

November 22, 2021

PCAOB
Office of the Secretary
1666 K Street, NW
Washington, DC 20006-2803

Email: comments@pcaobus.org

RE: PCAOB Rulemaking Docket Matter No. 042

The views expressed herein are a joint response written on behalf of the Professional Standards Committee (PSC) of the Texas Society of CPAs. The committee has been authorized by the Texas Society of CPAs' Board of Directors to submit comments on matters of interest to the membership. The views expressed in this document have not been approved by the Texas Society of CPAs' Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the Texas Society of CPAs. Please find our responses below to the amendments proposed in the above-referenced exposure draft.

Request for Comments:

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

We have not noted any significant changes to auditor 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 recent global pandemic has affected the operations of many companies, including audit firms. International travel is in a state of constant disruption, which may lead to the use of other auditors in affected areas in order to complete audits of multinational companies.

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?

The definitions presented in the proposal are clear.

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?

The proposed considerations regarding the lead auditor's role in performing an audit are clear as presented. However, the proposed responsibilities may not be appropriate. The PCAOB appears to be shifting the regulatory responsibility to the auditor. Where previous guidance relied on the judgment of primary auditor with regards to the use of other auditors, the PCAOB seems to be adding this prescriptive requirement in order to impact the responsibility of the lead auditor and possibly affect future inspections. Also, there may be limitations placed on auditors by certain sovereign nations that may preclude lead auditors from exercising control to the extent appropriate to accomplish the objective as stated in this proposal.

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 do not think that the proposed responsibilities regarding other auditors' independence and ethics requirements are appropriate. In the proposal, the lead accountant is being asked to perform regulatory duties of the PCAOB. Instead, the objective could be obtained by requiring audit firms to be registered with the PCAOB, making them subject to all PCAOB requirements. This option would allow the PCAOB to provide investors a uniform source of auditors to the investing community who can be used interchangeably as lead or other auditors. Lead auditors and investors would have the full faith and commitment of the PCAOB under this type of arrangement. Appropriate records of registration with the PCAOB would become a routine part of the inspection process.

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?

Again, while the proposed amendments are clear, they may not be appropriate. Allowing only firms registered with the PCAOB to participate in audits of public companies will assure lead auditors of compliance with PCAOB standards when using other auditors. The standards of the PCAOB are clear and well written, providing a basis for consistent application for firms registered with the PCAOB. The proposed amendments could be modified to require all entities engaged in a public entities assurance engagement to be registered entities. This requirement would be subject to PCAOB review and provide additional confidence to investors.

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?

The proposed amendments are clear. However, the proposal would require the lead auditor to supervise the other auditor as if they were the lead auditors' employees. This may require smaller firms to hire additional staff to be able to complete the audit work instead of utilizing outside auditors. The proposal may also result in scope limitations in certain jurisdictions that prohibit U.S. firms from performing audit work if lead auditors are unable to locate other auditors who will meet these proposed requirements.

8. In multi-tiered audits, are the proposed requirements for situations in which the lead auditor directs another 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?

The proposed requirements are clear. However, additional guidance on the type of firm that can be used internationally would be beneficial to the lead auditor. The additional guidance should include peer or regulatory review requirements of the other auditor. This additional guidance would provide the lead auditor confidence that firms being utilized are held to objective, verifiable and reliable international standards that are monitored by agencies such as the PCAOB.

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?

The standards as proposed are clear and appropriate. However, the proposal should also require allowable oversight and review by the PCAOB or similar international body that provides assurance to the auditor that uniform professional oversight supports the audit process. As presented, the auditor is being asked to provide efforts that cover both audit process and oversight process.

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 in AS 1206 are clear and appropriate.

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?

The proposed amendments to AS 1105.B1 appear clear and appropriate.

We appreciate the opportunity to provide input into the standards-setting process.

Sincerely,

A handwritten signature in cursive script that reads "Lyle C. Joiner".

Lyle C. Joiner, CPA
Chair, Professional Standards Committee
Texas Society of Certified Public Accountants