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November 30, 2021

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

Via Email to comments@pcaobus.org

Re: PCAOB 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 Board Members and Staff:

Grant Thornton LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or Board) Second Supplemental Request for Comment (2021 SRC) on the *Proposed Amendments Relating to the Supervision of Audits Involving Other Auditors and Proposed Auditing Standard – Dividing Responsibility for the Audit with Another Accounting Firm*. We respectfully submit our comments and responses to certain of the questions posed in the 2021 SRC for the Board's consideration.

We appreciate the Board's continued work in strengthening the requirements that apply to audits involving other auditors. We believe this is an important area in furthering overall audit quality, particularly since the use of other auditors in various capacities continues to become more prevalent. We also believe that COVID-19 changed how firms use and interact with other auditors, which we discuss in more detail below. Providing principles-based requirements with regard to using the work of other auditors is essential in order to promote audit quality and appropriate participation by the lead auditor. We believe the suggested revisions provided below will help enhance the clarity and feasibility of the proposed requirements while maintaining a principles-based approach and bearing in mind the changes to the profession that have occurred over the last couple of years.

We also encourage the Board to consider a holistic view of this topic. We believe that the definitions and requirements proposed in the 2021 SRC could have considerable implications for the application of independence requirements as well as firms' systems of quality control. Without considering the potential impact of the proposed definitions on other areas of the PCAOB's rules and standards as well as on future standard setting, there may be certain unintended consequences. We elaborate on this matter in more detail below.

Responses to certain questions posed in the 2021 SRC

Question 1: In recent years, have there been changes to auditor practices related to the use of other auditors?

The most impactful changes to auditor practices related to the use of other auditors resulted from operating in the COVID-19 environment. Operating in a largely remote environment, auditors had to effectively leverage the use of technology in order to appropriately fulfill their responsibilities under the existing requirements. The use of technology affected the physical locations where auditors worked and the ways in which engagement teams and other auditors interacted with each other and with client management. We anticipate that remote work arrangements will continue into the future for both auditors and clients given the relative popularity of the concept and the efficiencies gained.

Question 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?

We found the proposed revisions to the definitions to be helpful. We offer the following observations that may further enhance the practicability or application of the definitions.

Considerations related to secondees

First, we note that proposed footnote 5, which relates to the second note under paragraph .A4, states that "the term 'secondee' refers to a professional employee of an accounting firm in one country who is physically located in another country, in the offices of the registered public accounting firm issuing the auditor's report, for at least three consecutive months…." We appreciate this proposed addition and believe it was responsive to concerns raised in comment letters to the PCAOB's 2017 Supplemental Request for Comment on this topic (2017 SRC).

However, as discussed in our response to Question 1 above, the landscape of public accounting has changed considerably over the last two years. Firms have encountered a variety of logistical challenges related to bringing secondees into their country to physically work. As a result, many firms have adapted their programs to enable remote arrangements. For example, an individual seconded to work with a firm located in the United States might remain physically located in their home country. Therefore, we believe the physical location of the individual should not be a determining factor for whether an individual meets the definition of secondee, as used in the proposed amendments. As such, we recommend the footnote be revised as follows.

> For this purpose, the term “secondee” refers to a professional employee of an accounting firm in one country ~~who is physically located in another country, in the offices of the registered public accounting firm issuing the auditor’s report, for at least three consecutive months,~~ performing audit procedures***, for at least three consecutive months, for the registered public accounting firm issuing the auditor’s report in another country*** with respect to entities in that other country(and not performing more than de minimus audit procedures over the term of the secondment in relation to entities in the country of his or her employer).

We recognize that our suggested revisions have implications for the staff guidance on this topic provided by the Board related to Form AP. We encourage the Board to revise the language and amend the Form AP staff guidance accordingly to make them consistent.

Considerations related to independence and the system of quality control

Additionally, we ask whether the Board has considered the potential ramifications of the proposed changes to the definition of “engagement team” on the application of independence requirements. The PCAOB’s Ethics & Independence rules, as well as the AICPA’s Code of Professional Conduct, do not explicitly provide guidance on how to apply independence rules to engagement team members that are employed or engaged by other accounting firms, as these independence rules were not written with such circumstances in mind. There is significant discussion on this topic by the International Ethics Standards Board for Accountants (IESBA) as IESBA contemplates how to clarify this concept in their independence rules, and similar discussions are expected to occur within the AICPA’s Professional Ethics Executive Committee. We encourage the Board to consider IESBA’s deliberations and ultimate conclusions and to provide guidance to the PCAOB’s requirements. We believe that PCAOB guidance will be necessary for auditors to fully understand and apply the proposed requirements and to meet PCAOB expectations in light of the new definition.

There are also implications for International Standard on Quality Management (ISQM) 1, *Quality Management for Firms That Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, which the Board may use as a starting point for revisions to its quality control standards, as described in the PCAOB’s 2019 Concept Release, “Potential Approach to Revisions to PCAOB Quality Control Standards.” Unintended practical challenges could arise when firms apply the quality management processes with individuals who are identified as members of the engagement team but are employed by other accounting firms that are outside the control of the accounting firm issuing the auditor’s report. Clarification might be necessary, particularly with respect to requirements related to engagement team members as well as service providers, including the application of the requirements to referred-to auditors. Again, enhanced guidance would enable auditors to appropriately understand and apply the requirements.

Question 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?

We support the addition of "c" to paragraph .06A of AS 2101. We believe this content is reasonable and will assist auditors with their determination of lead auditor. However, we are concerned that this proposed requirement is too prescriptive for practical application, since the three proposed criteria are not necessarily the only appropriate considerations in such a determination. We recommend the following edit to the lead-in to make the requirement more principles-based by acknowledging that there might be other relevant factors for the auditor to consider:

> … In making this determination, the engagement partner should take into account***, alone or in combination,*** the following ***factors***, ***as well as other factors specific to the audit*** ~~in combination~~….

We also encourage the Board to consider whether the descriptor "significance" would be more appropriate than "importance" in .06A(a). We believe the term "significance" is more understandable in the context of considering quantitative and qualitative factors. In addition, because the determination of the lead auditor is typically made during the acceptance or continuance process, we recommend clarifying .06A(b) as follows, since the risks of material misstatement may not be identified and assessed at this stage of the audit: "the risks of material misstatement ***that may be*** associated with…"

Similarly, we recommend adding "planned" to .06A(c) so that it reads "the ***planned*** extent of the engagement partner's firm's supervision…." Considering the context in which this requirement is being executed, it is possible that the lead auditor might adjust the extent of supervision once the engagement is underway.

Question 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?

We found the proposed changes helpful and appreciate that the Board was responsive to some of the practical challenges highlighted in comment letters to the 2017 SRC.

We strongly support obtaining a written affirmation from the other auditor and believe clarity in the requirement is essential in making such requirement operational. With regard to paragraph .06D(b)(1), we note that accounting firms generally assess the effectiveness of their systems of quality control on an annual basis (and that this is what will be required going forward under ISQM 1). We do not believe it is the Board's intention to put the other auditor engagement team members in a position to make their own conclusion about their firm's quality control at a point in time relative to a particular engagement. It could be confusing and cost prohibitive to establish a requirement that indicates a continual assessment of a firm's system of quality control is necessary. Therefore, we recommend the following edits in order to be clearer on what the other auditor is affirming for a particular engagement.

(1) a written affirmation as to whether the other auditor has policies and procedures that ***are intended to*** provide reasonable assurance that the other auditor maintains compliance with SEC independence requirements and PCAOB independence and ethics requirements

Question 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?

We generally support the proposed revisions, which include obtaining the written affirmation from the other auditor. We believe the proposed revisions make these requirements more operational. The requirement could be further enhanced if the Board inserts a note after paragraph .06H that indicates the lead auditor's own experience working with the other auditor is relevant to the lead auditor's understanding of the other auditor's knowledge, skill, and ability. We believe that it would be helpful to include this guidance, as acknowledged on page 27 of the 2021 SRC and on page 16 of the 2017 SRC, in the standard itself in order for auditors to better understand and apply the proposed requirements with regard to the knowledge, skill, and ability of other auditors.

Question 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?

We support the objective of clarifying the lead auditor's responsibilities with respect to the supervision of work performed by other auditors. Further, we agree with the proposed revisions to paragraph .08 and the addition of paragraph .11. Such written communications at the beginning and end of the other auditor's work are important in setting appropriate expectations for the other auditor and in evaluating whether and how the other auditor met such expectations. Nevertheless, we are concerned about potential operational challenges with the proposed requirements listed in paragraphs .09 and .10.

We believe the requirement for the lead auditor to obtain and review a written description of the audit procedures to be performed by the other auditor is overly prescriptive and would be burdensome in practice, especially when the other auditor is performing an audit (as opposed to procedures over certain significant accounts or disclosures). An audit involves an iterative process of risk assessment and response and, therefore, procedures can evolve over the course of the audit. The communications between the lead auditor and the other auditor are also iterative. Thus, it could be administratively burdensome or time and cost prohibitive to fulfill these requirements as currently proposed, especially on large, multinational engagements. We believe the requirements can be more principles-based and better reflect the changes in how auditors communicate with each other in light of the technological advances in communication tools. Such advances provide better opportunities for more real-time communication, which is not reflected in the proposed requirements. Communication of planned procedures and related changes could be accomplished through video conference and screen-sharing whereby the lead auditor might not necessarily possess a “written description” of the audit procedures or changes to such procedures. We encourage the Board to revise paragraphs .09 and .10 to make them more principles-based and to reflect the recent innovations in effective communication tools.

Finally, we recommend clarifying paragraph .12 with regard to the minimum documentation requirement, which is currently connected to AS 1215.19. The requirements of AS 1215 are based on a complete audit. When the lead auditor directs the other auditor only to perform procedures over certain significant accounts or disclosures, all components of AS 1215.19 might not be relevant. For example, a management representation letter is only required when the other auditor performs a complete audit and issues an external auditor’s report. We ask the Board to consider clarifying proposed paragraph .12 to acknowledge that the documentation required would be commensurate with the nature and extent of audit work performed by the other auditor.

Question 10: Are the modifications in proposed AS 1206, including Appendix B, to reflect the auditor’s report language in AS 3101, appropriate and clear?

The modifications appear reasonable and clear. We continue to believe it is essential to retain AS 1206 and the ability to divide responsibility for the audit. We also appreciate the Board providing illustrative report examples, which will help promote consistency among auditor’s reports.

We do believe that the proposed requirement in paragraph .08(b) is unnecessary, however. Currently, the Form AP rules require the disclosure of the name and city of any referred-to auditors. We believe it is duplicative to require the name of the referred-to auditor in the auditor’s report itself. We encourage the Board to remove this requirement due to its existence in the Form AP requirements.

In addition, we believe it would be beneficial to clarify, in both AS 1206 and AS 1201, that the lead auditor may use completed audit work. When an other auditor is also performing or has completed an audit of component or subsidiary financial statements, the lead auditor may be able to use audit work performed on those financial statements, provided the lead auditor is satisfied that such work is appropriate for purposes of their audit. We encourage the Board to incorporate this into each standard to accommodate the various situations that could arise in practice, including those with respect to the timing of multi-tiered audit engagements.

Effective date

As we conveyed in our comment letter to the 2017 SRC, we continue to believe that audit firms will need sufficient time to develop and implement policies and quality control processes and to provide adequate communication to their network firms.

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Since planning for large, international engagements begins very early in the audit process, we strongly recommend making the proposed standard and amendments effective for audits of fiscal years beginning two years after approval by the SEC or, if SEC approval occurs in the third or fourth quarter, fiscal years beginning three years after the year of SEC approval. We also believe this will provide the Board with appropriate time to consider the independence and quality control implications discussed throughout this letter and to respond appropriately by making additional revisions to the proposed requirements or to other PCAOB rules or standards, if necessary.

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We would be pleased to discuss our comments with you. If you have any questions, please contact Jeff Hughes, National Managing Partner of Audit Quality and Risk, at 404-475-0130 or Jeff.Hughes@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP