurred. Consistent with extant AS 2405, legal determinations are not a core auditor competence and therefore, we typically use the work of management’s specialists, either outside or in-house legal counsel, for a determination of whether there has been noncompliance. For NOCLAR matters other than clearly inconsequential, an entity may involve a management specialist to perform an investigation to determine whether noncompliance has occurred. In those circumstances, in accordance with AS 1105, *Audit Evidence*, we assess the knowledge, skill, and ability of management’s specialist conducting the investigation, as well as the specialist’s relationship with the entity.

We involve our forensic specialists to shadow the entity’s investigation into matters that are not clearly inconsequential. We meet with the investigation team at the beginning of the investigation to ascertain whether there have been any limitations imposed on the investigation and to obtain an understanding of, and provide input on, the planned scope of the investigation (for example, the list of individuals they plan to interview, the list of search terms planned for email searches, the documents and transactions to be reviewed, etc.). We meet periodically with the investigation team throughout the investigation to monitor the status of and obtain updates on the findings and conclusions from the investigation. In addition to inquiries, we perform procedures, as necessary, to understand the allegations and the findings from the investigation, such as reading written allegations, obtaining read-outs of interviews completed, reading emails identified, and evaluating other documentation. When the investigation is complete, we review or

obtain read-outs of the investigation team's written report, if applicable, or meet with the investigation team to understand their procedures performed, findings and conclusions reached if no written report is prepared. We conclude on the sufficiency of the investigation's scope for our purposes and whether the conclusions reached by the investigation team are reasonably supported by the findings of the investigation.

In summary, for each NOCLAR matter other than those that are determined to be clearly inconsequential, we:

- assess the knowledge, skill, and ability of management's specialist and the specialist's relationship to the entity and understand the specialist's conclusions as to whether NOCLAR has occurred.
- evaluate the adequacy of an entity's investigation and assess whether the findings support the conclusions reached by the investigation team.
- assess the financial statement impact of the NOCLAR matter, including evaluating whether there are errors in the current or prior period financial statements as well as the ASC 450 considerations including whether the NOCLAR matter has been adequately disclosed and properly reflected in the financial statements. We also assess whether the NOCLAR matter has any impact on the entity's ICFR.
- assess whether the entity is taking timely and appropriate remedial actions. Appropriate remedial actions may include changes in policy or practice to discontinue an activity that may have given rise to the potential illegal act, changes to internal control over financial reporting, and/or discipline, training, or termination of the individuals involved.
- assess the need to revise our audit risk assessments (including fraud risk factors considered, fraud risks identified, and other risk assessments) including the basis for these conclusions, as well as the additional audit procedures performed in response to these changes in risk assessments.
- determine whether the NOCLAR matter meets the definition of a critical audit matter, pursuant to AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses and Unqualified Opinion*.
- request management (or where appropriate, those charged with governance) to provide written representations with regards to the NOCLAR matter.