

Post-Implementation Review: Supervision of Other Auditors

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OTHER AUDITORS – AGENDA

- Background on Other Auditors Rulemaking
- Statistical Analysis on Use of Other Auditors and Referred Work Deficiency Rates
- Post-Implementation Review Evaluation Framework
- Discussion / Q&A

OTHER AUDITORS – BACKGROUND

- What do we mean by “other auditors” and “referred work engagements”?



OTHER AUDITORS – BACKGROUND

- Amended requirements for planning and supervising audits involving other auditors adopted June 21, 2022
- Rulemaking amends several PCAOB auditing standards to increase and improve lead auditor (LA) involvement in and evaluation of other auditors' (OAs) work
 - Board also adopted a new auditing standard that applies when a LA divides responsibility for an audit with another accounting firm
- The roles of OAs have increased with the growth of issuers' global operations
- Amended requirements effective for audits of financial statements with fiscal years ending on or after December 15, 2024

OTHER AUDITORS – BACKGROUND

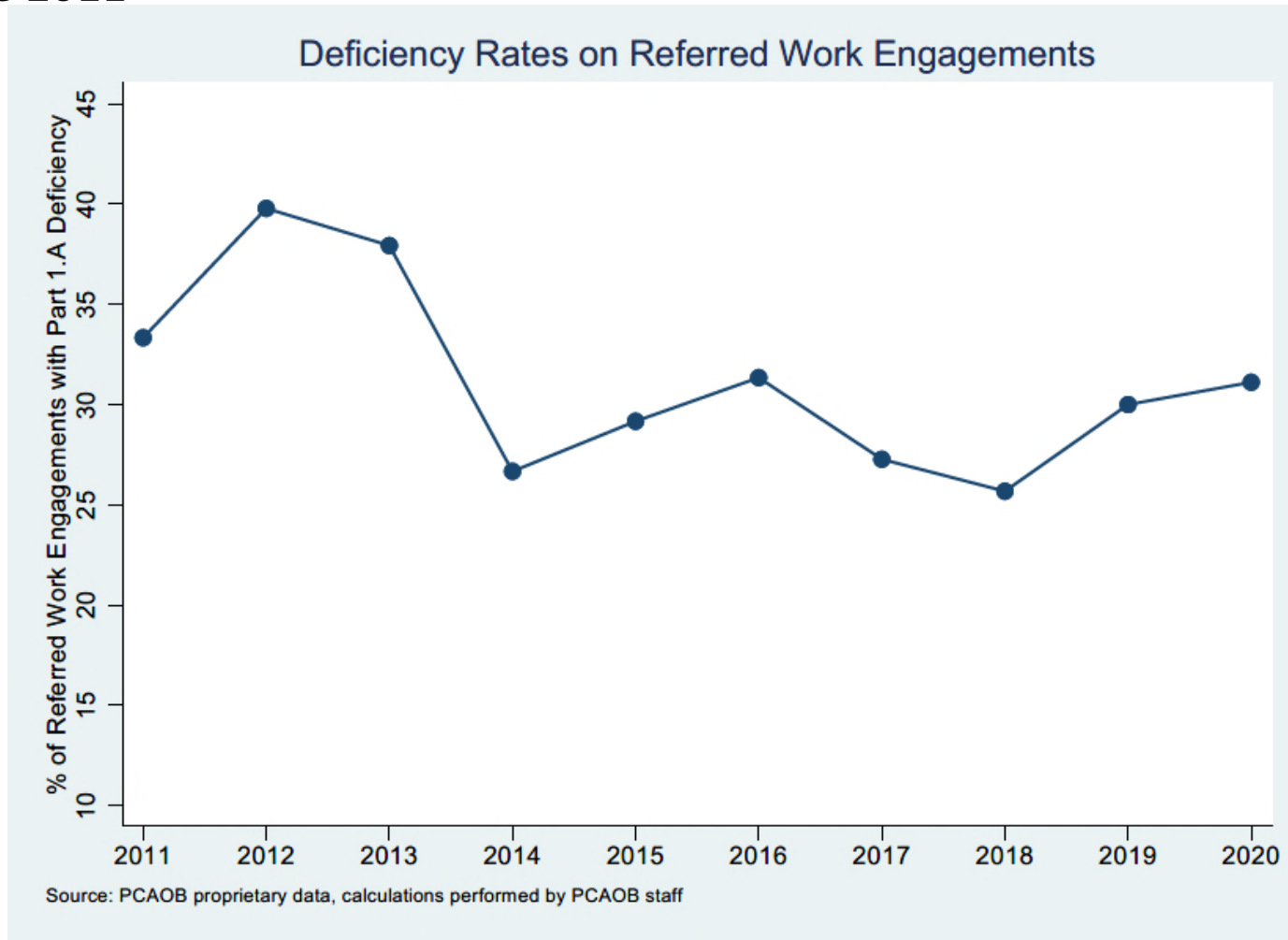
- Which engagements use OAs?

| | Proportion of Engagements Using OAs (2017-2021) |
|------------------------|--|
| GNF | 45.8% |
| U.S. | 42.5% |
| Non-U.S. | 61.7% |
| NAF | 9.3% |
| U.S. | 7.6% |
| Non-U.S. | 22.4% |
| All Engagements | 29.3% |

Source: PCAOB Form AP data, calculations performed by PCAOB staff

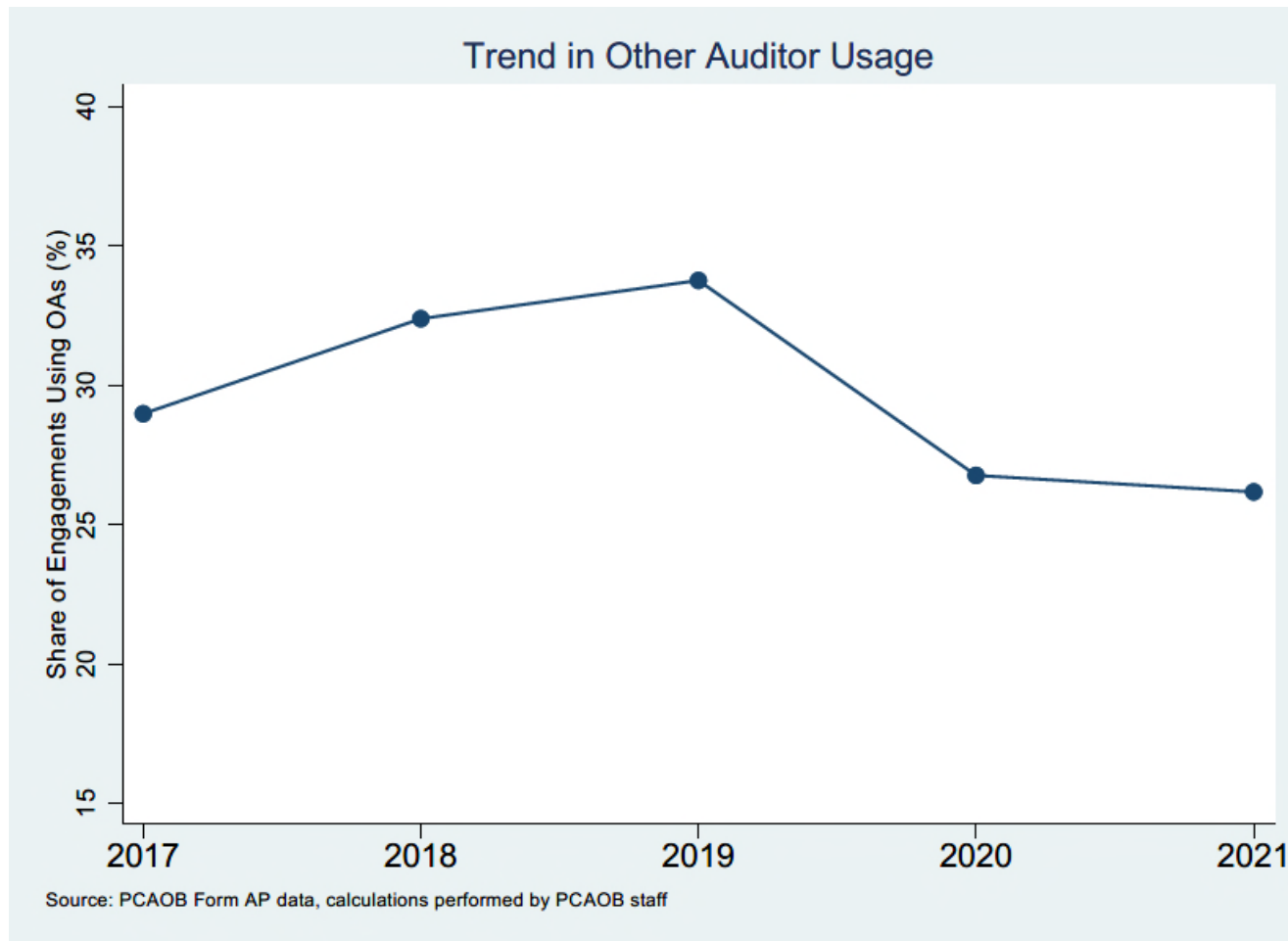
DEFICIENCY RATES ON REFERRED WORK ENGAGEMENTS

- The deficiency rate on referred work engagements has averaged about 31% since 2011



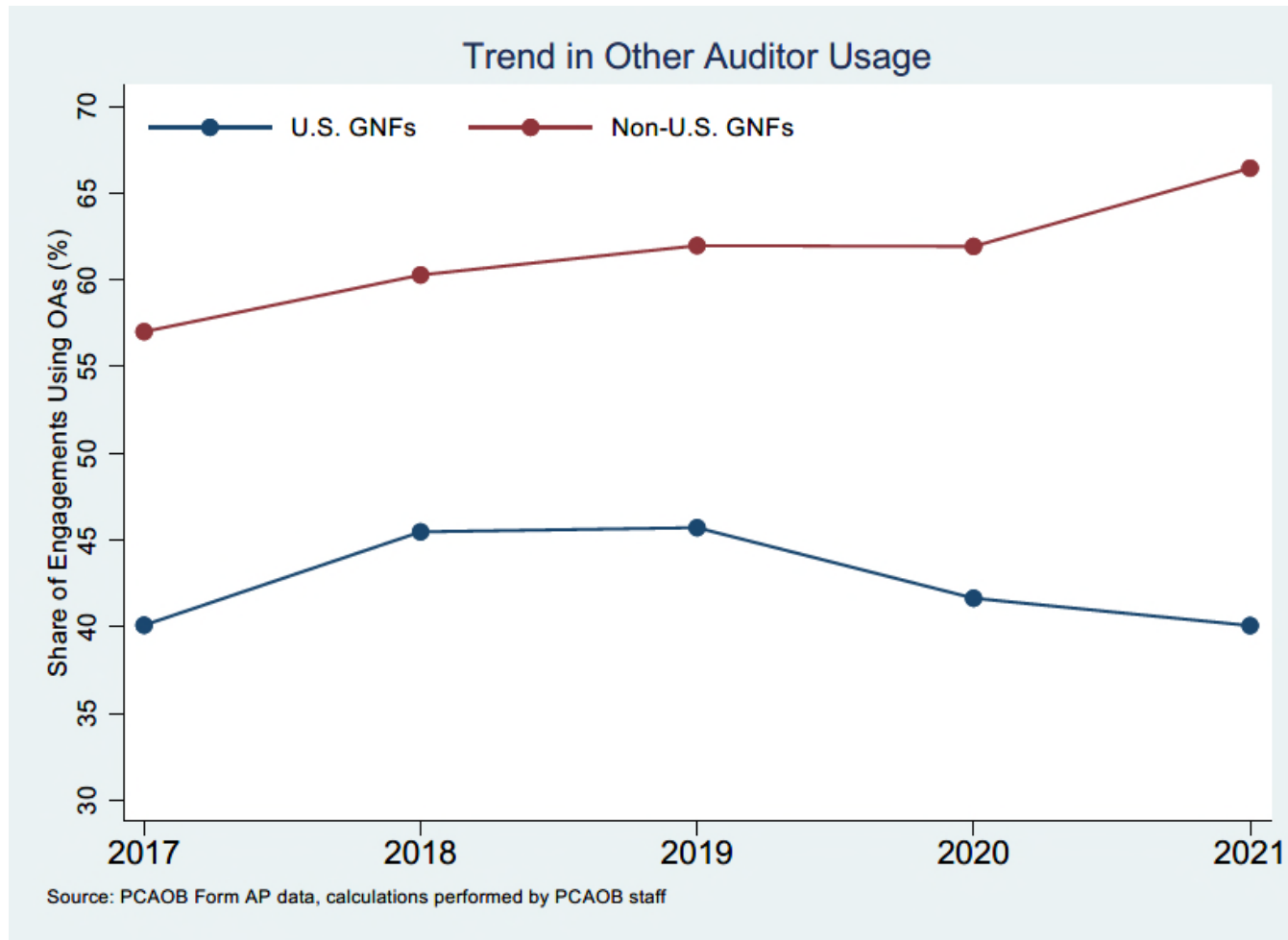
USE OF OTHER AUDITORS OVER TIME

- Usage was flat between 2020 and 2021, but down about 3 points from 2017
- Steep decline in OA usage between 2019 and 2020, largely due to SPACs



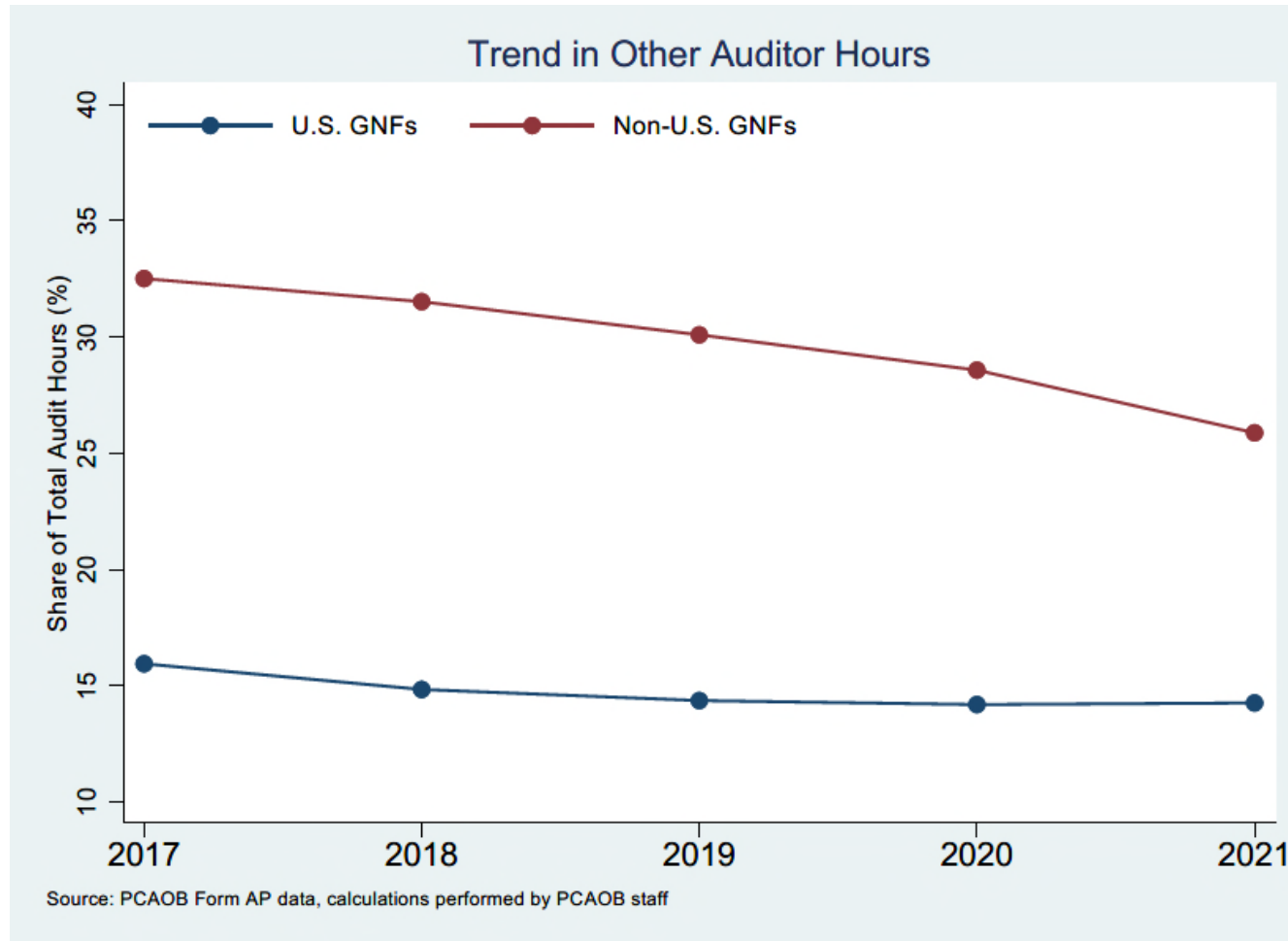
USE OF OTHER AUDITORS OVER TIME

- Contrary to the trend among U.S. GNFs, OA usage has been increasing among non-U.S. GNF engagements



USE OF OTHER AUDITORS OVER TIME

- OA hours have steadily decreased as a share of total audit hours for non-U.S. GNF engagements—that share has been flat for U.S. GNF engagements



OTHER AUDITORS POST-IMPLEMENTATION REVIEW

- Currently planning analysis to assess initial implementation of amended OA requirements
 - Seek to measure and analyze costs, benefits, and unintended consequences outlined in the June 2022 adopting release
- Consistent with prior PIR work, the analysis will consist of large sample econometric analysis and stakeholder outreach
- Anticipate issuing interim analysis report no earlier than 2026

POST-IMPLEMENTATION REVIEW EVALUATION FRAMEWORK

1. Magnitude of potential impacts

- **Potential benefits**
 - Augment LA incentive to monitor OAs and prevent/detect deficiencies in OAs' work
 - Improve quality of OAs' work
- **Potential Costs**
 - Auditor fixed costs (e.g., methodologies and tools, training)
 - Auditor engagement-level costs (e.g., time spent by LAs and OAs)
 - Direct and indirect costs to issuers (e.g., audit support, higher audit fees)
- **Potential Unintended Consequences**
 - OAs feel less accountable
 - Inefficient allocation of resources
 - Reduced OA involvement
 - Increase in divided responsibility audits
 - Disproportionate impact on smaller audit firms

POST-IMPLEMENTATION REVIEW EVALUATION FRAMEWORK (CONT'D)

2. Research design and data availability

- **Analytic approach to identify the impacts (identification strategy)**
 - Lack of phased implementation or natural control group makes identifying causal impact challenging
 - Descriptive pre-post analysis of inspections data
- **Potential measures of the impacts and data sources**
 - Deficiency rates on referred work (PCAOB inspections data)
 - Audit quality and financial reporting quality metrics (Audit Analytics, S&P Capital IQ, Compustat)
 - OA usage, number of OAs, OA hours, OA hours as a share of total audit hours or LA hours
- **Stakeholder outreach**
 - Audit firm survey (including firms participating as OAs), audit engagement partner interviews, audit committee chair interviews, etc.

POST-IMPLEMENTATION REVIEW EVALUATION FRAMEWORK (CONT'D)

3. Potential uses of the analysis

- Help the Board assess whether the amendments reduce the rate of audit deficiencies in work performed by OAs
- Provide the Board with a timely assessment of benefits, costs, and unintended consequences associated with the amendments
- Help the Board evaluate the need for more guidance or changes to the standard
- Help with the development of other audit performance standards

POST-IMPLEMENTATION REVIEW EVALUATION FRAMEWORK (CONT'D)

4. Prior direction from the Board or the SEC

- SEC's Approval Order states:
 - “[C]ommenters generally supported the Amendments and encouraged us to support the PCAOB’s plans to monitor implementation, conduct post-implementation review, and monitor advancements in technology that may affect application of the Amendments”

DISCUSSION QUESTIONS

- Have you observed any changes in auditing practice in anticipation of the amended PCAOB standards on the supervision of other auditors?
 - If yes, are there any implications of these changes on audit quality?
- What analysis around the impact of the amended requirements would you find interesting or useful for the PCAOB to conduct?
- What types of outreach (e.g., survey, interview, focus group discussion) might we consider? What groups should we solicit feedback from? What potential effects (e.g., impacts on audit process, unintended consequences) might we ask about?