



Crowe LLP

Independent Member Crowe Global

One Mid America Plaza, Suite 700

Post Office Box 3697

Oak Brook, Illinois 60522-3697

Tel +1 630 574 7878

Fax +1 630 574 1608

www.crowe.com

November 30, 2021

Public Company Accounting Oversight Board
comments@pcaobus.org

Re: PCAOB Rulemaking Docket Matter No. 042

To the Board:

Crowe LLP appreciates the opportunity to comment on the 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*, as per PCAOB Release No. 2021-005 dated September 28, 2021 ("2021 SRC" or "the proposal").

We agree that the unique challenges associated with the use of other auditors in an audit engagement can impact audit quality. We support the issuance of an updated, modernized standard that would drive increased audit quality and less diversity in practice related to a lead auditor's supervision of other auditors. We appreciate the modifications made to the 2021 SRC, which are responsive to some of the feedback provided in the 2017 supplemental request for comment ("2017 SRC").

Other standard setters are currently making modifications to their audit standards related to group audits and the use and supervision of other auditors. For example, in April of 2020 the International Auditing and Assurance Standards Board issued an Exposure Draft *Proposed International Standards on Auditing 600 (Revised): Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors) and Proposed Conforming and Consequential Amendments to Other ISAs* ("Proposed ISA"). The final standard is expected to be issued later this year. The IAASB proposal has similar goals related to better communication between lead and component auditors, more consistency in the application of the standard, and improving audit quality. The Auditing Standards Board is currently drafting an Exposure Draft on this topic, as well, which is expected to be issued during the first quarter of 2022 and anticipated to be largely convergent with the Proposed ISA. We believe it is important that all three standards have compatible requirements to achieve the common objective of improving audit quality.

Overall and Background

Questions:

1. *In recent years, have there been 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 biggest changes related to auditor practices and the interactions between lead auditors and other auditors primarily pertain to advancements in technology resulting in the ability to work virtually / remotely, and new means and methods for the sharing and exchange of information. These changes have reduced the impact that *physical* location – of human resources as well as audit evidence and documentation – have on the way in which audits are executed. These same changes impact how issuers prepare their financial reporting and implement internal controls over financial reporting. The COVID-19 pandemic accelerated the pace of change because of imposed restrictions on traveling and gathering in groups, though many firms and issuers operated in a hybrid work environment pre-pandemic.

Specifically, the enhanced ability to effectively work remotely means that audit engagement teams (and issuer personnel) are influenced less by *where they are physically located* and more by *how the professionals work together and the mediums through which they communicate*. Further, workpapers and documentation that used to exist primarily in manual form are, more and more, originated as or transformed into digital form. Elements of the 2021 SRC seem to be focused on the physical location of auditors or client personnel. While this is a factor in determining how to interact or perform audit procedures; the ability to communicate, view and exchange information, and perform audit procedures is not precluded (in many cases) by lack of physical proximity. The issued standard should be responsive to the current work environment and flexible enough to support the expected continuing evolution in technology and where and how audits can be performed.

Definitions

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?*

Yes, we believe these definitions are sufficiently clear. Specifically, we appreciate the inclusion of “other engagement team members who both: (1) Are partners, principals, shareholders, or employees of the registered public accounting firm issuing the auditor’s report (or individuals who work under that firm’s direction and control and function as the firm’s employees); and (2) Assist the engagement partner in fulfilling his or her planning or supervisory responsibilities on the audit...” as part of the lead auditor. This principles-based definition allows for the appropriate inclusion of employees of shared service centers, temporary employment agencies, inventory counting services, and others who, in effect, function as the firm’s employees as part of the lead auditor.

Planning the Audit

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 appreciate the revisions to the 2017 SRC which are reflected in the 2021 SRC, related to the lead auditor’s responsibilities regarding other auditors’ compliance with the independence and ethics requirements. Related to the proposal, we believe it is important for the PCAOB to consider the International Ethics Standards Board for Accountants’ group audits independence project in finalizing the proposed revisions to the standards.

Supervising 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 agree that the lead auditor takes responsibility for the overall audit process through the direction and supervision of other auditors, and that sufficient and appropriate supervision by the lead auditor is critical to audit quality. However, the proposals in the 2021 SRC may not be sufficiently flexible to reflect the manner and frequency with which lead auditors and other auditors interact, including for purposes of risk assessment and the design (and execution) of further audit procedures.

Communication About Risks of Material Misstatement

The proposal indicates that “AS 1201 would require the lead auditor to inform other auditors in writing of the following matters: The scope of work to be performed by the other auditor ...; and With respect to the work requested to be performed: the identified risks of material misstatement, tolerable misstatement, and the amount (if determined) below which misstatements are clearly trivial and do not need to be accumulated.” We believe that this communication would occur based on the lead auditor’s initial planning of the audit including the scope related to multiple locations and business units (further communications may occur, based on the iterative nature of risk assessment). This proposed requirement is critically integrated with the retained portions of the engagement standards which recognize that additional risks of material misstatement to the company’s financial statements may be identified by other auditors, who could be more familiar than the lead auditor with a particular location or business unit where such risks may originate. Two-way communication between the lead auditor and the other auditor is critical to the identification of risks of material misstatement and the development of appropriate audit responses.

Required Written Communications Related to Other Auditors’ Responsibilities and Audit Procedures to Be Performed by the Other Auditors

The proposal indicates that “AS 1201 would require the lead auditor to inform other auditors in writing of the following matters: The scope of work to be performed by the other auditor (e.g., location or business unit and the general type of work to be performed, which could range from a few specified audit procedures to a standalone audit).” In addition, the proposed amendments to AS 1201 would require the lead auditor to obtain and review the other auditor’s written description of audit procedures to be performed, determine whether any changes to the other auditor’s planned audit procedures are necessary, and if so, discuss the changes with, and communicate them in writing to, the other auditor.

Again, we agree that sufficient and appropriate supervision by the lead auditor is critical to audit quality. We also appreciate that there are a number of unique challenges related to communication and coordination between lead auditors and other auditors. The 2021 SRC indicates that the intent of these requirements is to provide flexibility to accommodate different situations, such as when an other auditor has a depth of knowledge about a business unit and maybe be more involved in determining further audit procedures for that business unit, as well as when the lead auditor’s necessary extent of supervision may result in the lead auditor being more prescriptive about the audit procedures to be done for the business unit. However, we believe that the requirement for each of these communications to occur in writing is not reflective of how lead auditors and other auditors currently interact and exchange information.

As stated earlier in this letter, two-way communication between the lead auditor and the other auditor is critical to the identification of risks of material misstatement and the development of appropriate audit responses. To be most effective, these interactions should occur frequently and may take place throughout the audit, based on the iterative nature of risk assessment. We believe that current standards, and elements of standards proposed to be retained with the 2021 SRC, have requirements that drive these communications. The requirement to communicate, in writing, all exchanges related to any risks of material misstatement, designed audit responses, changes to designed audit responses (all relative to the work to be performed by the other auditor), is overly prescriptive and does not reflect the manner in which many lead auditors and other auditors interact.

The initial communication by the lead auditor to the other auditor about the scope of work, type of work to be performed, initial risk assessment, and certain materiality assessments should be in writing in accordance with the standards in planning the audit and supervision. The final procedures performed by

the other auditor and the results of those procedures should also be communicated in writing, to support the lead auditor's assessment of the results and determination that the audit procedures are sufficiently responsive to the identified risks. During the course of the audit, based on advancements in technology and changes in the way lead auditors and other auditors work together (as discussed earlier in this letter), lead and other auditors can and frequently do communicate in other ways, such as during video meetings. This is frequently used as a way for lead auditors to supervise other auditors. During such video meetings or other real-time remote conversations, lead and other auditors are able to exchange information about risk assessment, planned audit responses, and results. These discussions may result in changes to the audit plan which are appropriate based on the communication and collaboration between the lead and other auditors. During such discussions, the lead auditor is also clarifying with engagement team members (the other auditor) their responsibilities for the audit, as required by AS 1201. The requirement to document each and every such exchange in writing would be time consuming and costly while, in many cases, not driving an increase in audit quality. The proposed amendments are meant to be scalable, whereby the lead auditor determines the extent of supervision of the other auditors' work in accordance with paragraph .06 of AS 1201. Given that, we believe the lead auditor should be able to apply their judgment in determining which of these frequent interactions need to be formally communicated in writing in order to ensure that the parties to the communications are fully aware of the modifications from the most recent written communications. In accordance with AS 1215.12f, this would include *significant* changes in the auditor's (lead auditor or other auditor) risk assessments and the modifications to audit procedures or additional audit procedures performed in response to those changes.

Proposed Effective Date

The 2021 SRC indicates that "the Board is considering whether compliance with the proposed amendments and new auditing standard should be required for audits of fiscal years beginning in the year after approval by the SEC (or for audits of fiscal years beginning two years after the year of SEC approval if that approval occurs in the fourth quarter)". We don't believe that the proposed effective date allows firms enough time to prepare for implementation of the proposed amendments and proposed standard. Many of the changes proposed relate to planning the audit to determine the scope and the involvement of other auditors, which activity occurs early in the audit engagement. Audit firms need sufficient time to update firm methodology, tools, and guidance as well as provide training on the final revised and new standards. We recommend that the final revised and new standards should be required no sooner than for audits of fiscal years beginning two years after approval by the SEC (or three years if SEC approval occurs in the fourth quarter).

We would be pleased to respond to any questions regarding our observations noted within this letter. If there are any other questions regarding this subject, please contact Kyle Owens at 630.575.4265 or Linda Poeschel at 630.586.5258.

Sincerely,

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

Crowe LLP