Office of the Secretary, PCAOB November 28, 2021

1666 K Street, NW,

Washington, DC 20006-2803

Cf. P.C.A.O.B. Rulemaking Docket Matter 042

Dear P.C.A.O.B. Secretary :

While it is a privilege to be able to comment on P.C.A.O.B. Release 2021 – 05, "Proposed Amendments Relating to the Supervision of Audits Involving Other Auditors and Proposed Auditing Standard – Dividing Responsibility for the Audit with Another Accounting Firm", the present commenter has reviewed P.C.A.O.B. Release 2021 – 05 and related releases and standards in considerable detail. This release appears to break new ground as it replies by its language to a number of audit quality topics that have been matters of official discussion over time. This commenter must mention here that where this Release 2021 – 05 deals with the topic of other auditors, it is clear in most cases by this release what the practice is concerning the additional auditor, though for some a more complicated scenario awaits given independence rules and multi – tiered financial statement audits. This commenter has re – printed the question stem in front of answers to questions for the convenience of the reviewer.

Questions:

1. In recent years, have there been changes to auditor practices related to the use of other auditors?
   Answer : The independent oversight of the P.C.A.O.B. of public company audits and SEC - registered broker - dealers, its emphasis and enhancement of the roles of audit committees and corporate governance; and an emphasis on transparency, executive accountability and investor protection as well as enhancing the importance of auditor independence have continued to be important elements of the Sarbanes - Oxley Act since 2002. The establishment of the P.C.A.O.B. and its role in the supervision of audit firms is the bedrock of these elements. The P.C.A.O.B. continues to set auditing and related professional practice standards and rules, and continues to carry on inspections concerning audit and governance quality control vis - a - vis its standards with oversight sanctions in view of compliance with its standards. The P.C.A.O.B. has more recently made efforts to make its practices and processes more transparent given inspections and quality control findings that include a Remediation Framework (Change, Relevance, Design, Implementation, and Execution and Effectiveness of remedial corrective steps for those under examination) that invites root cause analysis of deficiencies, and that influences and enhances the design and execution of remediation activities before the Board. These have resulted in more proper improvements to audit quality and a noticeable decrease in adverse inspection findings over time. The P.C.A.O.B. has also enhanced the role of company boards and audit committees that has resulted in increased emphasis and authority of proper corporate governance. Part of this is due to the independence requirement for company board members from entity management. This dovetails with the elements of enhanced transparency, investor protection and company executive accountability of the business for the financial statements through the CEO and CFO. Further, while ICFR (Internal Control

over Financial Reporting) and its evaluation have been a subject of discussion and significant examination findings over time, there has been significant remediation of deficiencies in this area to improve the quality of public company audits in recent years. This has been the result of SEC and P.C.A.O.B. monitoring, outreach and issuer support, and resulting remediation to enhance the fair presentation, relevance and reliability of corporate financial statements.

The P.C.A.O.B. has also worked to remediate and enhance auditor independence and objectivity to protect investors and to increase investor confidence over time. An original example of this has been the limitation on non - audit services by audit firms. More recent efforts addressing independence and objectivity have included increased importance of audit committee governance and its practices, rotation of key audit partners and changes in engagement and concurring partners every five years, and other audit partners every seven years. These requirements have invited an increased importance of the independence rules and a more careful application thereof that include various efforts to keep the principal audit stakeholders current and educated on audit issues. With respect to this and the aforementioned developments, the P.C.A.O.B. is and was an original audit oversight organization, unique and individual to the U.S. and its public companies and auditors while it now has many allied bureaus and administrative bodies internationally. Given that the U.S. business environment is constantly changing and the world business environment as well, the Board has engaged the use of data analytics, automation and information processing, has encouraged developments in corporate reporting that include new and innovative approaches to new technologies, investments, management decisions and policy, segment reporting, and sustainability, the environment, society and governance developments as well. The increased emphasis on the entirety of a corporate dataset versus traditional sampling, new technologies, the work of specialists, innovative accounting and auditing approaches assure the development of new P.C.A.O.B. standards that allow for Board research and stakeholder input and feedback that will improve the overall quality of Board standards and of financial statement audits thereby. It appears the Board will continue to emphasize the importance of audit quality as well given the development of better audit firm quality control systems that promise to become a focus of future Board examinations of audit firms.

2. Have there been changes to issuer circumstances (e.g., evolving structures, use of new technology) that affect how audits of multinational companies are conducted, including with regard to work performed by other auditors? **Answer** : To cite Steven B. Harris from an April 20, 2017 talk at the P.C.A.O.B. annual meeting [the economics and utilities of business and industry and financial reporting practices as well as economic conditions have invited] "technological advances in areas such as artificial intelligence, robotics, the Internet of Things, autonomous vehicles, 3-D printing, nanotechnology, biotechnology, and quantum computing — just to name a few — [that] could transform every industry in every country… This perspective has been embraced by the leadership of the major accounting firms as it relates to the use of technology in the conduct of an audit. According to a recent report, the accounting profession spends approximately $3 billion to $5 billion a year on technology and it is now part of the new baseline of operational costs for the major firms … ." Data analytics have enabled auditors to examine the entirety of a company's unstructured dataset instead of a reliance upon traditional precision sampling. This allows the testing of one hundred percent of a company's data, and the technological tools and developments are not necessarily confined to data mining and analysis : Process automation, greater precision in the examination of data and metadata, improved fraud detection methods and processes commensurate with enterprise big data. This requires the data to be secure, accurate, complete and reliable and passable given quality control measures. Analysis tools must be consistent in their approach to these large datasets and given this the role of internal audit and audit quality is enhanced by this requirement. Predictive analytics also has a role in the extraction, compiling and analysis of data insofar as systemic and management learning, strategy and policy development are concerned. These tools and their effect upon the circumstances of companies and the work performed by auditors changes the nature and character of the accounting transaction in that these are now more meaningful and valuable to company management and will result in important changes to financial reporting practices, laws and regulations.

3. Are the proposed definitions of "lead auditor" and "other auditor," with respect to the descriptions of individuals who work under the firm's direction and control and function as the firm's employees, clear? If not, how should the definitions be revised? **Answer** : Given references to AS 1201 and AS 2101, AS 1206 and definitions given in Release 2021 – 05 and corresponding documentation, the definitions of "lead auditor", "other auditor" and "referred – to auditor" do appear to be clear for purposes of Docket 42.

4. Are the proposed considerations regarding serving as the lead auditor in an audit that involves other auditors or referred-to auditors – based on the importance of the locations, risks of material misstatement, and extent of the engagement partner's firm's supervision – appropriate and clear? **Answer** : The criteria and considerations of sufficiency of participation and the locations of the audited business unit(s) vis – a – vis the location of the lead auditor; consideration of qualitative and quantitative factors determining the sufficiency of participation of the lead auditor; risk(s) and importance of the audited location(s); and the role of the lead auditor as commensurate with the risk(s) of material misstatement in the audited locations (with greater involvement and participation of the auditor in greater areas of risk) are appropriate and clear per Release 2021 – 05.

5. Are the proposed requirements relating to the lead auditor's responsibilities regarding other auditors' compliance with the independence and ethics requirements appropriate? Are there any practical challenges associated with the proposed amendments? If so, what are they, and how could the proposed requirements be revised to address the challenges? **Answer** : The P.C.A.O.B. seeks to establish and to maintain the highest quality auditing and professional and related practice standards of independence, integrity and objectivity. The purpose of this is to maintain the highest standards of ethical conduct and to provide the public and other stakeholders with confidence in compliance with rules and standards including those applying to ethics. Registered public accounting firms are required to comply with such standards and rules, guidelines and practices. The overall application of AS 1201 and 1205 (and for example, Release 2021 – 05 discussion as to the role of AS 1015, AS 1105, AS 2101, and AS 2301 that establish and even strengthen the responsibilities of employee and staff stakeholders as well as those of the lead auditor) in Release 2021 - 05 with respect to the lead auditor and other auditors indicates an appropriate consideration of the responsibilities regarding other auditors' compliance with independence and ethics requirements. The implementation and application of these different standards require assessments as to audit responsibilities at least during the planning stage(s) of the audit regarding division of responsibilities, consideration of the independence, knowledge, skill and ability of staff and employees, and planning and supervision of work and the work of other auditors and so on. This requires experience and foresight on the part of audit planners and in the due diligence process. The application and implementation of standards sets the tone for the audit that might become more diffuse as work proceeds and as audit work even occasionally demands expedient considerations that invite gray areas in evaluating how challenges of the audit are to be met and work performed in producing a proper audit work product. This is even more evident in evaluating, again, the compliance requirements of multi – tiered audits. Proper, timely and appropriate monitoring during the performance of the audit might be enough to address these challenges, if not then “manager over shoulder” activities that enhance supervision of audit work and the production of audit work product, that are altogether less expedient and more time and effort intensive, would be required.

6. Are the proposed amendments relating to the knowledge, skill, and ability of the other auditor, revised by this release, clear and appropriate? Are there any practical challenges associated with the proposed amendments? If so, what are they, and how could the proposed requirements be modified to address the challenges? **Answer** : The engagement partner and other appropriate engagement team members are required to consider for planning and supervision purposes the knowledge, skills, and ability of participants, employees and staff, in the audit and the other auditor. P.C.A.O.B. standards call for the same criteria to be applied in this assessment to the other auditor – the same as for employees of the lead auditor’s firm who work on the audit. Assessment as to sufficiency of these criteria for working on the audit is apparently enough to carry out the responsibilities of the lead auditor who considers the risk of material misstatement and the importance of the business unit(s) covered by the firm’s audit procedures. The lead auditor also must assess whether its own participation in the audit is sufficient for it to serve as the lead auditor given work possibly performed by other auditors. This planning – stage assessment and division of responsibilities also depends upon the tone of the audit established in pre – planning and planning, due diligence and related activities preceding actual audit work and the production of audit work product. These provisions are clear and appropriate given P.C.A.O.B. Release 2021 – 05, and it is important that the professional tone of the planning and due diligence activities preceding audit work pervade the actual audit work and work product in order to avoid challenges of the quality of the audit work possibly becoming diffuse and more in need of direct monitoring and control by audit management, a more labor intensive and less expedient process.

7. Are the proposed amendments to AS 1201 regarding procedures to be performed by the lead auditor with respect to the supervision of work performed by other auditors appropriate and clear? Are there any practical challenges associated with the proposed amendments? If so, what are the specific challenges, and how could the proposed requirements be modified to address them? **Answer** : The proposed amendments to AS 1201 regarding procedures to be performed by the lead auditor with respect to the supervision of work performed by other auditors are appropriate and clear. Compliance with AS 1201 implies an entire list of procedures for the lead auditor to perform and in the direct and indirect supervision of the firm’s auditors. At the level of the procedures indicated in AS 1201 by the lead auditor, a proper monitoring and even remedial function should be implemented by audit management as to audit work, and per discretion and assessment of the lead auditor. The tone of the professional and diligent planning of the audit should carry throughout the duration of the audit in order to uphold the highest quality standards for audit work. This should consist of again if necessary “management over shoulder” monitoring and if necessary increased management guidance and supervision of audit personnel and the other auditor per discretion and assessment by the lead auditor.

8. In multi-tiered audits, are the proposed requirements for situations in which the lead auditor directs an other auditor to perform supervisory procedures, and evaluates such supervision, with respect to a second other auditor on behalf of the lead auditor, clear and appropriate? If not, how should the proposed requirements be revised? **Answer** : There are a number of considerations in multi – tiered audits having to do with management and supervision, access and authorization as well as information and data security at different tiers in the carrying on of an audit which require communication up the audit management hierarchy, and implementation of directives directly and indirectly from audit management to audit staff and employees, etc., and from the lead partner and the engagement partner to audit staff and employees. This is also true for directives and audit requirements for the other auditor. These considerations and the supervisory procedures in the discussion of Release 2021 - 05 for the other auditor on behalf of the lead auditor appear clear and appropriate and this commenter suggests any revision to proposed requirements should be made with consideration to possible audit control environment and with less consideration as to specific or enhanced supervision, directives or regulation by audit management.

9. In multi-tiered audits are the proposed requirements in audit planning regarding:

a. The sufficiency determination relative to the extent of the engagement partner's firm's supervision of the other auditors' work, clear and appropriate; and

b. Allowing the lead auditor to seek assistance from the first other auditor in performing the proposed planning procedures relating to the second other auditor's qualifications (i.e. independence and ethics, and knowledge, skill, and ability), clear and appropriate?

If the answer to questions 9.a or 9.b is that the proposed requirements are not clear and appropriate, how should they be revised? **Answer** : In the event the overall audit requirements with respect to questions 9a. and 9b. are not clear and appropriate, that is to mention here, in consideration of 9a. and 9b., assessments as to sufficiency of audit work and supervision; and then the application of AS 1201 in seeking assistance from staff including from other auditors; the requirements should be revised commensurate with the assessed inherent risk and control risk of the audit and with specific respect to the status of the issuer entity control environment. This question appears to address the question of audit quality and of the quality of audit work and personnel. This commenter suggests that re – assessing inherent risk and control risk and emphasizing a stricter examination of the control environment during the audit along with increased and enhanced monitoring of audit work might help to better fulfill the spirit of these requirements to the letter if needs be. These requirements otherwise do seem to be clear and distinct, appropriate, fair and reasonable.

10. Are the modifications in proposed AS 1206, including Appendix B, to reflect the auditor's report language in AS 3101, appropriate and clear? **Answer** : The modifications in proposed AS 2106, including Appendix B, are clear and properly reflect auditors' report language in AS 3101. This is reasonable and fair, relevant with respect to reports issued that include the report mentioning a "referred – to auditor" (Examples 1 and 2,) and reports by a "lead auditor" (Examples 3 and 4.)

11. Are the proposed amendments to AS 1105.B1 to guide auditors in equity method investment circumstances clear and appropriate? If not, how should the proposed requirements be revised? **Answer** : The proposed amendments to AS 1105.B1 to guide auditors in equity method investment circumstances are clear and appropriate and should nonetheless include more than the requirement that the auditor obtain sufficient evidence through simple evaluation of the sufficiency prima fascia of the equity investee's financial statements and results. As thorough as possible, an understanding of the equity investee's control environment might also be necessary in addition to an evaluation or assessment of prior audit risks and investee business, financial and market risks and the ways these have been managed by the investee.

12. Comment is requested on the new information provided in this section. Are there other data sources the Board should consider in establishing the baseline-for evaluating economic impacts? Are there additional academic research papers or external reports of which the Board should be aware? Are there additional economic problems associated with the use of other auditors? Would the revised proposed amendments result in economic impacts or unintended consequences beyond those described in the 2016 Proposal? Are there any other matters not addressed in this release that the PCAOB should consider in its economic analysis? **Answer** : This commenter is not aware of any additional information nor white papers, nor academic research papers, nor external reports of which the Board should be aware in this matter. Given the additional scale and scope of audits that involve the use of other auditors, the questions of additional economic and monetary costs and benefits of compliance arise, as well as additional costs of monitoring, planning and supervision, and of audit work itself. Though there are evidently marginally increased audit engagement costs of first asking for the assistance of and then relying on other auditors, these possibly and probably are incremental and should not interfere with overall audit quality given a priori management style and activities and the status of the entity control environment as well. There are additional considerations that affect economic costs of implementing Release 2021 – 05 insofar as more due diligence is required to review the financial statement work product of other auditors, the quality of that work product in the form of financial statements and the overall value of this given different audit methodologies and approaches, etc., of different audit firms.

Since the lead auditor will now presumably bear the responsibility for the audit that includes the work of other auditors, there is a utility cost of the other auditors possibly being less accountable and feeling less responsible for their audit work product. For consideration are the potential additional costs and benefits of this change in standards and of matters affecting the industry in which the company operates, such as financial reporting practices, economic conditions, laws and regulations, and technological changes. These additional costs, however incremental, could add up significantly and place additional economic and monetary burdens on the lead and engagement auditors.

By,

Thomas H. Spitters, C.P.A.

Thomas H. Spitters, CPA – (415)800-4499 – tom.spitters@hotmail.com

San Francisco, CA 94104, U.S.A.