The Georgia Society
of Certified Public Accountants

March 18, 2024

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

*Submitted via email to comments@pcaobus.org*

**Re: PCAOB Release No. 2023-003: Proposed Amendments to PCAOB Auditing Standards related to a Company's Noncompliance with Laws and Regulations and Other Related Amendments**

Dear Board Members,

The Georgia Society of CPAs (GSCPA) respectfully submits this letter to express the views of GSCPA's PCAOB Task Force (the Task Force) regarding the PCAOB's proposed amendments outlined in Release No. 2023-003 (the Proposal).

The Georgia Society of CPAs is the premier professional organization for CPAs in the state of Georgia. With almost 12,000 members throughout the state, the purpose of GSCPA is to achieve excellence by providing superior advocacy, leadership, service, lifelong learning, and personal and professional development opportunities.

**Overview**
GSCPA values the opportunity to provide comments on the Proposal. We respectfully submit our comments and recommendations included here. While GSCPA appreciates PCAOB's objective to modernize and clarify auditing standards, we have concerns about the Proposal in its current form. Please find our remarks below.

**Scope**
The Proposal significantly expands the scope of the financial statement audit and shifts accountability from management to the auditor concerning Noncompliance with Laws and Regulations and Other Related Amendments (NOCLAR). The Proposal would shift auditor objectives away from primarily planning and performing an audit of the financial statements to objectives akin to a compliance or forensic audit. This expansion could lead to confusion and inefficiencies, as compliance audits have different objectives and limitations than financial statement audits. Additionally, this expansion of scope could expose auditors to increased audit risk, as they may be held accountable for areas outside their expertise, such as legal determinations, potentially leading to increased legal liability. This Proposal could widen the expectation gap between what auditors are responsible for and stakeholders' views of that responsibility.

**Identification of Laws and Regulations**
The Proposal's requirement for auditors to identify all laws and regulations applicable to a company that "could reasonably" have a material effect on the financial statement and then identify instances of non-compliance, regardless of materiality, presents operational challenges and a substantial departure from current practice. This approach blurs the distinction between audit requirements and operational compliance requirements, leading to audit inefficiencies and increased costs. Additionally, this expansion is a management function that should not rest with an outside party and is inconsistent with other areas of your audit standards.

**Cost**
Furthermore, the Proposal's broad scope could lead to unnecessary audit procedures, additional time and effort required, and increased costs without adequately considering the benefits to investors. The Proposal does not demonstrate the benefit to investors in terms of how the Proposal is expected to be more effective in identifying instances of non-compliance than the procedures in the existing standards. Additionally, the Proposal has not provided sufficient evidence that instances of noncompliance with laws and regulations have resulted in the restatement of financial statements or audit failures. The

economic analysis in the Proposal does not adequately quantify these costs or justify the benefits. The true impact of this Proposal has not been appropriately analyzed from a cost or benefit perspective on an objective, quantitative basis. All current information used to analyze this portion of the Proposal is qualitative and subjective. Finally, the available data on financial statement restatements does not identify a pervasive risk or issue relating to NOCLAR, which questions the benefit of this Proposal.

**Auditor Responsibilities and Competencies vs. Management Responsibilities**

The Proposal would require legal expertise beyond current requirements, leading to potential challenges. Auditors may need to engage legal specialists to assist in identifying all laws and regulations applicable to a company and instances of non-compliance. The Proposal does not sufficiently address the relationship between the proposed requirements and existing auditing standards related to legal matters, potentially leading to confusion, and increased legal liability for auditors.

The Proposal is unclear regarding management's responsibilities. The proposal puts the auditor in the role of management, or a regulator rather than the appropriate role related to a financial statement auditor. Additionally, because the Proposal appears to shift responsibilities from management to auditors, the potential exists for the established accounting framework to be undermined while also imposing significant burdens on management and auditors without clear benefits. The Proposal's requirements regarding identifying and assessing noncompliance with laws and regulations could lead to increased complexity and uncertainty in financial reporting, potentially eroding investor confidence.

**Conclusion**

The Task Force believes the Proposal could result in auditors performing operational compliance audits, which are beyond the scope of a financial statement audit and could undermine the integrity of the audit process. The increased auditor responsibility and potential liability shifts focus away from the primary objective of a financial statement audit, which is to obtain reasonable assurance that the financial statements are free from material misstatement and fairly presented. The lack of consideration of materiality in identifying instances of non-compliance could lead to unnecessary audit procedures and delays in completing audits within the required time frames.

Additionally, the increased burden on companies and their legal counsel to identify all laws and regulations applicable to the company and instances of non-compliance could strain internal control systems and increase the risk of non-compliance. The Proposal may create an expectation gap among stakeholders regarding the auditor's responsibilities and the level of assurance provided by a financial statement audit.

We appreciate the opportunity to provide feedback and would be pleased to discuss our comments further.

Sincerely,

Boyd E. Search, CAE
President & CEO
The Georgia Society of CPAs