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

Proposed changes will strengthen auditor requirements to identify, evaluate, and communicate noncompliance with laws and regulations

Washington, DC, Jun. 6, 2023

The Public Company Accounting Oversight Board (PCAOB) today issued for public comment **a proposal** that would amend PCAOB auditing standards related to the auditor's responsibility for considering a company's noncompliance with laws and regulations, including fraud. If adopted, the proposal would strengthen auditor requirements to identify, evaluate, and communicate possible or actual noncompliance with laws and regulations. The deadline for public comment on the proposal is August 7, 2023.

**"By catching and communicating noncompliance sooner, auditors can help companies course correct and better protect investors from risk,"** said PCAOB Chair Erica Y. Williams.

Broadly, the proposal seeks to strengthen and enhance auditor obligations related to a company's noncompliance with laws and regulations in three key respects:

- **Identify** – The proposal would establish specific requirements for auditors to proactively identify – through inquiry and other procedures – laws and regulations that are applicable to the company and that could have a material effect on the financial statements, if not complied with. The proposal also makes explicit that financial statement fraud is a type of noncompliance with laws and regulations.
- **Evaluate** – The proposal would strengthen requirements related to the auditor's evaluation of whether noncompliance with laws and regulations has occurred, and

if so, the possible effects on the financial statements and other aspects of the audit. For example, the proposed standard would require the auditor to consider whether specialized skill or knowledge is needed to assist the auditor in evaluating information indicating noncompliance has or may have occurred.

- **Communicate** – The proposal would make it clear that the auditor is required to communicate to the appropriate level of management and the audit committee as soon as they are made aware that noncompliance with laws or regulations has or may have occurred. Additionally, the proposal would create a new requirement that the auditor must communicate to management and the audit committee the results of the auditor's evaluation of such information. Specifically, this communication would address which matters are likely noncompliance and the effect on the financial statements for those matters that are likely noncompliance.

By requiring auditors to identify and communicate noncompliance sooner, the proposed amendments, if adopted, would encourage companies to take more timely remedial actions and thereby reduce investor harm caused by legal and regulatory penalties. Another potential benefit would be to lower the likelihood that financial statements are materially misstated due to noncompliance with laws and regulations.

Throughout the proposal, the Board requests comment on specific issues. Readers are encouraged to answer these questions, to comment on any aspect of the proposal, and to provide reasoning and relevant data supporting their views.

The public can learn more about submitting comments on proposed PCAOB rules at the [Open for Public Comment page](#). For more information regarding the PCAOB's standard-setting activity, visit our [Standards page](#).

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## About the PCAOB

The PCAOB is a nonprofit corporation established by Congress to oversee the audits of public companies in order to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports. The PCAOB also oversees the audits of brokers and dealers, including compliance reports filed pursuant to federal securities laws.

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