



November 30, 2021

Public Company Accounting Oversight Board  
[comments@pcaobus.org](mailto:comments@pcaobus.org)

Re: PCAOB Rulemaking Docket Matter No. 042, *Second 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*

PCAOB,

CohnReznick appreciates the opportunity to comment on the above mentioned matter. CohnReznick is the 16th largest accounting firm in the U.S., with its origins dating back to 1919.

We support the PCAOB in its overall mission to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports. While our domestic and international capabilities (including through our Nexia International membership) allow us to serve a broad array of clients, we are a significant provider of services to the smaller and middle market. Our desire is that our response to the exposure draft will give you perspective into the unique impact these changes might have on small and medium size entities and their ability to attract capital.

Our responses to specific questions on which the PCAOB is seeking comment are included in the attachment to this letter.

If you have any questions concerning our comments or would like to discuss any of our responses or recommendations in more detail, please feel free to contact Steven Morrison, Partner, National Director of Audit, at 646-601-7740 or [steven.morrison@cohnreznick.com](mailto:steven.morrison@cohnreznick.com).

Yours truly,

A handwritten signature in black ink that reads "CohnReznick LLP". The signature is written in a cursive, flowing style.

## OVERALL RESPONSE

We support the development of the proposed PCAOB Rulemaking Docket Matter No. 042, *Second 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*, and believe the proposed standards may serve the public interest.

We recommend the PCAOB add additional application guidance throughout focusing on small and medium size firms working on lesser complex entities. We believe such will be helpful for all firms in navigating implementation of the proposed standards, particularly in regards to tangential issues that were not the main focus in standard setting.

## SPECIFIC RESPONSES

- 1. In recent years, have there been changes to auditor practices related to the use of other auditors?**

In recent years, other than changes to auditor practices necessitated by different risk assessments in any one year, we have not seen material changes to practices related to the use of other auditors.

- 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?**

The changes we have observed with regard to multinational company audits are consistent with changes to non-multinational audits as the COVID-19 pandemic. That is, primarily the increased use of remote working technologies spurred, in part, by travel restrictions imposed by governmental bodies.

- 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?**

While we find the definitions overall to be clear, we do express concern with introducing yet another set of definitions to what are in effect, analogous concepts. The ISAs and AU-Cs discuss the concept of a “group” auditor and “components” and in extant PCAOB, the concept of “principal auditor” and “other independent auditors” from pre-Clarified US GAAS are also discussed. While the ISAs and AU-Cs approach these concepts from an entity perspective and PCAOB standards approach more from an auditor perspective, many of the underlying parties involved are in effect the same parties but with different names. Given that multinational audits often involve foreign auditors who might be accustomed to the ISAs, we believe audit quality may be better facilitated if PCAOB standards and the ISAs/AU-Cs were aligned more

closely. Given the noticeable differences in focus, we recommend in the near term that the PCAOB liaise with both the IAASB and the AICPA Auditing Standards Board and jointly develop non-authoritative materials that US and foreign auditors could use to better align expectations and more quickly identify audit quality issues which may be present that have not been detected<sup>1</sup>.

- 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 believe 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 are appropriate and clear.

- 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 believe the proposed requirements relating to the lead auditor's responsibilities regarding other auditors' compliance with the independence and ethics requirements are appropriate. We believe the linkage to Rule 3526, which has been in effect for the better part of two decades, will be effective in generating consistency in the lead auditor's application of the proposed standard.

However, we believe practical challenges will exist initially particularly with foreign firms that are not a part of the same network as the lead auditor or that have a less robust independence and conflict check system than the global firms. A figurative learning curve may present complications upon the proposed standard becoming effective. In order to help facilitate audit quality, we recommend the PCAOB perform outreach to the networks not associated with the global firms.

- 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 believe the proposed amendments relating to the knowledge, skill, and ability of the other auditor revised by this release are clear and appropriate. We support the

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<sup>1</sup> Although the AU-Cs are substantially converged with the ISAs, there are some substantial differences, one of which is that the AU-Cs permit referencing another auditor, whereas the ISAs do not.

usage of similar wording and concepts as noted in endnote 4H. We believe such will enable operationality and contribute to audit quality.

- 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 believe 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. Regarding practical challenges that may arise, we believe a number of such could be avoided or mitigated by the PCAOB having extensive implementation and application guidance available similar to how the PCAOB did for the recently implemented specialists and estimates standards.

- 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?**

We believe the proposed requirements for multi-tiered audits 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, are overall clear and overall appropriate. We do have concerns about the application of this in practice, in particular, among the non-global firm environment where firm “associations” and “networks” may not be as structured as Big Four networks and thus the flow of information between firms may not be as clear and effective. We recommend the PCAOB provide application guidance that includes examples of situations that may trigger the proposed AS 2101.06F.

- 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**

We believe the proposed requirements noted in regard to question 9a is clear and appropriate.

- 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?**

We believe the proposed requirements noted in regard to question 9.b is clear and appropriate. We do have concerns about the application of this in practice, in particular, among the non-global firm environment where firm “associations”

and “networks” may not be as structured as Big Four networks and thus the flow of information between firms of what each firm does, and does not do, may not be as clear and effective. We recommend the PCAOB provide application guidance that includes examples of what the PCAOB views as appropriate and inappropriate.

**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?**

Please see 9.b above.

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

We believe the modifications in proposed AS 1206, including Appendix B, to reflect the auditor’s report language in AS 3101 are appropriate and clear.

**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?**

We believe the proposed amendments to AS 1105.B1 to guide auditors in equity method investment circumstances are clear and appropriate. We agree with the PCAOB’s observations in the proposed standard’s PCAOB Rulemaking Docket Matter No. 042 that “the investor’s auditor may not be able to establish an arrangement with the investee’s auditor or investee management under which the investor’s auditor would direct activities of the investee’s auditor and review its audit documentation, or obtain information from investee management.”

**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?**

We are not aware of any other data sources the Board should consider in establishing the baseline-for evaluating economic impacts of which the Board should be aware.

**Are there additional academic research papers or external reports of which the Board should be aware?**

We are not aware of any 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?**

We are not aware of any additional economic problems associated with the use of other auditors related to this PCAOB Rulemaking Docket Matter No. 042 referenced in this letter.

**Would the revised proposed amendments result in economic impacts or unintended consequences beyond those described in the 2016 Proposal?**

Overall, we did not identify specific circumstances in the revised proposed amendments that may result in economic impacts or unintended consequences beyond those described in the 2016 Proposal. However, we do call attention to both the “known unknowns,” the effects we know we do not know, and also the “unknown unknowns,” that is, those effects we do not know we do not know. As such, we recommend extensive application guidance with examples to reflect the PCAOB’s intent.

**Are there any other matters not addressed in this release that the PCAOB should consider in its economic analysis?**

We recommend the PCAOB consider the difficulties encountered and resources used by firms in complying with PCAOB standards, AICPA AU-Cs, and IAASB ISAs. All are high quality standards, particularly when one strips away independence requirements. By having to maintain different or overlapping methodologies, the resources of firms, from staff through partner level, both on the engagement teams and in national office functions, are pulled away from the pure concept of performing high quality audits. We recommend the PCAOB evaluate the cost-benefit to the public interest of the PCAOB having a completely different set of standards versus having purely incremental standards to US GAAS.