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Office of the Secretary
Public Company Accounting Oversight Board 1
666 K Street, N.W.
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 042

Deloitte & Touche LLP ("D&T") is pleased to respond to the request for comments from the Public Company Accounting Oversight Board (the "PCAOB" or the "Board") on PCAOB Release No. 2017-005, *Supplemental Request for Comment: Proposed Amendments Relating to the Supervision of Audits Involving Other Auditors and Proposed Auditing Standard — Dividing Responsibility for the Audit with Another Accounting Firm* (collectively, "the 2017 Proposal" or "the 2017 Release"), which addresses certain revisions to PCAOB Release No. 2016-002, *Proposed Amendments Relating to the Supervision of Audits Involving Other Auditors and Proposed Auditing Standard — Dividing Responsibility for the Audit with Another Accounting Firm*, from April 12, 2016 (collectively, "the 2016 Release"), as well as other matters related to audits that involve accounting firms and individual accountants outside the accounting firm that issues the audit report.

Overall Comments

We support the Board's efforts to enhance the standards of the PCAOB that address audits involving accounting firms and individual accountants outside the accounting firm that issues the auditor's report and to align the applicable requirements with the PCAOB's risk-based standards. These situations are becoming more and more prevalent as companies continue to expand their presence throughout this world. Similar to our response to request for comment on the 2016 Release, while we are supportive of the objectives of the Board, we have certain constructive suggestions. Specifically, we note that certain of the practical implementation challenges identified in our response to the 2016 Release (see Appendix B, *Deloitte & Touche LLP's Response to the 2016 Release*) still exist, including:

- The ability to implement the limited criteria to serve as lead auditor in certain situations. Based on the group entity structure and domicile, as well as jurisdictional regulations related to auditor licensing, we believe there will be instances in which it would be difficult for any accounting firm to serve as the lead auditor, which creates a public interest challenge of having an audit performed.

- Expanded requirements related to the lead auditor obtaining an understanding of the other auditors' independence and ethics, as well as policies and procedures related to training and assignment of individuals to audits. The practical challenges of implementation pose a very real risk for effective implementation of the requirements. Our experience suggests that centralization of such monitoring activities enhances audit quality both within an audit and within a firm.

In Appendix A, we offer further observations related to these matters, as well as responses to the questions posed in the 2017 Release. Our observations are made in light of the goal of having a final standard that clarifies the lead auditor's responsibilities with respect to other auditors, including providing additional direction to the lead auditor on how to apply the principles-based supervisory requirements of the standards.

*   *   *

D&T appreciates the opportunity to provide our perspectives on these important topics. The potential benefits of the Proposal are significant and, while some of these considerations are complex and challenging, we do not believe any of these should stand in the way of completing this important project. We stand ready to engage constructively with the Board and other stakeholders to provide our perspective and experiences in order to facilitate the development of improvements to the PCAOB's auditing standards that will enhance audit quality. If you have any questions or would like to discuss these issues further, please contact Dave Sullivan at 714-436-7788 or Megan Zietsman at 203-761-3142.

Very truly yours,

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APPENDIX A — RESPONSE TO QUESTIONS POSED IN THE 2017 RELEASE

Question 1: Is the revised requirement for determining the sufficiency of participation to serve as lead auditor, based on risk and importance of the locations, appropriate and clear?

We agree that risk and importance of the locations are appropriate criteria for determining sufficiency of participation to serve as lead auditor; however, we believe that there are other criteria that are also appropriate to consider. We therefore recommend that the 2017 Proposal acknowledge and include additional guidance for situations in which risk and importance of the locations may not both lead to the same conclusion about the determination of the lead auditor, and other situations in which conflict with auditor licensing requirements may exist based on the domicile of the entity. For example, there are situations in which the entity is domiciled in a location in which the primary financial reporting decisions may not be made, but based on laws and regulations, an accounting firm in the location of domicile is required to perform the audit (see Appendix B, pages 17-20, for further discussion on this topic). In addition, certain guidance helpful to group audit execution that is in the existing standard today has been removed, which may create practical challenges in determining the lead auditor (e.g., AS 1205.02-06).

We acknowledge that the Board has proposed edits and additional consideration regarding AS 2101.B2 in the 2017 Release. However, we believe some additional changes are needed in the area of determining sufficiency of participation to serve as lead auditor, with specific clarity needed in the following areas:

- Page 9 of the 2017 Release states:

  > *Including importance as an additional consideration would more expressly address circumstances where, for example, the lead auditor audits the locations or business units where the primary financial reporting decisions are made and consolidated financial statements are prepared, even though they might not comprise a significant portion of the company's operations. Notably, the importance consideration is similar to an existing factor in AS 1205.*

  As it is currently worded, the requirements in the 2017 Proposal does not appear to fully acknowledge situations in which the lead auditor does not audit a significant portion of the company's operations (including situations in which there may be no other auditor that audits more than the lead auditor). We believe the proposed standard should provide explicit wording that the lead auditor determination is based on specific qualitative factors as well, including where the primary financial reporting decisions are made and the consolidated financial statements are prepared. The 2017 Release also points to a similar existing factor in AS 1205.02, which states:

  > *The auditor considering whether he may serve as principal auditor may have performed all but a relatively minor portion of the work, or significant parts of the audit may have been performed by other auditors. In the latter case, he must decide whether his own participation is sufficient to enable him to serve as the principal auditor… In deciding this question, the auditor should consider, among other things, the materiality of the portion of the financial statements he has audited in comparison with the portion audited by other auditors, the extent of his knowledge of the overall financial statements, and the importance of the components he audited in relation to the enterprise as a whole.*

  AS 1205.02 therefore explicitly acknowledges there can be circumstances in which the other auditors perform a major portion of the work and where the lead auditor's participation in the other auditors' work is sufficient based on the extent of his knowledge of the overall financial statements, among other things. As this standard is to be superseded in part by AS 2101.B2, we believe the proposed wording for the revised standard should acknowledge that specific qualitative factors can potentially outweigh quantitative factors when determining the lead auditor.

- We note that page A4-15 of the 2016 Release states:

  The proposed risk-based criterion is intended to capture both quantitative as well as qualitative characteristics of a particular scenario. Under this criterion, the lead auditor ordinarily would need to audit the location at which the primary financial reporting decisions were made and the consolidated financial statements were prepared in order to address the risks related to those important judgments and activities, and a sufficient number of other locations to cover a greater portion of the risks than any of the other audit firms performing procedures on the audit.

  If there is an expectation that the lead auditor performs procedures on a greater portion of risks than other auditors, we believe it is not sufficiently clear how, considerations related to "importance" (as described in AS 2101.B2.b) should be taken into account in determining sufficiency of participation.

- AS 2101.B2a identifies the portion of the risks of material misstatement associated with the company's financial statements for which the lead auditor performs audit procedures as a criteria for determining lead auditor. The 2017 Release also provides for taking into account the importance of a location or business unit, as well as qualitative and quantitative factors, when determining lead auditor (AS 2101.B2b); however, a framework for how to "take into account the importance" has not been included in the proposed standard. We note that in identifying and assessing the risks of material misstatement in a multi-location audit, the auditor is required to consider the factors in AS 2101.12. As we believe these factors already result in the auditor taking into account the "importance" of the locations or business units for which the lead auditor is performing procedures, the incremental effort that would be expected to "take into account importance," as instructed in AS 2101.B2b, is not apparent.

- Page 11 of the 2017 Release states,

  …the sufficiency determination should be based on the work the auditor performed on the audit, rather than on the auditor's attributes… the Board does not currently intend to change the requirement so that close supervision of other auditors' work by the lead auditor would count toward the lead auditor's participation.

  We expressly believe the work that the lead auditor performs on the audit includes supervision of other auditors, and therefore, sufficiency should include the factors from AS 1201.06. Appropriate recognition of these qualitative factors is necessary, as they are critical in determining the sufficiency of the lead auditor's participation. We therefore suggest the Board re-consider the direction of this requirement, as we believe focusing only on the quantitative metric of "coverage" of performing audit procedures that address risks may result in the inability for any registered accounting firm to meet the lead auditor definition and requirements to serve as such.

As noted in the bullets above, we believe additional criteria should be considered in identifying the lead auditor and in developing a risk-based framework for supervision of other auditors by the lead auditor and engagement team. In addition, if a shared system of quality control at the network level exists and is operating effectively, we believe reliance by the lead auditor on such commonalities should influence the nature, timing, and extent of direction and supervision of other auditors from the same network and subject to the same system of quality control. A shared system of quality control, when operating effectively, provides shared methodologies, a common "language" and understanding, and distinguishes use of other auditors from within such a network from other auditors outside of the network. We believe the standard should clearly recognize this distinction as part of its risk-based, scalable approach to direction and supervision.

Question 2: Is the additional sufficiency threshold for divided responsibility engagements clear? Should this be a bright-line requirement, or does this threshold need to allow for exceptional situations? Are there any other implications of this threshold that the Board should consider, such as investor protection implications or auditing challenges related to the revised requirement?

We believe that the additional sufficiency threshold for divided responsibility engagements is clear. The threshold for divided responsibility engagements discussed in AS 2101.B2 of the 2017 Release should not be a bright-line requirement, as there are diverse, complex, and unique situations for which a bright line will not be feasible.

Question 3: Are the revised requirements relating to the other auditors' compliance with the independence and ethics requirements appropriate? Are there any practical challenges associated with the revised amendments? If so, what are they, and how could the proposed requirements be revised to address the challenges?

We believe that multiple implementation challenges may arise in relation to the revised requirements relating to the other auditors' compliance with independence and ethics requirements, including challenges related to confidentiality and access, the ability to consider the effectiveness of firm network level controls and policies, and the lead auditor's ability to execute the requirements.

We believe that the lead auditor should perform procedures to support the determination that the other auditor is in compliance with SEC independence requirements as well as PCAOB independence and ethics requirements (the "independence and ethics requirements"). We acknowledge that it is also imperative for other auditors to have a process for determining compliance, in order that other auditors can represent appropriate compliance with independence and ethics requirements to the lead auditor. However, we have the following observations related to the revisions to the requirements in AS 2101.B4:

- Depending on the circumstances, determining whether an individual or firm is independent may be a complicated activity, which often involves individuals with deep expertise and experience in this area. Some accounting firms and accounting networks have invested in and established robust processes and activities as part of their firm-wide system of quality controls to provide reasonable assurance that the firm and its employees are appropriately independent. While audit professionals need to understand the independence and ethical requirements that are applicable, reliance on the specialized individuals in a firm may be necessary to determine compliance with such requirements. As discussed on page 12 of the 2017 Release, the proposed standard was updated to require the lead auditor to understand the other auditor's process for determining compliance as "the lead auditor would be in a better position to identify matters that may warrant further attention." However, we do not believe that the lead auditor is necessarily in the best position (and may not possess the specialized skill) to evaluate the other auditor's process for compliance with independence and ethics requirements in order to identify matters that may warrant further attention, due to the specialized skill that this may require.

- There are also a variety of practical issues and real barriers that will cause difficulties relative to lead auditors obtaining access to information related to an other auditor's process to determine compliance with independence and ethics requirements, including issues related to legal protection over confidential and proprietary information (e.g., there may be limitations on the level of detailed information that accounting firms will provide related to their policies and procedures, particularly if the lead auditor is from another firm that is not part of the other auditor's network). We recognize that the 2016 and 2017 Releases do not prescribe specific procedures for how the lead auditor should gain an understanding of the other auditor's processes for determining compliance with the requirements; however, we note that the 2016 and 2017 Releases refer to a variety of different types of information that the lead auditor may obtain from an other auditor to determine knowledge of independence and ethics requirements (see pages A4-22 and 23 of the 2016 Release, and pages 12 through 14 of the 2017 Release). However, as stated above, the lead auditor may not have access to some or many of these types of information, and accordingly, it would be difficult for the lead auditor to apply the factors described in the release that may affect the necessary level of effort in obtaining the understanding of the other auditor's process and experience.

- We acknowledge that page 13 of the 2017 Release notes certain:

  ...factors that may affect the necessary level of effort in obtaining the understanding of the other auditor's process and experience include the lead auditor's existing knowledge of the other auditor's process; the lead auditor's experience with the other auditor's past compliance with the ethics and independence requirements; changes in the other auditor's processes or circumstances that may affect the risk of non-compliance; and other information available to the auditor about the other auditor's practices or compliance with independence and ethics requirements.

  However, if the lead auditor is not privy to this information about the other auditor (which may be confidential), these factors do not actually allow for judgment in the level of effort necessary.

- We observe that the Board has set forth its conclusion to preclude reliance on network-level policies and procedures in determining the other auditor's compliance with independence and ethics requirements (as stated on page 14 of the 2017 Release). It is the responsibility of each audit firm to maintain systems and processes to comply with the independence and ethics requirements. However, we note that in current practice, auditors use firm and network-level processes as the basis for making independence representations as required by AS 1205.10b. We continue to believe that other auditors should be able to rely on a shared system of quality control at the network level, when found to be operating effectively and applicable, to address the consideration of compliance by in-network other auditors with independence and ethics requirements. In addition, we believe a risk-based approach should be used to determine whether to obtain any additional understanding beyond the written representation obtained from the other auditor. This approach would allow for auditor judgment to be applied and for the auditor's effort to be focused on the circumstances in which additional information is important to judgments about the other auditor's compliance with the requirements or where contradictory evidence with respect to the other auditors' independence may present itself.

Based on these considerations, we recommend that AS 2101.B4 be modified to reflect these views. Furthermore, notwithstanding the suggestions we've noted, we believe the PCAOB standards should acknowledge that some of the independence and ethics requirements might be addressed by the lead auditor's firm on behalf of multiple engagement teams (e.g., so that the same information does not have to be provided multiple times to lead auditors within the same firm).

Question 4: Are the proposed amendments relating to the knowledge, skill, and ability of the other auditor, revised by this release, appropriate? Are there any practical challenges associated with the revised amendments? If so, what are they, and how could the proposed requirements be modified to address the challenges?

Existing requirements (e.g., 1201.06) currently require the engagement partner to determine the extent of supervision necessary for engagement team members by taking into account their knowledge, skill, and ability. We believe this requirement is appropriate and necessary, as understanding the professional competence of the engagement team, which will include other auditors, is essential in determining the necessary supervisory activities. Furthermore, we discussed the importance of understanding the other auditor's professional competence and experience in our response to the 2016 Release (see Appendix B, page 20,).

As part of the 2017 Release, the following requirement was added to AS 2101.B6:

> *At the beginning of an audit that involves other auditors, the lead auditor should:*
>
> *a. Inquire about other auditors' policies and procedures relating to the:*
>
> *(1) Assignment of individuals to audits conducted under PCAOB standards; and*
>
> *(2) Training of individuals who perform procedures on audits conducted under PCAOB standards, regarding the relevant financial reporting framework, PCAOB standards and rules, and SEC rules and regulations;*

If the lead auditor has the appropriate understanding of the other auditor's professional competence as currently required, it is not however clear to us as to why the items in AS 2101.B6 are also necessary (e.g., if the lead auditor has appropriately determined that the other auditor is professionally competent, how does understanding how a firm assigns individuals to audits further the lead auditor's understanding of the other auditors' professional competence?). In addition, similar to what we noted in question 4, we believe there are real and practical issues about the ability of the lead auditor to obtain the kind of information referred to in AS 1201.B6a from other auditors (e.g., limitations may exist on the ability of firms to share proprietary or confidential information).

In situations in which the lead auditor's firm is affiliated with the other auditor's firm, the lead auditor should also be able to use the information obtained from its firm network as part of the basis for understanding the professional competence of the other auditor. It would be inefficient for the lead auditor to be expected to perform procedures to understand the knowledge, skill, and ability of an other auditor without any consideration of appropriately designed network activities that would assist in providing this information. And similarly to the observations set forth in our response to question 3 we believe that if the requirements in AS 1201.B6a are retained, the PCAOB standards should acknowledge that the understanding of these requirements might be addressed by the lead auditor's firm on behalf of multiple engagement teams (e.g., so that the same information does not have to be provided multiple times to lead auditors within the same firm).

Question 5: Are the proposed new addition to AS 1015 and revision to AS 1201 relating to the other auditors' responsibility appropriate and clear? Is it clear that AS 1015 already applies to referred-to auditors that perform audits under PCAOB standards?

We believe the revisions to AS 1201 require additional clarity to achieve the Board's objective of a risk-based approach to an audit. As stated on page 17 of the 2017 Release (bold added for emphasis):

> *The proposed requirements for the lead auditor's supervision of the work of other auditors are designed to be scalable based on risk and other factors. Under the 2016 Proposal,* ***the engagement partner and others who assist the engagement partner in supervising the audit should determine the necessary extent of supervision,*** *based on the risks of material misstatement to the company's financial statements and the knowledge, skill, and ability of the other auditor, among other things."*

As emphasized in bold text in the paragraph above, we agree that the extent of supervision performed by the engagement partner and others who assist should be guided by a scalable risk-based approach. However, based on other comments in the 2017 Release (see Section B of the 2017 Release, *Supervision of Other Auditors,* pages 16 through 24) and the related proposed amendments, we believe further clarification is needed, as follows:

- AS 1201.B2a(2) states

  > *In supervising the work of other auditors, the lead auditor should: …inform the other auditor of the following in writing…Tolerable misstatement, the identified risks of material misstatement, and if determined, the amount below which misstatements are clearly trivial and do not need to be accumulated relevant to the work requested to be performed*.

  This paragraph also has footnote 20 attached, which references to AS 2110.49-51 related to engagement team discussions regarding risks of material misstatement. We believe additional clarity is needed as to how to interpret and apply the requirement that the lead auditor inform the other auditor of the identified risks of material misstatement relevant to the work requested to be performed, because:

  - The attachment of footnote 20 implies that this requirement is in the context of engagement team discussions. The requirements of AS 2110 do not however require that these engagement team discussions encompass <u>all</u> identified risks of material misstatement, and in practice, they are more likely to focus on those risks of material misstatement of greater significance, and in the context of multi-location audits, those that are likely to be most important to the work that may need to be performed by the other auditor.

  - In some cases, the other auditor may be in a more appropriate position to identify and assess certain risks of material misstatement specific to the scope assigned to them, due to their knowledge, skills, and ability. We acknowledge that page 17 and 18 of the 2017 Release states that:

    > *…some commenters raised questions as to whether the lead auditor is the auditor best suited in all circumstances to assess risks of material misstatement at locations or business units audited by other auditors… Any risks not identified by the lead auditor in its initial communication to the other auditor would be covered by an existing provision in AS 1201 to instruct the other auditors to bring any significant auditing issues, including any additional risks of material misstatement identified by the other auditor, to the attention of the engagement partner or other team members who perform supervisory activities.*

    While we believe the additional explanation in the release acknowledges that the standards should allow for two-way communication between the lead auditor and other auditor of the risks of material misstatement related to the other auditor's work, the wording in AS 1201.B2a(2) is more likely to drive a different conclusion (i.e., a one-way communication from the lead auditor to the other auditor of the risks of material misstatement).

- As noted in our firm's response to the 2016 Release, we believe that the requirement in AS 1201.B2b related to the lead auditor communicating in writing to the other auditor about any changes that need to be made to the other auditor's description of the audit procedures is too prescriptive, especially as some matters might be more easily and effectively dealt with through verbal communications. We also believe the requirement should support more flexibility and a collaborative approach. We therefore believe that the proposed standard should provide for lead auditors being able to use professional judgment in determining how to communicate changes and also about the necessary supporting documentation (see Appendix B, pages 25 and 26, for additional discussion).

- In regard to AS 1201.B2d, pages 18 and 19 of the 2017 Release state:

The 2016 Proposal includes a new requirement in the standard on supervision according to which the lead auditor should obtain from the other auditor a written report describing the other auditor's procedures, findings, conclusions, and if applicable, opinion. The proposed requirement was intended to require the other auditor to make a written statement, and to inform the lead auditor, about the work for which the other auditor was responsible and the results of that work… The required content of the report would remain the same as originally proposed – a description of the other auditor's procedures, findings, conclusions, and, if applicable, opinion, in sufficient detail for the necessary level of supervision. To distinguish more clearly non-public communications between other auditors and the lead auditor (internal communication between two parties) from audit reports issued for general public use, the Board is considering a revision that would replace "written report" with "summary memorandum" in the proposed amendments to AS 1201… As revised, this requirement to obtain a summary memorandum from the other auditor would be generally consistent with existing auditing practice.

We believe that additional clarity is needed to address what is required to be included as part of the *"summary memorandum"* as described in AS 1201.B2d and the required documentation related to the work performed by other auditors in AS 1215.19, which includes a *"completion document consistent with paragraphs .12 and .13."* As a "completion document" can be (and typically is) interpreted to also include a list of the other auditor's procedures, findings, and conclusions (among other things), it is therefore not clear to us whether these two documentation items are intended to be different or whether they overlap with one another.

Question 6: Are the proposed new additions to AS 2101.B2 appropriate and clear? Also, is it clear that the necessary level of detail of the other auditor's audit documentation that the lead auditor obtains and the necessary extent of the lead auditor's review according to requirements in proposed Appendix B of AS 1201 are scalable based on the factors in the existing standard regarding the necessary extent of supervision?

As noted in our response to question 5, we support a scalable, risk-based approach to supervision by the engagement partner and others who assist the engagement partner; we believe the addition of the two notes to paragraph AS 2101.B2 are appropriate and also support a risk-based scalable approach. We don't believe that, in all cases, the lead auditor needs to review additional audit documentation of the other auditor, *in excess of* that which is already required to be reviewed by AS 1215.19. Rather, we believe that the determination of whether documentation in excess of that which is already required to be reviewed (including the documentation required to by reviewed in AS 2101.B2b, AS 2101.B2d, and AS 1215.19) is determined by multiple factors, including:

- The experience the lead auditor has with working with the other auditor and the resulting understanding of their knowledge, education, and skills.
- The results of internal practice reviews (if within the same network), other inspection results, and their relevance to the other auditor's work.
- The complexity and nature of judgments related to the procedures that the lead auditor has requested the other auditor to perform, including whether the other auditor is responsible for performing procedures related to significant risks.
- If in place and effective, a shared system of quality control for network firms.
- The business and cultural environment in which the other auditor operates.
- The factors described in current AS 1201.06.

- The results of review of the other auditor's audit documentation.

Therefore, as it relates to AS 2101.B2c, we recommend that the paragraph be modified to embrace the risk-based approach desired by the Board, as follows (additions are noted in **<u>bold underline</u>**): "Direct the other auditor to provide for review specified documentation with respect to the work requested to be performed**<u>, as necessary.</u>**"

Question 7: Are the revised proposed requirements for situations in which the lead auditor directs an other auditor to perform supervisory procedures with respect to a second other auditor on behalf of the lead auditor clear? If not, how should the revised proposed requirements be revised?

We recommend that AS 1201.B3 be modified to appropriately take into account the lead auditor's decisions on what constitutes appropriate audit evidence based on the facts and circumstances, and structure of the entity that is being audited. We believe it is appropriate for the lead auditor to consider how the company's financial information is consolidated in order to determine how to obtain sufficient appropriate audit evidence and how the audit documentation is best maintained. We note that AS 1201.B3 discusses the situation in which an other auditor might audit the financial information of a location or business unit that includes the financial information of a sub-location or sub-unit audited by a second other auditor. When the financial information that the second other auditor is auditing is included in the financial information of the first other auditor, the first other auditor's communications to the lead auditor (e.g., the summary memorandum required by AS 1201.B2d or the communications required by AS 1215.19) include, as necessary, the results of procedures performed by the second other auditor. Therefore, requiring that the second other auditor provide to the lead auditor the communications noted in AS 1201.B2d and AS 1215.19 would be duplicative of communications that already occur between the lead auditor and the first other auditor.

Furthermore, in the situation noted in the preceding paragraph, when the lead auditor uses a first other auditor, they do so with the knowledge and understanding that the first other auditor is capable of performing requested supervisory duties. If the lead auditor has appropriately assessed the skills and competence of the first other auditor and the first other auditor is performing the procedures in paragraph AS 1201.B2a in relation to the second other auditor, there is therefore no need for the first other auditor to provide to the lead auditor the communication described in AS 1201.B2a in relation to the second other auditor. The granular nature of requirements in AS 1201.B3 may result in the lead auditor not using a first other auditor to help supervise (e.g., then the first other auditor speaks the same language as the second other auditor, which is different than the language of the lead auditor), and we believe that this may in some cases be to the detriment of audit quality rather than enhancing it.

We also believe that in situations in which the lead auditor uses a first other auditor to help supervise a second other auditor, it is unclear as to whether the requirements in AS 2101.B4 and AS 2101.B6 (related to understanding the other auditor's compliance with independence and ethics, as well as their professional competence) need to be performed by the lead auditor, or whether the first other auditor can perform these requirements as part of their supervisory activities. We believe that performing supervisory activities may include understanding an other auditor's compliance with independence and ethics, as well as their professional competence. We recommend the 2017 Proposal be revised to clarify the supervisory activities performed by an other auditor (e.g., a first other auditor) may include understanding an other auditor's (e.g., a second other auditor) compliance with independence and ethics, as well as their professional competence.

Question 8: Is the revision to the proposed standard relating to the division of responsibility when the company and its business unit use different reporting frameworks appropriate and clear?

Yes, we believe the revision to the proposed standard relating to the division of responsibility when the company and its business unit use different reporting frameworks is appropriate and clear. While we have no further comments specific to question 8, we have the following suggestions from our response to the 2016 Release that we believe should be reconsidered:

- On page 28 or our 2016 response (see Appendix B), we recommended the following change to AS 1206.08(c) (additions in **bold**, deletions are ~~struck through~~):

  > Disclose the magnitude of the portion of the company's financial statements, and if applicable, internal control over financial reporting, audited by the referred-to auditor. This may be done by stating the dollar amounts or percentages of total assets, total revenues, **or** ~~and~~ other appropriate criteria necessary to identify the portion of the company's financial statements audited by the referred-to auditor.

  We believe this edit is important as it provides the necessary flexibility as to the criteria that are used and referred to in the auditor's report. The existing use of "and" implies that the criteria used and referred to always includes total assets and total revenues and other appropriate criteria; however this is not always the case. Furthermore, we note that Section 4140.3 of the SEC's Financial Reporting Manual (FRM) only requires that the principal auditor's report "…indicate clearly the division of responsibility between the principal auditor and the other auditor…," and does not state the criteria that must be considered or referred to. We therefore request the Board to re-consider the need for this suggested edit.

- On pages 23-24 of our 2016 response (see Appendix B), we provided our views on the principles underlying division of responsibility. We further noted that the 2016 Proposal contained requirements that go beyond current practice and may result in more opaqueness around the responsibility and activities the lead auditor is required to undertake with respect to the referred-to auditor, as well as the purpose of such activities. For example, the 2016 Proposal (AS 2101.14) requires that the lead auditor have discussions with the referred-to auditor to identify and assess risks of material misstatement associated with the location. As another example, AS 2401.53 of the 2016 Proposal requires that the lead auditor discuss with the referred-to auditor the extent of work that needs to be performed to address certain fraud risks. This greater level of involvement by the lead auditor in the work of the referred-to auditor diminishes the "clear line" with respect to responsibility of the lead auditor and the referred-to auditor (see Appendix B, page 24, for additional discussion).

  We note that the Board has responded to this comment in the 2017 Release (page 28) by referencing *consistency* with the following existing requirement in AS 1205.10, which states:

  > …*He also should adopt appropriate measures to assure the coordination of his activities with those of the other auditor in order to achieve a proper review of matters affecting the consolidating or combining of accounts in the financial statements…*.

  We respectfully submit our view that the changes to AS 2101.14 and AS 2401.53 are not consistent with the existing AS 1205.10. We therefore reiterate our recommendation that the reference to referred-to auditors in AS 2101.14 and 2401.53 be removed.

- As noted in our response to the 2016 Release, it is unclear as to why in situations in which the lead auditor is unable to divide responsibility with another accounting firm, the lead auditor's performance requirements are limited only to the three options presented in AS 1206.7. We believe that another alternative is to allow for the lead auditor to identify a different other auditor and appropriately apply the requirements of the 2017 Proposal when using an other auditor. Therefore, we recommend that this additional alternative be included in AS 1206.7.

Question 9: Is it clear how the proposed amendments and new standard (as revised by this release) relate to other amendments to auditing standards proposed or adopted by the Board since the 2016 Proposal?

We believe additional clarity is needed as to how the requirements in the PCAOB's *Proposed Auditing Standard — Auditing Accounting Estimates, Including Fair Value Measurements* and proposed amendments to PCAOB auditing standards (collectively, "the Estimates Proposal"), fit with the requirements in the 2017 Release. Deloitte & Touche LLP's June 2017 response to the Estimates Proposal commented on how we did not believe that changes to standards related to investments valued based on the investee's financial condition or operating results should be done in isolation, as in many cases, the audit evidence obtained for such type of investments involves using an other auditor. Therefore, we believe that the PCAOB should address requirements related to being involved in an other auditor's work related to investments valued based on the investee's financial condition or operating results, in tandem with the 2017 Release, i.e., in order to put into context how the requirements in the Estimates Proposal fit into the requirements in the 2017 Release.

Question 10: Comment is requested on the matters discussed in this section. Would any revisions the Board is considering for adoption affect the scalability of PCAOB standards in this area? Would any have a significant effect on the competitiveness of smaller audit firms? Would the revisions significantly change the costs and benefits associated with the proposed changes discussed in the 2016 Proposal? Are there any unintended consequences that the Board should consider? Are there any other matters not addressed in this release the Board should consider in its economic analysis?

Related to the additional requirements for the lead auditor in the 2017 Release, we have the following observations:

- **Understanding each other auditor's process for determining compliance with the independence and ethics requirements.** AS 2101.B4 in the 2016 Proposal required that the lead auditor gain an understanding of each other auditor's knowledge of the independence and ethics requirements (which we believe could be accomplished by obtaining an appropriate representation, potentially supplemented with discussion or inquiry of the other auditor); the 2017 Proposal modifies this paragraph, and requires that the lead auditor gain an understanding of each other auditor's process for determining compliance with the independence and ethics requirements. This understanding is then used to evaluate such process, and identify gaps, with the goal of identifying items that will inform the lead auditor as to whether the other auditor's representation is reliable. We believe that there is a substantive difference between these two requirements.

- **Inquiring about the other auditor's policies and procedures relating to assignment of individuals to an audit and training of individuals performing PCAOB audits.** As noted in question 4, the 2017 Release included a new requirement related to the lead auditor inquiring of the other auditor's policies and procedures related to the (1) assignment of individuals to audits conducted under PCAOB standards and (2) training of individuals who perform procedures on audits conducted under PCAOB standards. The 2017 Proposal explains that this understanding is used to assist the lead auditor with identifying matters that warrant further consideration related to the professional competence of other auditors.

- **Multi-tiered audit engagements.** As described in the 2017 Proposal, and as commented on in question 7, the requirements related to the audit documentation that the lead auditor needs to obtain related to a "second other auditor" may results in an administrative burden that may not have the commensurate benefit to audit quality..

In relation to these items, we respectfully submit our view that these changes in requirements will potentially result in more effort, work, and cost. As noted in our response to questions 3 and 4, we also have questions about the ability to obtain the necessary level of information to address some of these revised requirements.

Other Matters

In regards to the effective date considered by the Board, page 44 of the 2017 Release states:

> *Specifically, the Board is considering whether compliance with an adopted standard and amendments should be required for audits of fiscal years beginning in the year after approval by the SEC (or for audits of fiscal years beginning two years after the year of SEC approval if that approval occurs in the fourth quarter).*

We strongly recommend an effective date for audits with fiscal years beginning two years after the approval by the SEC (regardless of which quarter that approval occurs). Even if the SEC adopts the standard and amendments in the first quarter of calendar year 2018, we believe that public accounting firms will need over one year to determine the full impacts of the approved adopted standard and amendments, implement new policies and guidance, develop and facilitate related trainings, and coordinate quality control processes with the firm network, other auditors, and referred-to auditors in order to ensure effective implementation and compliance. Furthermore, we believe that firms that perform a large number of multinational audits will likely need to make significant investments in technology systems to support compliance with the requirements in the 2017 Proposal (including consideration of IT solutions that will work across different jurisdictions or countries); we base this belief, in part, on our experiences with designing a technology solution to support the implementation of Form AP, which involved significant time and effort but was not as complex or multifaceted as what implementation of the 2017 Proposal is likely to be.

APPENDIX B — DELOITTE & TOUCHE LLP's RESPONSE TO THE 2016 RELEASE

Deloitte.

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July 28, 2016

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

Re: PCAOB Rulemaking Docket Matter No. 042

Deloitte & Touche LLP ("D&T" or "we") is pleased to respond to the request for comments from the Public Company Accounting Oversight Board (the "PCAOB" or the "Board") on its *Proposed Amendments Relating to the Supervision of Audits Involving Other Auditors* (the "Proposed Amendments") and the *Proposed Auditing Standard — Dividing Responsibility for the Audit with Another Accounting Firm* (the "Proposed Auditing Standard") (collectively, "the Proposal" or "the Release") which addresses potential changes to the PCAOB's auditing standards for audits that involve accounting firms and individual accountants outside the accounting firm that issues the audit report.

Overall Comments

We support the Board's efforts to enhance the standards of the PCAOB that address audits involving accounting firms and individual accountants outside the accounting firm that issues the auditor's report and to align the applicable requirements with the PCAOB's risk-based standards.

The Proposal represents a significant step forward in providing a risk-based supervisory model that can be used when performing audits that involve other auditors. We are supportive of the objectives of the Board's Proposal, and offer certain constructive suggestions in this letter that are geared toward ensuring that the final standards clarify the lead auditor's responsibilities with respect to other auditors, including providing additional direction to the lead auditor on how to apply the principles-based supervisory requirements of the standards in order to:

- Increase the uniformity, consistency, and effectiveness of the lead auditor's supervision of other auditors, including through application of PCAOB Auditing Standard 1201, *Supervision of the Audit Engagement* (AS 1201), to other auditors.

- Facilitate improvements in the quality of the work of other auditors through appropriate direction, coordination, and evaluation of the results of their work.

- Strengthen the lead auditor's understanding of the knowledge, education, and skills of those engagement team members from an other auditor who participate in supervisory activities.

- Enable the lead auditor to delegate certain supervisory activities to appropriate other auditors outside of the lead auditor's registered accounting firm.

- Clarify the substance of the interactions between the lead auditor and other auditors.

In order to clearly achieve the objectives above, there are certain practical implementation considerations that will need to be deliberated and resolved. The potential benefits of the Proposal are significant and, while some of these considerations are complex and challenging, we do not believe any of these should stand in the way of completing this important project. We stand ready to engage constructively with the Board and other stakeholders to provide our perspective and experiences in order to facilitate the development of improvements to the PCAOB's auditing standards that will enhance audit quality. A brief summary of the primary matters for additional consideration that we have identified is as follows (we offer further thoughts on each in Appendix 1):

> **Definition, Roles, and Responsibilities of the Lead Auditor, Including Sufficiency of Participation.** We believe that the appropriate oversight of other auditors is achieved through a combination of the lead auditor's direct participation in the audit as well as other factors, such as sufficient involvement in, and supervision of, the work of other auditors. We therefore offer recommendations to achieve this goal through modifications to the definition of lead auditor. We also offer thoughts on developing requirements and guidance that provide necessary levels of scalability arising from the continuing evolution of (1) the way in which financial information and reporting is organized, processed, and recorded by complex, multi-national entities and (2) the manner in which accounting firms (and their networks) are organizing themselves, structuring their engagement teams, and innovating audit execution techniques.
>
> **Determining the Other Auditor's Compliance with Independence and Ethics Requirements.** Our recommendations support the goal of a risk-based approach that acknowledges the ability to rely on an effective shared system of quality control at the network level.
>
> **Dividing Responsibility for the Audit with Another Accounting Firm. We fully support the** continued practice of enabling registered accounting firms to make reference to the audit of an other auditor in the auditor's report. Our observations and recommendations serve to preserve and enhance a long-standing and necessary practice.

We offer further observations on other areas of the Proposal in Appendix 2 related to the auditor's performance requirements, as well as editorial comments in Appendix 3.

We commend the PCAOB Staff for devoting a significant portion of the May 18, 2016, Standing Advisory Group meeting ("SAG Meeting") to discussing matters relevant to the Proposal and hearing input from a variety of stakeholders. Furthermore, we recommend that the Board perform outreach with the International Auditing and Assurance Standards Board (IAASB), which has recently issued an Invitation to Comment, *Enhancing Audit Quality in the Public Interest — A Focus on Professional Skepticism, Quality Control and Group Audits* (the ITC), which includes a number of proposed actions to enhance the IAASB's standards related to quality control and group audits. As the Proposal has noted, many public accounting firms have based their methodologies on the IAASB's standards. The information obtained from the ITC (including identification of challenges that auditors face) and the comments from respondents may be useful to the PCAOB as it continues with its standard-setting activities. Similarly, the IAASB may also benefit from the perspectives of the PCAOB and views of commenters to the PCAOB's Proposal. Therefore, we encourage the PCAOB to engage constructively with the IAASB on this project.

* * *

D&T appreciates the opportunity to provide our perspectives on these important topics. Our comments are intended to assist the PCAOB in analyzing the relevant issues and potential effects of the Proposal. We stand ready to collaborate with the PCAOB on these important matters. If you have any questions or would like to discuss these issues further, please contact Dave Sullivan at 714-436-7788 or Megan Zietsman at 203-761-3142.

Very truly yours,

Deloitte & Touche LLP

Deloitte & Touche LLP

cc: James R. Doty, PCAOB Chairman

Lewis H. Ferguson, PCAOB Member

Jeannette M. Franzel, PCAOB Member

Jay D. Hanson, PCAOB Member

Steven B. Harris, PCAOB Member

Martin F. Baumann, PCAOB Chief Auditor and Director of Professional Standards

Mary Jo White, SEC Chair

Kara M. Stein, SEC Commissioner

Michael S. Piwowar, SEC Commissioner

James V. Schnurr, SEC Chief Accountant

Wesley R. Bricker, Interim Chief Accountant

Brian T. Croteau, SEC Deputy Chief Accountant

Russell G. Golden, FASB Chairman

APPENDIX 1

Definition, Roles, and Responsibilities of the Lead Auditor, Including Sufficiency of Participation

As articulated in the "Overall Comments" section of this letter, we recognize and support the Board's objectives and believe that sufficient oversight and involvement by the lead auditor in an audit that involves other accounting firms is critical to audit quality. We fully support strengthening requirements in the PCAOB's standards in this area. As noted in the Release, many accounting firms and networks, including the Deloitte network, have adopted requirements and guidance beyond the current requirements of PCAOB Auditing Standard 1205, Part of the Audit Performed by Other Independent Auditors. We believe embedding leading practices into the standards of the PCAOB is appropriate and will be beneficial to audit quality.

We believe that effective oversight of other auditors is achieved through a combination of the lead auditor's direct participation in the audit as well as other factors such as sufficient involvement in, and supervision of, the work of other auditors. As currently drafted, we believe the Proposal could be improved by:

- Defining lead auditor more broadly by enabling individuals from more than one registered accounting firm to perform certain supervisory audit activities and procedures in a multi-national audit when those activities and procedures may be better executed by other auditors who belong to a different accounting firm.

- Applying multiple criteria to demonstrate sufficient involvement as lead auditor, rather than having direct participation as the predominant criteria.

- Clearly enabling the lead auditor to follow a scalable, risk-based approach to determine the nature and extent of the necessary supervision of, and involvement with, other auditors.

- Recognizing that global networks may have established a shared system of quality control (i.e., network-level policies, processes, and controls) that, when operating effectively and monitored appropriately, should influence how the lead auditor achieves the requirements of the PCAOB's standards.

As currently drafted, there may be circumstances, based on the structure of the company being audited and the nature of its cross-border operations and financial reporting, where it will be difficult to identify a registered public accounting firm to serve as the lead auditor.

Lead Auditor — Definition. The definition of lead auditor (PCAOB Auditing Standard 2101, *Audit Planning* (AS 2101)). Paragraph A4(b) appears to preclude other auditors from fulfilling certain planning and supervisory roles and responsibilities designated in the Proposal, as such requirements are for the lead auditor to fulfill. At the same time, AS 1201 allows other auditors, as members of the engagement team (AS 2101.A3(a)), to assist the engagement partner in fulfilling the engagement partner's supervisory responsibilities identified in AS 1201. We believe this dichotomy may create confusion as to which supervisory activities the other auditor may or may not perform.

In addition, we believe that certain requirements assigned to the lead auditor may better be performed by an other auditor that is more familiar with the language, culture, business environment, and laws and regulations of the business unit or location (and is near the business unit or location).

- For example, we do not believe that in all cases the lead auditor would be in the best position to execute the requirements to gain an understanding of each [individual] other auditor's "knowledge of the SEC and PCAOB independence requirements and their experience in applying those requirements" (AS 2101.B4(a); see further comment in Independence section below). These procedures may be better performed either solely by the other auditor, or in combination with the lead auditor, as opposed to solely by the lead auditor.

- For example, in a diversified company, identifying and assessing the risks of material misstatement at individual locations or business units where an other auditor is being used is an activity that is best performed with involvement by both the lead auditor and the other auditor. Similarly, in a situation of a newly acquired subsidiary in an other auditor's jurisdiction, the other auditor may have much greater knowledge and understanding of the location and the risks of material misstatement that the subsidiary may pose to the consolidated financial statements than the lead auditor.

Another challenge with respect to the proposed definition of lead auditor being limited to a single registered accounting firm is that in certain cases, the engagement partner's team may be part of a different legal entity than the engagement partner. This may be due to local laws or regulations, such as those that require a separate accounting firm to be established within individual states or provinces within a country. Furthermore, the linkage of lead auditor to a registered accounting firm is not consistent with current practice or the existing ability under AS 1201 to allow individuals from different firms to assist the engagement partner with their AS 1201 supervisory responsibilities. We believe audit quality is best served by ensuring that the appropriate engagement team is in place, without undue emphasis being placed on the legal entities in which these resources reside.

We believe the clearest approach would be to define lead auditor as "the engagement partner, the engagement partner's team, and designated individuals from other auditors who are performing planning and supervisory activities." This would eliminate the categorical relationship of the lead auditor to a single registered accounting firm. An expanded definition also would enable the engagement partner to identify, using judgment and based on their knowledge and experience and on the facts and circumstances of the company and its operations, those members of the engagement team who are best suited to directing and supervising the identification, assessment, design, and performance of procedures to respond to risks of material misstatement, in addition to assessing considerations related to ethics and independence. This is of particular importance in a multi-tiered structure (i.e., where an other auditor is supervising the work of a second other auditor; for example, where there is a sub-consolidation of financial information in a region).

Sufficiency of Participation as Predominant Lead Auditor Criterion. The Proposal provides limited criteria for determining the lead auditor; specifically, the only criterion described in the Proposal is the risks of material misstatement associated with the portion of the company's financial statements for which the engagement partner's firm performs audit procedures. We are concerned that this one data point, coupled with the narrow definition of lead auditor discussed above, will create a challenge in identifying who may serve as lead auditor. This challenge could be partially mitigated if the changes to the definition and responsibilities of lead auditor that we have suggested above are reflected in the final amendments to the PCAOB's standards. Otherwise, we have concerns that focusing only on the quantitative metric of "coverage" of performing audit procedures that address risks may result in the inability for any registered accounting firm to meet the lead auditor definition and requirements to serve as such.

- For example, a company's operations are spread across business units/locations in 50 global jurisdictions where each location contains two percent of consolidated totals. In that case, in order to execute the audit, dozens of accounting firms will likely have to participate in the audit (e.g., due to local licensing and other laws and regulations that preclude accounting firms performing work in jurisdictions where they are not licensed). The engagement partner's firm may be selected based on factors such as the domicile of the company, its key decision makers, and the location of its consolidation activities and majority of shareholders. But that same firm may only directly audit small percentages of consolidated account balances. It is unclear whether in such a circumstance, under the Proposal, the engagement partner's firm (which is also the registered accounting firm) would meet the requirements of being the lead auditor.

- For example, a company may process most of its financial reporting transactions in one or more shared service centers located in jurisdictions outside the jurisdiction where the company is domiciled. Other accounting firms may perform the audit work at these shared service centers. Similar to the preceding example, the registered accounting firm in the jurisdiction where the company is domiciled may only directly audit a small portion of the consolidated financial statements. It is unclear whether in such a circumstance, under the Proposal, the registered accounting firm in the jurisdiction of the company's domicile could meet the requirements of being the lead auditor.

- For example, a company considered a foreign private issuer because of the requirements of the Securities and Exchange Commission (SEC) (including the domicile of the majority of its shareholders) may have the majority of its key decision makers and operations in a different jurisdiction than where the company is domiciled. The registered accounting firm in the jurisdiction of the company's domicile may not, based on licensing laws or regulations, be able to perform procedures in the jurisdiction where the majority of operations exist. It is unclear whether in such a circumstance, under the Proposal, the registered accounting firm in the jurisdiction of the company's domicile could meet the requirements of being the lead auditor.

We believe that there are multiple criteria that should be considered in determining which registered accounting firm can and should act as the lead auditor, beyond just the consideration of the risks of material misstatement associated with the portion of the company's financial statements audited by the engagement partner's firm relative to the portion audited by other auditors. These criteria should include not only factors related to the company (e.g., the legal domicile of the company, the location of the company books and records, the location of the company's executives and key decision makers) but also factors related to the auditor and audit (e.g., professional licensing requirements; the lead auditor's involvement with the other auditors; knowledge of, and experience with, the other auditor; the nature of the business unit or location audited by the other auditor; the business environment and culture in which the other auditor operates).

We believe these additional criteria would be helpful in identifying the lead auditor and in developing a risk-based framework for supervision of other auditors by the lead auditor and engagement team. If a shared system of quality control at the network level exists and is operating effectively, we believe reliance by the lead auditor on such commonalities should influence the nature, timing, and extent of direction and supervision of other auditors from the same network. A shared system of quality control, when operating effectively, provides shared methodologies and a common "language" and understanding that is distinct from other auditors outside of the network. We believe the standard should recognize this distinction as part of its risk-based, scalable approach to direction and supervision.

We believe the requirements in AS 2101.B2 should also be expanded to include the following considerations:

- **The involvement of the lead auditor.** We believe that in-depth involvement of the lead auditor in the audit (including the work performed by other auditors) is the most significant factor in determining that a quality audit will occur. The necessary level of lead auditor involvement in work performed by other auditors should be based on the factors in AS 2101.12, as well as on the lead auditor's assessment of the competence and expertise of the other auditors. For example, if an other auditor is performing audit procedures at a location with a relatively small percentage of the consolidated totals, but the location operates in an unstable economic environment and its financial information gives rise to significant or higher risks of material misstatement, we believe that it would be imperative that the lead auditor be meaningfully involved in the work performed by this other auditor.

- **The factors in AS 2101.12.** AS 2101.12 identifies factors that are relevant to the identification and assessment of risks of material misstatement associated with a location or business unit. In addition to these factors being important to identifying risks of material misstatement, they also provide relevant considerations for determining the necessary level of involvement by the lead auditor in the other auditor's work. For example, consider the scenario where the financial information at a business unit does not have any significant risks, the systems are highly centralized and automated, there is no history of errors, and the other auditors are competent and experienced. Even if the materiality of the business unit is significant in comparison to the consolidated entity, the lead auditor may determine that the necessary level of direct involvement in the work performed by the other auditor may be less extensive than locations with higher risks of material misstatement.

- **The competence and experience of the other auditor.** Understanding the knowledge, education, and skills of the other auditor is a critical factor in determining how involved the lead auditor needs to be in the work of the other auditor. Information such as past inspections results, the experience and knowledge of the other auditor (including whether the other auditor is part of the lead auditor's network), and the lead auditor's interactions with the other auditor all contribute to the lead auditor's determination as to whether the other auditor is capable of performing the requested work. Determination of the competence and experience of the other auditor will influence the lead auditor's involvement with the auditor:

    - For example, if the lead auditor determines that even though an other auditor has received appropriate training and appears sufficiently skilled, they have little experience performing audit procedures in the areas where the lead auditor is asking them to perform procedures, the lead auditor may determine it appropriate to be more heavily involved in the direction and supervision of the other auditor's work.

    - For example, if the lead auditor has extensive experience working with the other auditor, has first-hand knowledge of their skills, and has determined that the other auditor is capable of assisting the lead auditor with supervisory activities, the lead auditor may determine that the necessary level of involvement in the other auditor's work does not need to be as extensive as in the previous example.

- **The nature, timing, and extent of communication with the other auditor.**

    - We believe that ongoing two-way communication between those auditors who are responsible for supervisory activities (whether engagement partner, other members of the lead auditor's team, or other auditors) and other engagement team members underpins the performance of a quality audit and is therefore essential. Accordingly, we are supportive of enhancements to the PCAOB's standards that will drive appropriate and effective two-way communication. We also believe that it is the engagement partner's responsibility to determine that the appropriate individuals are involved in the supervisory activities of an audit. The appropriate nature, timing, and extent of communication between auditors should be risk-based and scalable, and therefore should be a function of many factors, including:

        - The experience the lead auditor has with working with the other auditor and the resulting understanding of their knowledge, education, and skills.

        - The results of PCAOB inspections, internal practice reviews (if within the same network), other inspection results, and their relevance to the other auditor's work.

        - The complexity and nature of judgments related to the procedures that the lead auditor has requested the other auditor to perform, including whether the other auditor is responsible for performing procedures related to significant risks.

        - If in place and effective, a shared system of quality control for network firms.

        - The business and cultural environment in which the other auditor operates.

        - The factors described in current AS 1201.6.

We therefore recommend that AS 2101.B2 be modified to give appropriate recognition to qualitative factors that are critical in determining the sufficiency of the lead auditor's participation in the audit.

Audit Documentation. Accounting firms continue to evolve and innovate in terms of organizational structure, engagement team composition, and audit execution techniques. This means that:

- Engagement team members may not all be from the same office (even when they are from the same firm).

- Some engagement team members may work remotely some, most, or all of the time.

- Audit tools and techniques are becoming more data-driven.

- Audit documentation and retention methods are increasingly paperless and virtual, in keeping with similar changes in company record retention.

Challenges with respect to access to audit documentation prepared by other auditors and audit documentation retention continue to exist, and are for the most part driven by jurisdictional laws and regulations, including privacy and confidentiality. As more jurisdictions implement mandatory firm rotation, the use of firms unaffiliated with the engagement partner's firm will likely increase, which will increase the challenges related to access to audit documentation. It is important that the PCAOB's auditing standards are able to be operationalized in an environment in which work structures and the nature of audit evidence will continue to change.

PCAOB Auditing Standard 1215, *Audit Documentation* (AS 1215), requires that "[t]he office of the firm issuing the auditor's report is responsible for ensuring that all audit documentation sufficient to meet the requirements of paragraphs .04–.13 of [AS 1215] is prepared and retained. Audit documentation supporting the work performed by other offices of the firm and other auditors must be retained by or be accessible to the office issuing the auditor's report" (AS 1215.18). The following identifies certain concerns that we have regarding changes to the PCAOB's standards related to audit documentation, and our suggested recommendations:

- We believe AS 1215.19A is overly focused on the "office issuing the report." We agree that it is reasonable to expect that a list of the work papers reviewed by the lead auditor or other auditors assisting the lead auditor be maintained; however, requiring this list to be maintained by the office issuing the auditor's report does not seem necessary as long as the list is accessible to the firm issuing the auditor's report. Furthermore, requiring this information to be prepared and maintained by the office issuing the auditor's report would likely be very burdensome and time consuming for many large audit engagements, especially during a period of time (i.e., near the auditor's report date) when the lead auditor's team would be most busy. Modifying the requirement in AS 1215.19A such that information is accessible to the firm issuing the auditor's report would also address our concerns related to the requirements in AS 1215.19, which requires that the office issuing the auditor's report obtain, review, and retain certain documents, which include those described in AS 1201.B2(c) and (d).

- The requirements in AS 1215.19 and 19A do not take into account an engagement team that has a multi-tiered structure; the judgments made by the engagement partner or lead auditor on establishing the most appropriate supervisory team; the engagement team's decisions on what constitutes appropriate audit evidence; and the structure of the company that is being audited. We believe it is appropriate for the lead auditor to consider how the company's financial information is consolidated in order to determine how to obtain sufficient appropriate audit evidence and how the audit documentation is best maintained (including obtaining the documentation discussed in AS 1215.19 and 19A); we believe the Proposal may be further enhanced to reflect these judgments. To illustrate this concept, we offer the following example:

- A company has subsidiaries in the United States, the UK, and other countries. The corporate parent is based in the United States.
- Accounting Firm #1 is the lead auditor, and audits the U.S. subsidiary and the corporate parent. Accounting Firm #2 is an other auditor, and audits the UK subsidiary.
- The engagement partner has determined that the work of Accounting Firm #2 on the UK subsidiary will be used as audit evidence. The items noted in AS 1215.19 and 19A will be obtained from Accounting Firm #2.
- The UK subsidiary has smaller subsidiaries in countries outside of the UK that consolidate into the UK subsidiary. Because of licensing and other laws and regulations, Accounting Firm #3 will be used to perform audit procedures on subsidiaries in countries other than the UK. The lead auditor is appropriately involved in the decisions that Accounting Firm #2 makes, and has determined that Accounting Firm #2 is appropriately supervising any other auditors that are being used.
- Accounting Firm #2 will obtain the items noted in AS 1215.19 and 19A from Accounting Firm #3, as they are best placed to review and understand the work that has been performed. However, given that Accounting Firm #2 is reporting to the lead auditor on behalf of Accounting Firm #2 and Accounting Firm #3, Accounting Firm #2 will provide the items noted in AS 1215.19 and 19A for the entities audited by Accounting Firm #2 and Accounting Firm #3. Therefore, it would not be necessary for the lead auditor to obtain and keep in the audit documentation of Accounting Firm #1 the items noted in AS 1215.19 and 19A in relation to Accounting Firm #3.

- We do not believe that audit work is performed by "an office"; however, AS 1219.19(e) requires that the office issuing the auditor's report reconcile financial statement amounts to the information underlying the consolidated financial statements. The lead auditor is responsible for determining that the financial statement amounts audited reconcile to the information underlying the consolidated financial statements; therefore, AS 1219.19(e) should be modified to reflect who has this overall responsibility.

Determining the Other Auditor's Compliance with Independence and Ethics Requirements

AS 2101.B4 requires that, in addition to confirming the other auditors' compliance with SEC and PCAOB independence and ethics requirements, the lead auditor is required to understand each other auditor's knowledge of the requirements and their experience in applying the requirements. We agree with the requirement to obtain a written representation from each other auditor that the other auditor is in compliance with SEC and PCAOB independence and ethics requirements. However, it is unclear whether the requirement is applicable to each individual of the other auditor, to the other auditor engagement team collectively, to the firm, or to the network. We believe there will be significant challenges if the requirement means that the lead auditor needs to evaluate the knowledge and experience of <u>every</u> individual of the other auditor.

For example, one interpretation of this requirement could be that the lead auditor needs to evaluate all of the ethics and independence learning material provided by the other auditor's firm or network. This may be particularly challenging when the other auditor is from a different network than the lead auditor due to the proprietary nature of the learning material developed or delivered by the other auditor to its personnel. The requirements of the PCAOB's Proposal may also be interpreted to mean that the other auditor must provide detailed information about other engagements performed by the other auditor, which may be subject to privacy and confidentiality laws and regulations. In addition, it is unclear whether every member of the other auditor engagement team is expected to provide detailed information on ethics and independence or whether there can be consideration of network-level controls and processes related to monitoring compliance with ethical and independence requirements. Meeting this detailed requirement for each individual across a large, complex, multi-national audit will be challenging, particularly if the lead auditor is unable to leverage a shared system of quality control within the lead auditor's network (if one is present and operating effectively).

We believe a risk-based approach to determining whether to obtain any additional understanding beyond the representation, and if so the nature and extent of that understanding, would be more appropriate. This approach would allow for auditor judgment to be applied and for the auditor's effort to be focused on the circumstances where additional information is important to judgments about the competence of the other auditor, or where contradictory evidence with respect to the other auditors' independence may present itself (as AS 2101.B4 already provides for). Furthermore, we believe the lead auditor should be able to rely on a shared system of quality control at the network level, when found to be operating effectively, to address independence and ethics requirements.

Therefore, we recommend clarifying in AS 2101.B4 to whom the requirement to obtain a written representation from is needed. However, we also believe that based on the engagement partner's professional judgment, including their knowledge of, and experience with, the other auditor, and the facts and circumstances, the lead auditor should be able to determine the additional performance requirements that are appropriate.

Dividing Responsibility for the Audit with Another Accounting Firm

We strongly support retention of the engagement partner's ability to make reference (i.e., divide responsibility) in the auditor's report to another auditor as governed currently by AS 1205. The ability for the lead auditor to divide responsibility for the audit with another accounting firm is a recognized and allowable approach in the United States. There are no compelling practice issues that we are aware of that would suggest a need to change an approach that has long been permitted. We do not believe that additional requirements, including supervisory requirements, are necessary to describe the responsibilities of the engagement partner's firm in situations in which the lead auditor divides responsibility for the audit. We believe that certain aspects of PCAOB Auditing Standard 1206, *Dividing Responsibility for the Audit with Another Accounting Firm* (AS 1206), are in conflict with the Board's goals with respect to divided responsibility, and we further describe our observations and recommendations to the Proposed Auditing Standard below.

The Principles Underlying Division of Responsibility. Currently, the decision to divide responsibility does not happen often and most often occurs when a significant transaction occurs toward the end of the fiscal year and the lead auditor determines that they will not have appropriate time to assume responsibility for the work performed by the other auditor, or where there is an equity method investment and there is an inability to obtain unfettered access to all people and information in order to assume responsibility for the work of the referred-to auditor. In such circumstances the auditor's report provides transparency to the users of the audited financial statements about the responsibility taken by the lead auditor, as often evidenced with language similar to: "Our opinion insofar as it relates to Subsidiary B is based solely on the opinion of the other auditor."

The Proposal, however, contains additional requirements that go beyond current practice and that may result in more opaqueness around the responsibility and activities the lead auditor is required to undertake with respect to the referred-to auditor, as well as the purpose of such activities. For example, the Proposal (AS 2101.14) requires that the lead auditor have discussions with the referred-to auditor to identify and assess risks of material misstatement associated with the location. As another example, AS 2401.53 requires that the lead auditor discuss with the referred-to auditor the extent of work that needs to be performed to address certain fraud risks.

This greater level of involvement by the lead auditor in the work of the referred-to auditor diminishes the "clear line" with respect to responsibility and what the lead auditor does or does not know about the financial information at that location. For example, based on the discussion mentioned in the previous paragraph, would the lead auditor be compelled to evaluate how the referred-to auditor responded to an identified risk of material misstatement? At what point would the lead auditor be perceived to have gone beyond basing the opinion as it relates to a particular subsidiary or equity method investee “solely” on the referred-to auditor’s opinion? The predominant factors influencing the decision to divide responsibility today are primarily timing (e.g., late-year acquisitions) and access (e.g., equity method investments that are not controlled by the company being audited). The increase in the required extent of involvement in the work of the referred-to auditor, and a greater understanding of the referred-to auditor’s response to risks, may result in division of responsibility for different factors than exist today. We are not sure whether the Board intended such an outcome. This may be why the Proposal does not carry forward existing guidance (AS 1205.06) which provides considerations in determining whether to make reference to another auditor. However, we find this guidance is used in practice today and we believe it is helpful and should be retained.

Dividing Responsibility when Different Financial Reporting Frameworks Have Been Used. We note the Proposed Auditing Standard eliminates the current option of dividing responsibility when a different financial reporting framework has been used. This option is used in practice today and is recognized by the SEC. The SEC’s Financial Reporting Manual (FRM) states “…financial statements of subsidiaries or investees of a foreign private issuer are sometimes prepared in differing GAAP’s than that of the registrant. The audit report should be clear as to which auditor is taking responsibility for auditing the conversion of the GAAP of the subsidiary or investee to the GAAP of the issuer, as well as auditing the U.S. GAAP reconciliation” (FRM 6820.7). As far as we are aware, there have been no recognized practice issues or challenges arising from dividing responsibility when a different financial reporting framework has been used.

Given the broad use of International Financial Reporting Standards (IFRS) globally, in a multi-national group audit where subsidiaries have statutory audit requirements, often the financial information of the company is kept in IFRS for statutory audit purposes and then converted to U.S. GAAP for consolidated reporting purposes. With an expected turnover in subsidiary auditors arising from mandatory firm rotation in certain jurisdictions, we believe that an increase in dividing responsibility with a subsidiary auditor may occur. We believe in such a circumstance, where local GAAP is not U.S. GAAP, continuing the current practice of being able to divide responsibility when a different financial reporting framework is used is important.

APPENDIX 2

The comments noted in this section are intended to clarify the auditor performance requirements to avoid misinterpretation.

Obtaining the Other Auditor's Written Report. The Proposal could clarify what will be sufficient for the lead auditor to obtain to satisfy the requirement in AS 1201.B2(d). For example:

- Is it sufficient for the lead auditor to receive only the items noted in AS 1215.19 from the other auditor, provided the receipt of such items results in the lead auditor being appropriately informed about the work performed and the related results?

- Is it sufficient for the lead auditor to obtain only the working papers from the other auditor and not a summary report, provided the receipt of such working papers results in the lead auditor being appropriately informed about the work performed and the related results? For example, if the other auditor performs only an observation of an inventory count, would it be sufficient for the other auditor to provide all working papers to the lead auditor (assuming that the working papers include information such that the lead auditor is appropriately informed about the work performed and the related results)?

Specifically related to Question 53 in Appendix 4, while superseding AI 10 generally seems appropriate, paragraphs .11-.17 are helpful in providing consistency related to lead auditor and other auditor communications; this guidance can be especially helpful when the other auditor is not from the same network as the lead auditor. We recommend retaining or developing new example communications that may be used, together with an explanation of when different types of communications might be more appropriate. For example, we believe it would be helpful for additional clarity to be provided about the circumstances that may necessitate or require an opinion-style report from the other auditor to the lead auditor.

Discussions with Other Auditors. AS 2101.14 requires the lead auditor to discuss with and obtain information from the other auditors or referred-to auditors, as necessary, to identify and assess the risks of material misstatement to the consolidated financial statements associated with the location or business unit. However, the lead auditor may initially identify and assess risks *prior* to determining the locations where procedures will be performed to respond to those risks (and therefore prior to identifying an other auditor). It is important that the standard recognize the iterative nature of the planning process to enable risk assessment activities and other auditor outreach to occur appropriate to the facts and circumstances and less in a seemingly required sequential manner.

Specialized Skill or Knowledge. Clarity is needed as to the purpose for the proposed wording in AS 2101.16, which states "[t]he auditor should determine whether specialized skill or knowledge, including relevant knowledge of foreign jurisdictions, is needed to perform appropriate risk assessments, plan or perform audit procedures, or evaluate audit results." There are many examples of where specialized skills may be needed and the current wording allows for appropriate consideration. Additional clarity as to why there is an added focus on knowledge of foreign jurisdictions is needed, especially in light of this requirement being applicable to "the auditor" (e.g., the auditor in a foreign jurisdiction is now required to consider whether knowledge of the foreign jurisdiction in which they practice is necessary). While Page A4-25 of the Release implies that the reasoning for this change is to assist with gaining an understanding of the qualifications of the other auditor's supervisory personnel (and who assist the lead auditor with planning or supervision), the explanatory phrase added to AS 2101.16 does not appear to achieve this goal.

Changes in Audit Procedures. AS 1201.B2 (b) states that the lead auditor should "determine whether any changes to the procedures are necessary, discuss such changes with the other auditor, and communicate them in writing to the other auditor." Requiring that changes in the nature, timing, and extent of audit procedures be in writing in all cases seems overly onerous and inconsistent with current practice of how the engagement partner (or engagement team members who assist with fulfilling the engagement partner's responsibility pursuant to AS 1201) would manage communications about necessary changes in work performed by engagement team members. Determining whether changes to audit procedures are necessary and making the necessary communications often involves a collaborative effort between engagement team members and results in direct changes to related working papers (versus a separate document identifying the change, in addition to the change in the related working paper). As the lead auditor has the ability to review working papers of the other auditor, the lead auditor has the ability to determine that changes to audit procedures were appropriately incorporated; therefore, having an additional layer of documentation seems unnecessary.

Recommended Changes to Provide Clarity When Dividing Responsibility. In light of our analysis of the Proposed Auditing Standard, we have identified several areas where improvements may be warranted to provide further clarity for auditors:

- AS 1206.2 states that "[t]he objectives of the lead auditor are to: (1) communicate with the referred-to auditor and determine that audit procedures are properly performed with respect to the consolidation or combination of accounts in the company's financial statements and…" This phrasing implies that the object of the lead auditor is to communicate with the referred-to auditor as it relates to the audit procedures to be performed with respect to the consolidation, which we do not believe is the intent. We recommend that the PCAOB consider modifying the objective to make it clear that the objective of the lead auditor is to perform procedures that are necessary in order to make reference to the report of the referred-to auditor in the lead auditor's report, and make the necessary disclosures in the lead auditor's report.

- AS 1206.08(b) states that the lead auditor's report should "[i]dentify the referred-to auditor by name and refer to the auditor's report of the referred-to auditor when describing the scope of the audit and when expressing an opinion." Given that the referred-to auditor's report is included in the filing, it does not seem necessary to identify them specifically by name in the auditor's report. We recommend the PCAOB re-consider the necessity of this requirement.

- AS 1206.08(c) states that the lead auditor's report should "[d]isclose the magnitude of the portion of the company's financial statements, and if applicable, internal control over financial reporting, audited by the referred-to auditor." Furthermore, the second note to AS 1206.1 states that "[t]his standard applies when the lead auditor divides responsibility for the audit with one or more referred-to auditors. When there is more than one referred-to auditor, the lead auditor must apply the requirements of paragraphs .03 through .09 of this standard [AS 1206] in relation to each of the referred-to auditors individually." In current practice, if there is more than one referred-to auditor, the auditor's report generally combines the disclosure about the magnitude of the portion of the company's financial statements and, if applicable, internal control over financial reporting, for all referred-to auditors, which has been a longstanding and accepted practice with auditor's reports filed with the SEC. We recommend that the Board clarify whether the intention is to require that this information be disclosed for each referred-to auditor and consider, in making this clarification, how this would conflict with current practice and what is currently acceptable to the SEC. In addition, we request that the PCAOB include an illustrative report example when multiple referred-to auditors exist in the final standard.

- AS 1206 does not appear to have sufficient guidance on dividing responsibility for an audit of internal control over financial reporting, as the Proposed Auditing Standard appears to be heavily focused on the financial statement audit. Some examples that lack reference to audits of internal control over financial reporting include:

    - AS 1206.1: Note: This standard applies when the lead auditor divides responsibility for the audit with one or more other auditors.

- AS 1206.4: The lead auditor should communicate to the referred-to auditor, in writing, the lead auditor's plan to divide responsibility for the audit with the referred-to auditor pursuant to this standard and other applicable PCAOB standards.

It would be more appropriate for the reference to "the audit" in the above examples to refer to both the financial statement audit and the audit of internal control over financial reporting given that the auditor can divide responsibility for the financial statement audit or the audit of internal control over financial reporting. Alternatively, when phrases such as "the audit" are used, they could be footnoted and clarified that such phrases refer both to the audit of the financial statements and the audit of internal control over financial reporting, if applicable.

- AS 1206.01 states "[t]his standard establishes requirements for the lead auditor regarding dividing responsibility for the audit of the company's financial statements and, if applicable, internal control over financial reporting with a referred-to auditor." However, we have observed that throughout the Proposal there are auditor performance requirements when a referred-to auditor exists (e.g., Appendix B to AS 1201). Accordingly, we recommend that the Board clarify in the Proposed Auditing Standard that requirements exist in other PCAOB standards related to when the lead auditor divides responsibility and that an appendix or footnote reference be added that identifies such other requirements.

- It is unclear as to why in situations where the lead auditor is unable to divide responsibility with another accounting firm, the lead auditor's performance requirements are limited only to the three options presented in AS 1206.7. We believe that another alternative is to allow for the lead auditor to identify a different other auditor and appropriately apply the requirements of the Proposal when using an other auditor. Therefore, we recommend that this additional alternative be included in AS 1206.7.

- We recommend that in AS 1206, Appendix B, an example is provided for the situation in which the lead auditor is making reference to a referred-to auditor for the financial statement audit only, and the lead auditor's report on the financial statements is separate from the lead auditor's report on internal control over financial reporting (given that this is the most common scenario that is encountered).

APPENDIX 3

AS 1201.B(2)(b)	We recommend making the following changes to improve readability and clarify the meaning: Note: Based on the necessary extent of supervision of the **second** other auditor's work by the lead auditor, it may be necessary for the lead auditor (rather than the other auditor **who is assisting the lead auditor in supervising the second other auditor**) to determine the nature, timing, and extent of procedures to be performed.
AS 1206.03	We recommend making the following changes to improve readability and clarify the meaning: The lead auditor should determine that audit procedures are performed, in coordination with the referred-to auditor**, as necessary,** to test and evaluate…”
AS 1206.7	It is unclear that the circumstances described in AS 1206.7 exist in situations where the lead auditor originally expected to divide responsibility with the referred-to auditor, and has subsequently determined that this is not possible. Therefore, we recommend making the following changes: In situations in which the lead auditor **originally planned to divide responsibility for the audit with another accounting firm, but has subsequently determined that this is not possible** ~~is unable to divide responsibility with another accounting firm~~ (e.g., due to concerns about the competence or independence of the referred-to auditor), the lead auditor should:…
AS 1206.08(c)	We recommend the following change to AS 1206.08(c), given that the second sentence states “[t]his may be done,” and therefore using “or” instead of “and” provides flexibility as to the criteria used (as total assets and total revenues are not always the criteria used): Disclose the magnitude of the portion of the company’s financial statements, and if applicable, internal control over financial reporting, audited by the referred-to auditor. This may be done by stating the dollar amounts or percentages of total assets, total revenues, **or** ~~and~~ other appropriate criteria necessary to identify the portion of the company’s financial statements audited by the referred-to auditor.
AS 1206, Footnote 1	We recommend making the following changes to clarify the meaning: The term “company’s financial statements,” as used in this standard, describes the financial statements of a company that include—through consolidation or combination—the financial statements of the company’s business units**, as well as the financial information related to equity method investments**.
AS 1206.B1	We recommend the following changes to AS 1206.B1, the first paragraph of the Introductory Paragraph, to improve readability and to clarify that the statement of comprehensive income is not part of stockholders’ equity: We have audited the accompanying consolidated balance sheets of X Company and subsidiaries as of December 31, 20X3 and 20X2, and the related consolidated statements of operations, **comprehensive income**, **and** stockholders’ equity ~~and comprehensive income,~~ and cash flows for each of the years in the three-year period ended December 31, 20X3.
AS 1206.B1	We recommend the following changes to AS 1206.B1, the Opinion Paragraph, to address grammar inconsistencies (first sentence) and to recognize that the opinion on the effectiveness of internal control over financial reporting is only for one year (second sentence): In our opinion, based on our audits and the report of Firm ABC, the consolidated financial statements referred to above present fairly, in all

	material respects, the financial position of X Company and subsidiaries as of December 31, 20X3 and 20X2, and the results of ~~its~~ **<u>their</u>** operations and ~~its~~ **<u>their</u>** cash flows for each of the years in the three-year period ended December 31, 20X3, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, based on our audit~~s~~ and the report of Firm ABC, X Company and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 20X3, based on [Identify control criteria, for example, "criteria established in Internal Control—Integrated Framework: 2013 issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)"].
AS 1206.B1	We recommend the following changes to AS 1206.B1, the second Introductory Paragraph, to better reflect that the auditor's opinion is on the effectiveness of internal control over financial reporting: We did not audit the financial statements and internal control over financial reporting of B Company, a wholly owned subsidiary, whose financial statements reflect total assets constituting XX percent and YY percent of consolidated assets as of December 31, 20X3 and 20X2, respectively, and total revenues constituting XX percent, YY percent, and ZZ percent of consolidated revenues for the years ended December 31, 20X3, 20X2, and 20X1, respectively. Those financial statements and **<u>B Company's</u>** internal control over financial reporting were audited by Firm ABC whose report[s] has[have] been furnished to us, and our opinions, insofar as they relate to the amounts included for B Company and **<u>the effectiveness of</u>** its internal control over financial reporting, are based solely on the report[s] of Firm ABC.
AS 1215.19A	We recommend the following change to clarify that retention of work papers is by the office (as is consistent with AS 1215), not the lead auditor: Audit documentation of the **<u>firm</u>** ~~office~~ issuing the auditor's report must contain a list of additional work papers of other auditors (beyond those described in paragraph .19 [of AS 1215]) that were reviewed by the lead auditor but not retained by the **<u>firm issuing the auditor's report</u>** ~~lead auditor~~, if any.
AS 1215.18, AS 1215.19, and AS 115.19(e)	It unclear as to what the reference to "other offices of the firm" means (i.e., offices of what firm?) in certain paragraphs in AS 1215. We recommend making the following changes to improve readability and clarify the meaning (see additional comments on AS 1215 in Appendix 2): AS 1215.18: The office of the firm issuing the auditor's report is responsible for ensuring that all audit documentation sufficient to meet the requirements of paragraphs .04-.13 of this standard is prepared and retained. Audit documentation supporting the work performed by other offices of the firm **<u>issuing the auditor's report</u>** and other auditors must be retained…. AS 1215.19: In addition, the office issuing the auditor's report must obtain, and review and retain, prior to the report release date, the following documentation related to the work performed by other offices of the firm **<u>issuing the auditor's report</u>** and other auditors:… AS 1215.19(e): Sufficient information to enable the office issuing the auditor's report to agree or to reconcile the financial statement amounts audited by other offices of the firm **<u>issuing the auditor's report</u>** and other auditors to the information underlying the consolidated financial statements.

AS 2101.A3(a)(2)	AS 2101.A3 (a)(2) states that the engagement team includes "specialists whose work is used on the audit and who are employed by the lead auditor or another accounting firm participating in the audit." It is unclear as to how specialists whose work is used on the audit should be considered when they are neither employed nor engaged by the lead auditor or another accounting firm participating in the audit. For example, a specialist (e.g., an IT Specialist) may be a Partner in the same firm as the lead auditor; in such a case, they would not be considered to be "employed by the lead auditor," nor would they be an "engaged specialist." We recommend the following change: a. Engagement team includes – … (2) Specialists whose work is used on the audit and who are **partners, principals, shareholders, or employees of the registered public accounting firm issuing the auditor's report** ~~employed by the lead auditor~~, or **of** another accounting firm participating in the audit
AS 2101.A4	We recommend making the following changes in order to acknowledge that there may be instances where an auditor's report may not ultimately be issued: Lead auditor – (a) The registered public accounting firm **engaged to issue** ~~issuing~~ the auditor's report on the company's financial statements and, if applicable, internal control over financial reporting; and (b) The engagement partner and other engagement team members who: (1) are partners, principals, shareholders, or employees of the registered public accounting firm **engaged to issue** ~~issuing~~ the auditor's report and (2) assist the engagement partner in fulfilling his or her planning or supervisory responsibilities on the audit pursuant to AS 2101 or AS 1201.
AS 2101.A5	We recommend making the following changes in order to conform to language used in the definition of engagement team: Other Auditor – (a) A member of the engagement team who is not a partner, principal, shareholder, or employee of the **registered public accounting firm engaged to issue**~~ing~~ **the auditor's report**~~lead auditor~~; and (b) A public accounting firm, if any, of which such engagement team member is a partner, principal, shareholder, or employee.
AS 2101.A6	We recommend making the following changes to the definition of referred-to auditor, which is consistent with the terminology used in the Note to AS 2101.A4 and current practice: Referred-to Auditor – A public accounting firm, other than the **engagement partner's registered accounting firm**~~lead auditor~~, that performs an audit of the financial statements and, if applicable, internal control over financial reporting of one or more of the company's business units and issues an auditor's report in accordance with the standards of the PCAOB to which the lead auditor makes reference in the lead auditor's report on the company's financial statements and, if applicable, internal control over financial reporting.
AS 2101.B2	We recommend making the following changes to improve readability and clarify the meaning: In making this determination, the engagement partner should take into account the risks of material misstatement associated with the portion of the company's financial statements for which the engagement partner's firm performs audit procedures (which includes considering the ~~portion's~~ materiality **of the portion of the company's financial statements for which the engagement partner's firm performs audit procedures**), in comparison with the portions for which the other auditors perform audit procedures or the portions audited by the referred-to auditors.

AS 2101.B4	We recommend making the following changes to improve readability and clarify the meaning: In an audit that involves other auditors, the lead auditor should determine each other auditor's compliance with the SEC and PCAOB independence and ethics requirements **<u>in the context of the engagement</u>** by…
Use of term "public accounting firm"	Generally, the Proposal uses the term "accounting firm" or "registered public accounting firm." However, in certain instances the term "public accounting firm" is used. If there is not an intended difference in the use of these terms, we recommend that the Proposal refer consistently to "accounting firm" or "registered public accounting firm." We recommend making this change to the following paragraphs (and also recommend that the Board consider whether additional instances of the term "public accounting firm" need to be changed): • AS 2101.A5(b) and A6 • AS 1201.A5 • AS 1215 Footnote 4 • AS 1206.A3 • AS 2201.C1.