Serving Investors, Public Company Auditors & the Markets

July 29, 2016

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

Re: PCAOB Release No. 2016-002, Rulemaking Docket Matter No. 042: *Proposed Amendments Relating to the Supervision of Audits Involving Other Auditors and Proposed Auditing Standard – Dividing Responsibility for the Audit with Another Accounting Firm*

Dear Office of the Secretary:

The Center for Audit Quality (CAQ) is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high quality performance by public company auditors, convenes and collaborates with other stakeholders to advance the discussion of critical issues requiring action and intervention, and advocates policies and standards that promote public company auditors' objectivity, effectiveness, and responsiveness to dynamic market conditions. Based in Washington, DC, the CAQ is affiliated with the American Institute of CPAs.

The CAQ welcomes the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the Board) *Release No. 2016-002: Proposed Amendments Relating to the Supervision of Audits Involving Other Auditors* (proposed amendments) *and Proposed Auditing Standard – Dividing Responsibility for the Audit with Another Accounting Firm* (collectively, the Proposal). This letter represents the observations of the CAQ, but not necessarily the views of any specific firm, individual, or CAQ Governing Board member.

The CAQ shares the PCAOB's goal of improving audit quality and supports the PCAOB's consideration of revisions to auditing standards guiding the supervision of other auditors as public companies and their auditors become increasingly global. In this letter, we offer for the Board's consideration our views regarding certain topics outlined in the Proposal. Our views are organized into the following sections:

I. General Views
II. Key Themes
III. Comments on Appendix 1 - *Proposed Amendments Relating to the Performance of Audits Involving Other Auditors*
IV. Comments on Appendix 2 - *Proposed AS 1206: Dividing Responsibility for the Audit with Another Accounting Firm*
V. Other Comments

I. General Views

The CAQ agrees that current professional standards regarding the use of other auditors should be the subject of outreach and enhancement. Changes in the business environment, company organizational structures, accounting firm structures, financial reporting standards, and regulatory reporting requirements have all contributed to the need to revisit current standards. We agree the level of interaction among the lead auditor and other auditors is important to audit quality. Overall, we support actions that lead to increased communications among the lead auditor and other auditors that promote audit quality and the Board's focus on enhancing and refining requirements in this area.

We understand that the intent of the Proposal is for the approach to supervision of other auditors by a lead auditor be risk-based.[1] We support this approach, as it would provide the lead auditor the ability to exercise professional judgment and align supervisory efforts with the areas of higher risk. We believe there are additional opportunities to promote a risk-based supervision model by:

- focusing on significant risks to the consolidated financial statements that are present at the component level and other risks the lead auditor judges necessary;

- clarifying how the lead auditor can exercise professional judgment in varying the nature, timing, and extent of supervisory activities based on the significance of the assessed risks of material misstatement being addressed by the other auditor, the lead auditor's understanding of the knowledge, skill and ability of other auditors who assist the engagement partner with supervision; and

- considering the presence and effectiveness of a firm's system of quality control.

As noted in the *Current Practice* Section II.B of the Proposal, many larger and medium-sized firms have expended significant effort over the past few years to develop methodologies that are responsive to inspection findings, as well as that comply with International Standard on Auditing 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* (ISA 600), in addition to the standards of the PCAOB. The requirements of ISA 600 are more detailed, and, as a result, those firms are often performing audit procedures that go beyond the current requirements of extant PCAOB Auditing Standard 1205 (currently AU sec. 543), *Part of the Audit Performed by Other Independent Auditors* (AS 1205). However, other firms may comply only with the existing requirements of AS 1205. In considering the nature of certain requirements in the Proposal, even firms currently going beyond the extant standard will be impacted; as such, we believe it is important for the Board to recognize that certain proposed requirements will have a pervasive impact on the level of effort and costs for many, if not all, audits involving other auditors, both as it relates to implementation and ongoing efforts.

II. Key Themes

<u>Evaluation of the Other Auditor</u>

The Proposal includes the other auditor in the definition of the engagement team, and sets forth that the extent of supervision is expected to be determined in part by factors detailed in paragraph .06 of PCAOB Auditing Standard 1201 (currently Auditing Standard No. 10), *Supervision of the Audit Engagement* (AS 1201). One such factor is the knowledge, skill and ability of *each* engagement team member, which includes the other auditor.[2] This determination by the lead auditor is a key element in applying a risk-based approach to

[1] Page 5 of the Proposal
[2] AS1201.06(d)

the supervision of other auditors. However, we are concerned that certain requirements in the Proposal are prescriptive such that it is not clear how the lead auditor will be able to vary the nature, timing, and extent of supervision based on the significance of the assessed risks of material misstatement being addressed by the other auditor, and the understanding of the knowledge, skill and ability of other auditors who assist the engagement partner with supervision. The Board should consider identifying factors for the lead auditor to consider when evaluating the knowledge, skill and ability of the other auditor[3], and modifying Appendix B to AS1201 to clarify how such factors can affect the extent to which activities required by Appendix B are performed. We believe this would assist the lead auditor in determining the appropriate level of supervision of other auditors and reduce the risk of a one-size-fits-all application of the Proposal.

Further, the Proposal acknowledges that the Board makes no distinction between an in-network and unaffiliated firm when considering the extent of supervision required by the lead auditor. We believe this lack of distinction would likely create a significant amount of additional effort and cost when in-network firms are involved, which may not be warranted in many cases and would therefore not have a commensurate benefit to audit quality. Our specific suggestions as they relate to proposed Appendix B of PCAOB Auditing Standard 2101 (currently Auditing Standard No. 9), *Audit Planning* (AS 2101) and AS 1201 are detailed in section III of this letter.

System of Quality Control

As it relates to evaluating the other auditor's compliance with independence and ethics—as well as their qualifications[4]—and in anticipation of performing certain procedures required by the Proposal, consideration of a firm's system of quality control is crucial. The Proposal does not provide for such consideration, which we believe is a critical omission. Ignoring the ability to place reliance (as appropriate) on a firm's system of quality control would cause increased effort and related cost at an engagement team level, as the burden would fall directly on each individual engagement team to meet the requirements of the Proposal. This would likely involve a duplication of effort between the lead auditor and the other auditor related to evaluating each other auditor's knowledge of the SEC and PCAOB independence and ethics requirements and technical training, among other relevant qualifications. A firm's system of quality control may vary based on legal structure and policies and procedures in place at the lead auditor firm level, and in some cases, at a global network level. Therefore, we believe it would be appropriate for the Proposal to be more clear that the lead auditor may place reliance on a firm's system of quality control, when appropriate.

Lead Auditor Determination

The determination regarding sufficiency of participation of the lead auditor in the Proposal is an important concept. We support the Board's objective that an auditor should not issue an audit opinion when the lead auditor had minimal or insufficient involvement in supervising the work performed by other auditors. There could be, however, a variety of circumstances when the determination of which firm would meet the requirements to be the lead auditor may not be possible, and which may therefore give rise to practical difficulties in applying the requirements. Examples of these circumstances are detailed in section III of this letter.

Responsibility of the Other Auditor for Their Own Work

We support the clarification in the Proposal regarding the lead auditor's responsibility for determining that adequate audit work is performed and sufficient appropriate audit evidence is obtained to support the report to be issued by the lead auditor. However, extant AS 1205.03 states that, "regardless of the principal auditor's

[3] In accordance with paragraph .06 and proposed paragraph .B1 of AS1201
[4] As required by proposed paragraph .B4 of AS2101

decision, the other auditor remains responsible for the performance of his own work and for his own report." This statement and overall concept is not present in the Proposal. Even with additional supervisory responsibility by the lead auditor, it is our view that the other auditor, and particularly the senior engagement team members of the other auditor, should continue to bear responsibility for his/her own work and therefore we recommend that the language from extant AS 1205.03 be retained. Doing so would not diminish the overall objective of the Proposal with respect to the overall responsibility of the lead auditor, but it would serve to re-emphasize the responsibilities and expectations of the other auditor.

Further, we note that the Proposal is focused solely on the requirements of the lead auditor. We suggest that the Board consider developing a risk-based, principles-based framework for the other auditor within the Proposal to clarify and enhance the responsibilities of the other auditor in how they communicate and interact with the lead auditor. The Proposal notes that to mitigate the potential consequence that the other auditor could feel less accountable[5], the Board proposed requiring the lead auditor to obtain from the other auditor a written report describing the other auditor's procedures, findings, conclusions, and, if applicable, opinion. We believe that the reporting provided by the other auditor to the lead auditor plays a significant role in communicating the other auditor's responsibilities. However, there is currently a wide divergence in practice as to when reports are provided and the form and content of such reports. We believe the Board should develop guidance on the content and format of inter-firm reports to promote consistency and help lead auditors understand the work performed and the responsibility taken by the other auditor.

III. Comments on Appendix 1 - *Proposed Amendments Relating to the Performance of Audits Involving Other Auditors*

Definitions

We agree with the lead auditor concept in the Proposal and support the goal of promoting consistency across the profession as to how this designation is determined and applied. However, as currently defined, individuals are part of the lead auditor only if they are employees of the registered accounting firm signing the auditor's report. We believe this is too limiting and may result in inconsistencies in application given contemporary practices and firm structures. There are multiple scenarios where determination of the lead auditor could be problematic under the proposed definition, and those scenarios could vary based on firm and network legal structure (see Appendix for examples). We suggest the definition of lead auditor be broadened to include those engagement team members who work alongside and in the same capacity as personnel on the engagement team that are employed by the lead auditor, which is consistent with a principles-based approach to supervision.

The definition of other auditor refers to a member of the engagement team, suggesting an individual, and not just the firm. As a result of this definition, it appears the lead auditor would be required to perform certain procedures for individual members of the other auditor's team, which may result in unnecessary effort and cost; this is further discussed in the "*Independence and Ethics"* section below.

Amendments to AS 2101

Lead Auditor Determination

We commend the Board for providing examples regarding the lead auditor's determination of whether participation is sufficient to serve as lead auditor.[6] Nevertheless, we believe the underlying notion of

[5] Page 40 of the Proposal
[6] Pages A4-15 through A4-18 of the Proposal

"participation" within the Proposal is subject to interpretation and could result in inconsistent outcomes. For example:

> Example 1 - Company A is domiciled in the United States (U.S.). Most of the officers and directors are based in the U.S. However, substantially all the operations take place in Country B, including all accounting and back office functions. Further, substantially all day-to-day accounting and financial reporting decisions are made in Country B with direction from U.S.-based management. Accounting Firm X in the U.S. cannot meet the sufficiency requirement for lead auditor under the proposed amendments. However, Accounting Firm Y from Country B cannot meet the legal and accountancy requirements to issue an auditor's report to Company A, because Accounting Firm Y cannot meet the licensing requirements in the U.S. Similarly, Accounting Firm X may not be able to perform audit procedures in Country B because of licensing or other laws and regulations governing public accounting in Country B. We believe if Accounting Firm Y is under the direct supervision of Accounting Firm X and there is sufficient supervision and review by Accounting Firm X, Accounting Firm X can issue the report as lead auditor.
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> Example 2 - Engagement team composition could include an engagement partner and manager (collectively Auditor X) from Firm X (located in Country A) who directly supervise engagement staff (Auditor Y) from Firm Y (located in Country B) on the audit of an issuer where the significant or higher risks of material misstatement are substantially audited by the combined team in Country B. We believe if Auditor Y are under the direct supervision of Auditor X and there is sufficient supervision and review by Auditor X, then Auditor X can issue the report as lead auditor.

The above are two examples of situations where we believe that the lead auditor may be sufficiently involved in the work performed by the other auditor such that the other auditor becomes an extension of the lead auditor and is not working independently without supervision. In these cases, the lead auditor might therefore be considered to be "participating" even though another firm is involved. In order to address scenarios such as those set forth above, it would be beneficial for the Board to further clarify what is meant by the phrase "engagement partner's firm performs audit procedures" in AS 2101.B2.

Independence and Ethics

As currently proposed, we believe the lead auditor would be required to obtain an understanding of *each* team member's knowledge of independence and ethics and to obtain a written representation from *each* individual engagement team member of the other auditor; which we believe would be an undue burden on the lead auditor. Obtaining this information would be complicated, and costly, especially when the other auditor is not part of the lead auditor's network and in jurisdictions where privacy laws may impede sharing of detailed information about an individual (e.g., description of ethics learning courses taken by a staff member of the other auditor). This would also require the lead auditor to develop a process to monitor changes in the engagement team at the engagement team level of the other auditor, instead of relying on an understanding of the firm's process and system of quality control and allowing the other auditor's firm to monitor individual compliance. Today, these activities are performed at the firm level, with the other auditor's engagement partner confirming to the lead auditor on behalf of the firm and team. We believe that this approach is likely more effective and more cost-efficient. If our understanding is inconsistent with the Board's intent, we suggest that the Board clarify the requirements of AS 2101 Appendix B to reflect that the reference to other auditor is intended to refer to the other auditor's firm or to the other auditor's engagement team as a whole.

<u>Amendments to AS 1201</u>

The Proposal is unclear as to how the level of activities required by the lead auditor to supervise other auditors might vary in different circumstances. The Proposal could be interpreted as requiring the lead auditor to perform certain supervision procedures regardless of the lead auditor's understanding of the knowledge, skill and ability of other auditors who assist the engagement partner with supervision and as such, does not appear to enable the lead auditor to vary the extent of supervision of the other auditor as appropriate based on the assessed risk. We believe the proposal should clearly provide for how the lead auditor can vary the nature, timing and extent of involvement and supervision based on their understanding of the knowledge, skill and ability of other auditors who assist the engagement partner with supervision.

If the knowledge, skill and ability of the other auditor is not appropriately considered in determining the supervisory approach, the lead auditor may spend time that is unwarranted reviewing the work of a competent other auditor. This may result in less time for the lead auditor to focus on higher risk areas, which could therefore have a detrimental effect on audit quality. The PCAOB seems to acknowledge this risk on page 41 of the Proposal, which states that "because lead audit personnel would be required to perform additional supervisory responsibilities, such team members might have less time to perform other work on the same engagement. This could potentially reduce the likelihood that the auditor detects material misstatements ... and could potentially lead to inefficient allocation of audit resources."

We believe the Board should identify factors for the lead auditor to consider when evaluating the knowledge, skill, and ability of the other auditor. Factors could include: the lead auditor's knowledge of and experience working with the other auditor; the composition of the other auditor's team (such as the inclusion of a U.S. audit partner or manager on secondment); the existence of a shared or similar regulatory environment between the lead auditor and the other auditor; the results of previous audits performed by the other auditor under the lead auditor's supervision; the lead auditor firm's system of quality control as it relates to using another auditor from the same network[7]; and the other auditor's industry experience.

We acknowledge AS 1201.4 allows the engagement partner to seek assistance from appropriate engagement team members, and this appears to include partners and senior managers of the other auditors. However, Appendix B to AS 2101 and AS 1201 lists specific procedures that are required to be performed by the lead auditor, which may result in the partners and senior managers of other auditors not being sufficiently leveraged. Further, the proposed amendments do not enable the lead auditor to consider the impact of a firm's (the lead auditor firm or potentially a global network) system of quality control in determining the level of involvement of the lead auditor. Therefore, as previously noted, the lead auditor may spend unnecessary time and effort reviewing the work of a competent other auditor.

Lead Auditor Communications

The new requirement proposed in paragraph .B2a(2) of AS 1201 would require the lead auditor to communicate, 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. Page A4-31 of the Proposal specifies that the Board's intent is to require the lead auditor to inform the other auditors of tolerable misstatement for "the location or business unit." It would be helpful if paragraph .B2a(2) of AS 1201 specified that tolerable misstatement to be communicated is the tolerable misstatement of the location or business unit, if that is the Board's intent.

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[7] In accordance with PCAOB QC Section 20, *System of Quality Control for a CPA Firm's Accounting and Auditing* Practice, paragraph .06, "The system of quality control should provide the firm with reasonable assurance that the segments of the firm's engagements performed by its foreign offices or by its domestic or foreign affiliates or correspondents are performed in accordance with professional standards in the United States when such standards are applicable."

The requirement to communicate identified risks of material misstatement, rather than significant risks of material misstatement, presents a significant increase in the communications and level of work currently being performed and may not have a commensurate benefit. We believe communicating *all* risks of material misstatement is too broad. We suggest modifying the Proposal to require communication by the lead auditor of identified *significant* risks of material misstatement, as well as any other risks the auditor judges necessary, as this is more in-line with a risk-based approach.

Subject to the suggestions noted above to improve scalability and focus of the requirement, we agree having documentation of these communications through some form of written instruction would likely have a positive impact on audit quality as it would improve and clarify the communication between the lead auditor and other auditor.

Review of Other Auditor's Planned Audit Approach

The new requirement as proposed in AS 1201.B2b would require the lead auditor to obtain and review the other auditor's *description* of the nature, timing and extent of audit procedures to be performed pursuant to the scope of work described in paragraph .B2a(1). This requirement appears prescriptive and does not allow the lead auditor to take a risk-based approach. For example, the requirement could be interpreted that the lead auditor needs to obtain the entire audit program from the other auditor (i.e., including the description of *all* of the planned procedures for *all* risks of material misstatement). This would represent a significant level of effort, and one that is not likely performed today (or considered necessary) in almost all circumstances. Requiring the lead auditor to review the description of the nature, timing and extent of audit procedures in higher risk areas would be a reasonable way of retaining a risk-based approach that is scalable based on the circumstances. Further, it is not clear how detailed the description would need to be to meet this requirement. The Board should consider clarifying that a summary level description may be appropriate under certain circumstances.

Review of Specified Documentation, including Written Report

Page A4-34 of the Proposal states, "For example, the lead auditor could determine it necessary to request additional documentation for review with respect to the work performed by less experienced other auditors, or with respect to an area of heightened risk of material misstatement." A possible misinterpretation of this statement could be that regardless of which member of the other auditor team *reviewed* the work, the lead auditor should consider which member of the other auditor team *performed* the work when determining the necessary extent of its review of documentation of the other auditor's work. We believe the lead auditor should be able to leverage the review and supervision performed by the engagement partner (or sufficiently experienced team member) of the other auditor. Accordingly, the focus should be more on which member of the other auditor team reviewed the work, rather than solely who performed the work. If this is the intent of the Board, we suggest modifying the language in the Proposal to clarify that the "work performed by less experienced other auditors" would also take into account the experience of the other auditor team member reviewing the work.

Additionally, the new requirement as proposed in AS 1201.B2d would require the lead auditor to obtain a written report describing the other auditor's procedures, findings, conclusions and, if applicable, opinion. The Proposal is not clear on how detailed the written report describing procedures, findings and conclusions should be. For example, the Proposal could be read to require each step performed by the other auditor to be summarized. Similar to our comment above, we believe descriptions of procedures included in this reporting should be limited to areas of significant risks and any other risks the lead auditor judges necessary. In addition, as discussed previously, there is currently a wide divergence in practice as to when reports are provided and the form and content of such reports. We believe the Board should develop guidance on the content and format of inter-firm reports to promote consistency and help lead auditors understand the work performed and the responsibility taken by the other auditor.

Multi-tier Audits

Providing for the first other auditor to support the lead auditor in supervisory responsibilities over the second other auditor[8] is a reasonable approach in the Proposal. However, the Proposal states the lead auditor remains responsible for informing directly both the first other auditor and the second other auditor of the matters in paragraph .B2a of AS 1201. This is generally a greater degree of work than is currently performed in practice, where, for example, the lead auditor may communicate scope, tolerable misstatement, and identified higher risks to the first other auditor with supervisory responsibility (e.g., a regional coordinating team)—this first other auditor then directly communicates with the second other auditor and reviews the second other auditor's work and related deliverable. The Proposal may therefore lead to increased cost and reduced audit quality. The first other auditor may have a closer proximity and greater understanding of the second other auditor (e.g., they may have the most knowledge about the regional business environment) compared to the lead auditor, and therefore be better positioned to communicate and supervise directly with the second other auditor. There is a risk that the supervisory activities of the first other auditor would be overlooked or discounted (to the detriment of audit quality), given the proposed requirement for the lead auditor to communicate directly with all other auditors.

Often the most effective approach to identifying and assessing risks of material misstatement in an audit is to develop the audit plan considering the manner in which the issuer manages its financial reporting. In a multi-tier structure, there can be very important processes and controls that occur at a regional level before "rolling up" to consolidated totals. By requiring the lead auditor to communicate directly with the second other auditor, the first other auditor may have a reduced or nonexistent role in important communications. The first other auditor may have a unique understanding of how the information from the other entities within that region aggregate into the regional totals, such that audit quality would be diminished if the lead auditor were not permitted to delegate the requirement to directly inform the second other auditor of the matters in proposed paragraph .B2a to the first other auditor. Although the lead auditor is allowed to delegate supervision of the second other auditor to the first other auditor, we are concerned this supervision will be less effective if the first other auditor's role in directly communicating with the second other auditor is reduced or eliminated.

Amendments to Auditing Standard 1215 (currently Auditing Standard No. 3), *Audit Documentation* (AS 1215)

Proposed paragraph .19A of AS 1215 would add a requirement for the lead auditor to document a "list of additional work papers of other auditors (beyond those described in paragraph .19) that were reviewed by the lead auditor, but not retained by the lead auditor, if any. The list must include a description of the work papers reviewed, the reviewer, and the date of such review." We believe the requirement to include a description of the work papers reviewed is unnecessary and would result in additional effort and cost that does not enhance audit quality. If based on risk, the lead auditor determines the need to review work papers we would propose a list that includes the work paper title and reference number or audit step name would to be clear as to which work papers/audit steps were reviewed. Given the requirements of the other auditor to retain the work papers, the listing of work papers reviewed by the lead auditor, if any, would meet the re-performance standard of extant AS 1215.

We agree with the Board's proposal not to require the lead auditor to list all documents in the other auditor's files, including those not reviewed by the lead auditor.

[8] Page A1-24, paragraph B3

IV. Comments on Appendix 2 - *Proposed AS 1206: Dividing Responsibility for the Audit with Another Accounting Firm*

We appreciate the Board's approach in drafting the separate standard related to dividing responsibility in an audit. We are supportive of the definition of referred-to auditor. By separating it from the "other auditor" term, greater clarity is provided as to both referred-to auditors and other auditors and how the auditing standards apply to each. We are concerned, however, about how the notion of lead auditor intersects with the Securities and Exchange Commission's (SEC) use of "principal accountant" in situations where responsibility is divided and believe clarity around how the PCAOB's terms align with the SEC's terms would be useful.

We also note certain instances where extant language was not carried over into Proposed Auditing Standard 1206: *Dividing Responsibility for the Audit with Another Accounting Firm* (Proposed AS 1206). We are concerned this may cause unintended changes from current practice. Since the Proposal only addresses the requirements when making reference to another auditor, the guidance in extant AS 1205.05-.06 on whether to make reference has been superseded. Under the extant standard, a firm generally does not make reference to another firm in its global network. We believe the omission of such guidance in the Proposal could indicate that such considerations are no longer appropriate, which might result in a change in practice. The profession will continue to face scenarios where it may be impractical for the lead auditor to take responsibility for other auditors' work. We believe the decision-making around whether to make reference to another accounting firm is critical and should be included either in Proposed AS 1206 or in AS 2101.

Further, the Proposal does not allow for division of responsibility when the financial reporting frameworks are different.[9] This would create a change in practice since existing standards[10] allow for such division under certain conditions, as well as current practice as allowed and described by the SEC's non-authoritative *Financial Reporting Manual*[11]. We are concerned the Proposal may cause issues for both large and small firms. As an example, a foreign subsidiary's financial statements prepared in accordance with IFRS may be audited by another accounting firm and the consolidated financial statements are prepared in accordance with U.S. GAAP. In current practice, the principal auditor may make reference to the other auditor's report after (i) determining the measurement, recognition, presentation and disclosure criteria applicable to all material items in the subsidiary's financial statements under IFRS are similar to the criteria applicable to all material items in the consolidated financial statements; and (ii) evaluating the appropriateness of adjustments to convert the subsidiary's financial statements to U.S. GAAP. We believe this is an important option that should be afforded to auditors under PCAOB auditing standards in order to align the PCAOB's requirements with those of the SEC. We therefore encourage the PCAOB to incorporate the corresponding requirements into proposed AS 1206.

Finally, in the current international environment where mandatory firm rotation has been or is in the process of being adopted in many jurisdictions, the number of instances when the lead auditor will refer to another auditor outside the lead auditor's global network may increase significantly; therefore, the ability to divide responsibility is an important concept that should be retained.

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[9] Proposed AS 1206.06, "The lead auditor may divide responsibility for the audit with another accounting form only if: (b) The financial statements of the company's business unit audited by the referred-to auditor were prepared using the same financial reporting framework as the financial reporting framework used to prepare the company's financial statements.

[10] Statement on Auditing Standards No. 127, *Omnibus Statement on Auditing Standards-2013*

[11] SEC Division of Corporation Finance Financial Reporting Manual, section 6820.07

V. Other Comments

We agree with the comments set forth in the Proposal that the proposed amendments could benefit audits of emerging growth companies (EGCs) and brokers and dealers that are required to be conducted in accordance with PCAOB standards. Accordingly, we support applicability of the Proposal to those entities.

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The CAQ appreciates the opportunity to comment on the Proposal and would be pleased to discuss our comments or answer any questions that the Board may have regarding the views expressed in this letter.

Sincerely,

Cynthia M. Fornelli

Cynthia M. Fornelli
Executive Director
Center for Audit Quality

cc:

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Appendix – Definition of Lead Auditor

The following are examples where we believe the individual working alongside and in the same capacity as personnel on the engagement team that are employed by the lead auditor should be considered part of the lead audit team. Under the Proposal, it appears the individual would be another auditor due to their employment status with a firm other than the firm issuing the report.

1. Short-term Personnel Sharing Arrangements and Contract Employees

For many firms, short-term (e.g., less than six months) personnel employment arrangements exist, such as personnel sent from a foreign office to a U.S. office or individuals contracted for hire from temporary workforce agencies. These individuals often retain employment status with the foreign office or temporary workforce agency. As the Proposal is currently written, such an individual would be part of the other auditor. If the individual gave up their employment with the foreign firm or temporary workforce agency and was hired, on a short-term basis, by the U.S. firm, the Proposal would indicate that this individual would be part of the lead auditor. Therefore, depending on the structure of the employment arrangement, there may be different outcomes. We believe that the individual should be considered part of the lead auditor when they are working in the same capacity as personnel employed by the lead auditor. If, in order for the individual to be considered part of the lead auditor, there was a need to change employer, there would likely be a significant incremental cost to this arrangement with no parallel enhancement in audit quality.

2. Talent Deployment Strategies

Firms are evolving in the manner in which they deliver audit services. Some firms utilize global talent deployment strategies whereby certain portions of the audit are performed by individuals that may be located in a country different than the country of the lead auditor (such individuals may or may not be in an accounting firm and may or may not be part of the same registered firm). These individuals may operate as extended members of the lead auditor, not as a separate component team. We believe that in such cases the employee should be considered part of the lead auditor assuming they are working as part of the lead auditor team. However, similar to short-term personnel sharing arrangements as noted above, the legal employment of the individual could vary by firm and impact whether the individual is considered part of the lead auditor or other auditor.