



## In This Issue

- [Introduction](#)
- [Standard-Setting and Research Agendas](#)
- [PCAOB Adopts New Standard for the Auditor's Use of Confirmation](#)
- [PCAOB Proposes a New Quality Control Standard](#)
- [PCAOB Issues Proposal to Increase Auditor Vigilance Against Fraud and Other Forms of Noncompliance With Laws and Regulations](#)
- [PCAOB Proposes Modernizing Auditing Standards That Address Core Auditing Responsibilities](#)

# Highlights of Recent PCAOB Standard-Setting Activities

## Introduction

In late 2022, the PCAOB issued its [revised 2022–2026 strategic plan](#), which consists of four goals: modernizing auditing standards, enhancing inspections, strengthening enforcement, and improving the PCAOB's organizational effectiveness. PCAOB Chair Erica Williams noted in the plan's "Message From the Chair" that since the Board became fully constituted in January 2022, it has been "advancing one of the most ambitious standard-setting agendas in PCAOB history."

This *Heads Up* discusses the current status of the PCAOB's standard-setting, research, and rulemaking projects and provides Deloitte's perspectives on a number of the Board's proposals.

## Standard-Setting and Research Agendas

### Agenda Updates

In November 2023, the PCAOB [announced](#) that it had updated its standard-setting and research agendas. Changes included adding a midterm project and a research project as well as one "rulemaking project" (a new category in 2023), each of which are "aimed at improving PCAOB rules to protect investors." In 2023 alone, the PCAOB has been more active in its standard setting and rulemaking than it has been over the past 10 years. Such activity has included finalizing its projects on other auditors and confirmations.

In the November announcement, Chair Williams highlighted that the PCAOB has "made incredible progress for investors thanks to the hard work of the talented PCAOB staff, and we are just getting started. . . . Our commitment to modernizing our standards and rules remains stronger than ever as we continue working to get these agendas done and done right for investors."

- [PCAOB Proposes Amendments Related to Aspects of Designing and Performing Audit Procedures That Involve Technology-Assisted Analysis of Information in Electronic Form](#)
- [Contacts](#)

The PCAOB’s [standard-setting, research, and rulemaking projects](#) are outlined on the Board’s Web site and summarized briefly below. As part of its stated goal to protect investors, the Board also describes how certain proposed standards will help auditors identify fraud. The PCAOB’s focus on fraud was further highlighted at the [November 2, 2023, meeting of the PCAOB Standards and Emerging Issues Advisory Group](#), which largely addressed that topic.

### Short-Term Standard-Setting Projects

The table below lists the eight short-term standard-setting projects on the PCAOB’s agenda, many of which address updates to the interim auditing standards that the Board adopted in 2003. Each project is under active development by the PCAOB (i.e., action, such as the issuance of a proposed or final standard, is expected within 12 months).

Project	Next Board Action
Quality Control	Adoption expected in 2024
Noncompliance With Laws and Regulations	Adoption expected in 2024
General Responsibilities of the Auditor in Conducting an Audit (AS 1000)	Adoption expected in 2024
Amendments Related to Aspects of Designing and Performing Audit Procedures That Involve Technology-Assisted Analysis of Information in Electronic Form	Adoption expected in 2024
Attestation Standards Update	Proposal expected in 2024
Going Concern	Proposal expected in 2024
Firm and Engagement Performance Metrics	Proposal expected in 2024
Substantive Analytical Procedures	Proposal expected in 2024

### Midterm Standard-Setting Projects

The PCAOB’s midterm standard-setting projects are efforts in which “the staff is actively engaged but Board action is not anticipated within the next 12 months.” The following six midterm projects also focus on continuing to update the interim standards:

- Fraud.
- Interim Ethics and Independence Standards.
- Use of a Service Organization.
- Interim Financial Information Reviews.
- Inventory.
- Interim Standards.

### Research Projects

While the Board’s research projects are not aimed at updating the interim standards, they help the PCAOB identify “whether there is a need for changes to [existing] standards or other regulatory responses.” As part of the November 2023 updates to its standard-setting agenda, the PCAOB staff added a research project on the communication of critical audit matters that focuses on “understand[ing] why there continues to be a decrease in the average number of critical audit matters reported in the auditor’s report over time and whether there is a need for guidance, changes to PCAOB standards, or other regulatory action to improve such reporting.” The PCAOB staff is also continuing to work on the Board’s existing research project on [data and technology](#), which is intended to “[a]ssess whether there is a need for guidance,

changes to PCAOB standards, or other regulatory actions in light of the increased use of technology-based tools by auditors and preparers.”

## Rulemaking Projects

In addition to its standard-setting and research activities, the PCAOB’s four rulemaking projects include its “Follow-on Disciplinary Proceedings” project, which is expected to be proposed before the end of 2023. The Board’s rulemaking projects are expected to address the manner in which PCAOB rules could be enhanced in the following areas: firm reporting and transparency, contributory liability, follow-on disciplinary proceedings, and registration. In September 2023, the PCAOB issued its first proposal in connection with its project on [contributory liability](#). The proposal’s comment period ended November 3, 2023. In its [comment letter](#), Deloitte expressed support for the Board’s efforts to promote better compliance with PCAOB requirements (and thereby promote audit quality). The letter also highlighted certain concerns related to the proposed requirements as well as suggesting that the PCAOB provide implementation guidance and allow audit firms to clear audit questions with the Board in a manner similar to the process for existing SEC registrants.

## PCAOB Adopts New Standard for the Auditor’s Use of Confirmation

In September 2023, the Board issued a new [standard](#)<sup>1</sup> as part of its project to strengthen and modernize the requirements for the confirmation process. This project is the first in which the PCAOB has issued a standard since revising its strategic plan.

In her [statement](#) on the issuance of the new standard, Chair Williams noted that “[i]n many ways, revising the confirmation standard is indicative of the broader task ahead of us as we work to modernize our standards to make sure they are effective at protecting investors in today’s world. So, it is fitting that this is the first standard-setting project where this Board issued a proposal and followed up with a new standard.”

The new standard is designed to improve the quality of audits when an auditor uses confirmation. It also reflects changes that have occurred in communications and business practices since issuance of the original standard in the early 1990s. In her statement on the standard’s issuance, which she [reiterated](#) at the October 10, 2023, meeting of the PCAOB’s Investor Advisory Group, Chair Williams emphasized that the “new standard will help auditors detect fraud and better protect investors now and into the future.” Subject to SEC approval, the new standard will be effective for fiscal years ending on or after June 15, 2025.

Among its key provisions, the new standard:

- Requires the auditor to confirm or directly access information related to cash.
- Provides a new alternative to confirmation under which the auditor directly accesses information held by a knowledgeable external source (e.g., obtaining via a secure method read-only access to information maintained by a financial institution).
- Emphasizes the use of confirmations outside of accounts receivable and cash, including for contractual arrangements.
- Requires the auditor, when cash or accounts receivable have been identified as a significant risk and have not been confirmed or directly accessed, to communicate to the audit committee how the presumption has been overcome and the basis for the auditor’s determination.
- Prohibits the use of negative confirmation as the sole source of audit evidence for addressing a risk of material misstatement.

<sup>1</sup> AS 2310, *The Auditor’s Use of Confirmation*.

- Requires an evaluation of the implications of using a third-party intermediary to facilitate the confirmation process (e.g., a third party that electronically transmits confirmation requests and responses between the auditor and the confirming party).
- Requires the auditor to consider, and document its considerations, related to confirming other financial relationships with third parties.

The SEC's comment period for the PCAOB standard closed on November 7, 2023. Deloitte submitted a [comment letter](#) in November 2023 expressing support for the standard's objective of strengthening and modernizing the requirements for the auditor's use of confirmation. We also encouraged the PCAOB to actively engage with the auditing profession to monitor and understand future innovations in audit techniques and their applicability to the proposed amendments' objectives. Engaging with the auditing profession regarding implementation of the standard would help promote consistent application, especially with respect to the definition of a knowledgeable external source.

## PCAOB Proposes a New Quality Control Standard

In November 2022, the PCAOB issued a [proposed standard](#)<sup>2</sup> that provides a framework for a firm's quality control (QC) system, including ongoing monitoring and remediation. The proposed standard, which would replace the PCAOB's current interim QC standards in their entirety, would require annual reporting to the Board and to audit committees of issuer and broker-dealer clients as well as expand the responsibility of auditors to correct deficiencies identified during engagements.

Deloitte submitted a [comment letter](#) to the PCAOB in January 2023 supporting the proposed standard overall but outlining several concerns, including potential inconsistencies between communicating the effectiveness of a firm's QC system under the proposed guidance and communicating it under the similar [international quality management standard](#).<sup>3</sup>

The PCAOB staff has analyzed the comment letters received and expects to issue a final standard in 2024.

In her [statement](#) on the QC proposal, Chair Williams remarked that the proposed guidance would affect "the entire audit from accepting the engagement, to planning and performing the audit, and finally, to reporting out the results. By elevating all firms' QC systems, this proposal directly aligns with our mission to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports."

## PCAOB Issues Proposal to Increase Auditor Vigilance Against Fraud and Other Forms of Noncompliance With Laws and Regulations

In June 2023, the PCAOB issued a [proposed standard](#)<sup>4</sup> that would expand the auditor's obligation to identify and communicate an entity's noncompliance with laws and regulations. The proposal, which would replace the PCAOB's current interim standard<sup>5</sup> in its entirety, establishes specific requirements for auditors to identify potential and actual noncompliance with laws and regulations (NOCLAR).

As of November 10, 2023, Deloitte was one of 139 stakeholders that submitted a [comment letter](#) on the proposal. Of those stakeholders, roughly 20 percent strongly supported the proposed standard, most either agreeing with it in its entirety or suggesting only incremental

<sup>2</sup> QC 1000, *A Firm's System of Quality Control*.

<sup>3</sup> International Standard on Quality Management (ISQM) 1, *Quality Management for Firms That Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.

<sup>4</sup> AS 2405, *A Company's Noncompliance With Laws and Regulations*.

<sup>5</sup> AS 2405, *Illegal Acts by Clients*.

changes. Such letters largely noted that the proposed requirements strengthen the current auditing standards and align with investors' current expectations related to auditors. A few commenters indicated that the language in the proposed standard was not strong enough.

However, approximately 80 percent of respondents did not support the proposed standard. Chief among their concerns were that:

- The costs of the proposal would outweigh the potential benefits as a result of the expansion of the scope of the auditor's responsibilities.
- An auditor would need to perform procedures outside the auditor's core competency, knowledge, and expertise.
- Auditor independence could be impaired as a result of the requirement that the auditor potentially perform legal services, thereby conflating the responsibilities of management and the auditor.

In its comment letter, Deloitte expressed support for the Board's objective to clarify the auditor's obligations regarding NOCLAR, establish clear performance obligations, and enhance the auditor's risk assessment procedures related to NOCLAR. However, the letter also outlined several concerns related to aspects of the proposal that would be impracticable to implement, including requiring auditors to have legal acumen and expertise beyond their core competencies and creating inconsistencies between the responsibilities of management and the auditor.

The letter offered constructive suggestions about the proposed standard to facilitate the Board's issuance of final guidance that enhances audit quality. It also recommended that key stakeholders continue to work toward aligning holistically the transparency and reporting of NOCLAR. We believe that standard setters and others need to work closely together to develop guidance and regulations that best serve the interests of investors. Changes to the applicable financial reporting framework (e.g., U.S. GAAP), SEC rules and regulations, and auditing standards need to occur concurrently to mitigate conflicts among them.

The PCAOB staff is analyzing the comment letters received and expects to issue a final standard in 2024.

In her [statement](#) on the NOCLAR proposal, Chair Williams noted, "When an auditor signs an audit opinion on a company's financial statements, they are signing their name to the fact that the financial statements 'present fairly, in all material respects,' the company's financial position and results of operations. Investors expect that all means all, including material respects impacted by noncompliance." She further stated, "Today, we are proposing to change that and ensure that the protection investors expect — the protection they deserve — matches the requirements in the standard."

## PCAOB Proposes Modernizing Auditing Standards That Address Core Auditing Responsibilities

In March 2023, the PCAOB issued a [proposed standard](#)<sup>6</sup> that would reorganize, consolidate, modernize, and streamline several of the interim standards adopted in 2003 that address the general principles and responsibilities of the auditor related to conducting an audit. The proposed guidance would further amend and clarify other auditing standards, including AS 1215,<sup>7</sup> to address the engagement partner's responsibility of supervision and review of an audit engagement and reduce the archive period from 45 days to 14 days.

<sup>6</sup> AS 1000, *General Responsibilities of the Auditor in Conducting an Audit*.

<sup>7</sup> AS 1215, *Audit Documentation*.

Deloitte submitted a [comment letter](#) to the PCAOB in May 2023 expressing support for (1) the Board's ongoing efforts to modernize and clarify its standards, (2) the proposed combination of the various general principles and responsibilities related to interim auditing standards into one standard, and (3) the proposed reduction of the maximum period for the auditor to assemble a complete and final set of audit documentation from 45 days to 14 days.

The comment letter also highlighted areas of concern, including the removal of language in certain areas that, when examined together, may suggest a change in the existing auditing standards, which the Board indicated was not the intent of the proposed guidance. The proposed standard also appears to extend the requirements related to the auditor's responsibility to evaluate whether financial statements are fairly presented by going beyond the financial reporting framework for concluding about whether the financial statements are "misleading to a reasonable investor."

PCAOB staff is analyzing the comment letters received and expects to issue a final standard in 2024.

In a [news release](#) accompanying the announcement of the proposed modernization standard, Chair Williams stated that "[o]ur capital markets never stop evolving, and PCAOB standards must keep up to keep investors protected . . . [t]his proposal would modernize standards that are foundational to audit quality, ensuring they are fit to meet today's challenges."

## PCAOB Proposes Amendments Related to Aspects of Designing and Performing Audit Procedures That Involve Technology-Assisted Analysis of Information in Electronic Form

In June 2023, the PCAOB issued [proposed amendments](#)<sup>8</sup> to two standards<sup>9</sup> to improve certain aspects of designing and performing audit procedures that involve technology-assisted analysis of electronic information. The amendments also emphasize the auditor's responsibility to evaluate the reliability of electronic information.

Deloitte submitted a [comment letter](#) to the PCAOB in August 2023 supporting the proposed amendments overall but suggesting certain clarifications to avoid the potential for misinterpretation and inconsistencies.

The PCAOB staff is analyzing the comment letters received and expects to issue a final standard in 2024.

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<sup>8</sup> *Proposed Amendments Related to Aspects of Designing and Performing Audit Procedures That Involve Technology-Assisted Analysis of Information in Electronic Form.*

<sup>9</sup> AS 1105, *Audit Evidence*, and AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*.

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