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United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, DC 20510-6075

August 15, 2024

The Honorable Gary Gensler
Chair
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

RE: PCAOB-2024-01, Proposed Rules on General Responsibilities of the Auditor in Conducting an Audit and Amendments to PCAOB Standards, PCAOB-2024-02, Proposed Rules on a Firm's System of Quality Control and Related Amendments to PCAOB Standards, PCAOB-2024-03, Proposed Rules on Amendments Related to Aspects of Designing and Performing Audit Procedures that Involve Technology-Assisted Analysis of Information in Electronic Form, and PCAOB-2024-04, Proposed Rules on Amendment to PCAOB Rule 3502 Governing Contributory Liability

Dear Chair Gensler:

I write in support the Public Company Accounting Oversight Board's (PCAOB or Board) proposed rules to update standards for public company auditor quality control systems, responsibilities, and procedures, as well as the Board's enforcement authority against individuals contributing to negligent conduct by registered audit firms. I encourage the Securities and Exchange Commission (SEC or Commission) to approve these proposed rules.

The PCAOB was established pursuant to the Sarbanes-Oxley Act of 2002¹ after a series of corporate and accounting scandals, including Enron and WorldCom, shook Americans' confidence in our securities markets. By overseeing the audits of public companies and SEC-registered broker and dealers, the PCAOB helps ensure that public company financial statements are accurately prepared. In pursuit of that mission, PCAOB registers the accounting firms that prepare public company independent audit reports, inspects those accounting firms' audits and quality control (QC) systems, and investigates and disciplines public accounting firms and associated persons for violations of specified laws, rules, or professional standards. PCAOB is also responsible for adopting auditing and related attestation, QC systems, ethics, and independence standards for public company auditors.

¹ 15 U.S.C. § 7211 *et seq.*

On May 13, 2024, the Board adopted proposed rules on the general responsibilities of the auditor in conducting an audit (SEC File No. PCAOB–2024–01)², and on a firm’s system of quality control (SEC File No. PCAOB–2024–02).³ Additionally, on June 12, 2024, the Board adopted proposed rules on designing and performing audit procedures that involve technology-assisted analysis of information in electronic form (SEC File No. PCAOB–2024–03)⁴, and amending the Board’s Rule 3502 governing contributory liability.⁵ Pursuant to the Sarbanes-Oxley Act, new and revised PCAOB rules must be approved first by the PCAOB Board of Directors, then by the Commission.⁶ The rules, which are currently pending Commission approval, will protect investors by enhancing and clarifying the PCAOB’s standards and strengthen its enforcement authority for independent public auditors, and their adoption should be approved.

PCAOB–2024–01 (*Proposed Rules on General Responsibilities of the Auditor in Conducting an Audit and Amendments to PCAOB Standards*) will modernize auditing standards by replacing four disparate standards with one comprehensive standard (AS 1000) to provide auditors with better direction. The new standard clarifies the responsibility of the firm partner leading the audit to exercise due professional care related to supervision and review of the audit, and the auditor’s responsibility to evaluate whether the financial statements are “presented fairly.”

PCAOB–2024–02 (*Proposed Rules on a Firm’s System of Quality Control and Related Amendments to PCAOB Standards*) adopts an integrated, risk-based standard (QC 1000) that mandates quality objectives and processes for firms’ QC systems, focusing on accountability and continuous improvement. In recent years, PCAOB has observed increasing numbers of firms failing to appropriately ensure quality control in their audits: “[...] 40% of the issuer audits [PCAOB inspectors] reviewed in 2022 had one or more deficiencies where the auditor failed to obtain sufficient appropriate audit evidence to support its opinion, an increase of six percentage points over the deficiency rate in 2021 and 11 percentage points over the rate in 2020.”⁷ These deficiencies can put Americans’ savings at risk if they result in inaccurate financial statements for publicly traded companies. The new rules will emphasize accountability and the “tone at the top” of accounting firms, balance risk-based approaches to QC with required risk assessments, broaden the responsibility for monitoring and remediating deficiencies, and require a rigorous annual evaluation of each firm’s QC system. Rather than creating confusion, the new standards clarify minimum acceptable quality control standards for public company auditors, enhancing confidence in our markets.

PCAOB–2024–03 (*Proposed Rules on Amendments Related to Aspects of Designing and Performing Audit Procedures that Involve Technology-Assisted Analysis of Information in Electronic Form*) amends certain PCAOB auditing standards to improve audit quality and

² SEC Release No. 34-100276, 89 FR 49730.

³ SEC Release No. 34-100277, 89 FR 49588.

⁴ SEC Release No. 34-100430, 89 FR 54922.

⁵ SEC Release No. 34-100429; 89 FR 54895.

⁶ 15 U.S.C. § 7217(b).

⁷ 89 FR 49588, 49588.

enhance investor protection by addressing the growing use of certain technology in audits, particularly the growing use of data analysis and other audit procedures that involve analyzing information in electronic form with technology-based tools.

PCAOB–2024–04 (*Proposed Rules on Amendment to PCAOB Rule 3502 Governing Contributory Liability*) permits the Board to impose sanctions on individuals associated with audit firms who directly and substantially contribute to negligent violations over the course of an audit. Currently, audit firms can be sanctioned for acting negligently, but their associated persons can only be sanctioned if they behave *recklessly* – a much higher standard. As a result, while the Board can bring sanctions against an audit firm for negligent conduct, the individuals working there who were directly responsible can escape accountability. The amended rule does not impose any new standards on audit firms or their employees; they are already barred from behaving negligently, and violations are already subject to SEC enforcement under Sections 21B and 21C of the Exchange Act.⁸ The amended rule would streamline enforcement by allowing the PCAOB to hold both firms and their associated persons equally accountable for negligent conduct that puts investors at risk.

These rules significantly improve upon the existing PCAOB interim standards and will help to protect Main Street savers and workers’ pension funds and to maintain fair, orderly, and efficient markets. I urge the Commission to approve the PCAOB’s adoption of these proposed rules to improve the reliability, transparency, and resiliency of our capital markets.

Sincerely,



Sherrod Brown

Chairman

Senate Committee on Banking,
Housing, and Urban Affairs

⁸ 15 U.S. Code § 78u–2; 15 U.S. Code § 78u–3.