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November 29, 2021

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

Re: PCAOB Rulemaking Docket Matter No. 042

Deloitte & Touche LLP (“D&T” or “we”) is pleased to respond to the request for comments from the Public Company Accounting Oversight Board (the “PCAOB” or the “Board”) on PCAOB Release No. 2021-005, *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* (“the 2021 Proposal” or “the 2021 Release”), which addresses certain revisions to PCAOB Release No. 2017-005, *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*, from September 27, 2017 (collectively, “the 2017 Proposal” or “the 2017 Release”) and PCAOB Release No. 2016-002, *Proposed Amendments Relating to the Supervision of Audits Involving Other Auditors and Proposed Auditing Standard — Dividing Responsibility for the Audit with Another Accounting Firm*, from April 12, 2016 (collectively, “the 2016 Proposal” or “the 2016 Release”) as well as other matters related to audits that involve accounting firms and individual accountants outside the accounting firm that issues the audit report.

OVERALL COMMENTS

We support the Board’s efforts to enhance the standards of the PCAOB that address audits involving accounting firms and individual accountants outside the accounting firm that issues the auditor’s report and to align the applicable requirements with the PCAOB’s risk-based standards. These situations are common in today’s global economy in which companies have operations throughout the world and workforces are increasingly remote.

Similar to our [2017 response](#) and [2016 response](#) to requests for comment on the 2017 Release and 2016 Release, respectively, we are supportive of the objectives of the Board’s 2021 Proposal. We commend the Board for its responsiveness to commenters’ suggestions for further improvement as demonstrated through the additional revisions in the 2021 Proposal. We offer certain constructive suggestions in this letter with the objective of having a final standard that clarifies the lead auditor’s responsibilities with respect to other auditors, including providing additional factors to consider on how to apply the principles-based supervisory requirements of the standards, including when a referred-to auditor is involved. A brief summary of the key matters for additional consideration that we have identified are as follows, with further detailed comments in [Appendix 1](#)):

Definition, Roles, and Responsibilities of the Lead Auditor. We believe the consideration of multiple criteria is important when determining which registered accounting firm can act as the lead auditor. We support the proposed amendments related to serving as the lead auditor; however, we recommend further modifications to give appropriate recognition to qualitative factors that are critical in determining the sufficiency of the lead

auditor's participation in the audit. We also offer suggestions to clarify the 2021 Proposal related to the definition of lead auditor and secondees.

Dividing Responsibility for the Audit with Another Accounting Firm. We fully support the continued practice of enabling registered accounting firms to make reference to the audit of an other auditor in the auditor's report. Our observations and recommendations serve to preserve and enhance a longstanding and necessary practice.

Multi-Tiered Audits and Audit Documentation. Accounting firms continue to evolve and innovate in terms of organizational structure, engagement team composition, and audit execution techniques. Having professional standards that can be operationalized in an environment in which work structures and the nature of audit evidence continues to change is critical to the execution of high-quality audits. We offer suggestions that recognize how audits are being enhanced by new technologies.

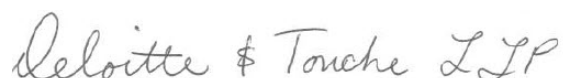
Effective Date. We strongly recommend an effective date for audits with fiscal years beginning no sooner than two years after the approval by the Securities and Exchange Commission (SEC) (or for audits of fiscal years beginning three years after the year of SEC approval if that approval occurs in the third or fourth quarter). It is essential that public accounting firms have sufficient time to determine the impacts of the PCAOB's 2021 Proposal, including in relation to the International Auditing and Assurance Standards Board's (IAASB) standards, particularly Proposed International Standard on Auditing (ISA) 600 (Revised), *Audits of Group Financial Statements (Including the Work of Component Auditors)*, in order to enable consistent global implementation.

We also offer editorial comments in [Appendix 2](#).

* * *

D&T appreciates the opportunity to provide our perspectives on these important topics. The potential benefits of the 2021 Proposal are significant and, while some of these considerations are complex and challenging, we do not believe any should stand in the way of completing this important project. We stand ready to engage constructively with the Board and other stakeholders to provide our perspective and experiences in order to facilitate the finalization of the PCAOB's auditing standards that will enhance audit quality. If you have any questions or would like to discuss these issues further, please contact Jennifer Haskell at 203-761-3394 or Dora Burzenski at 206-716-7881.

Very truly yours,



Deloitte & Touche LLP

cc: Duane M. DesParte, Acting PCAOB Chairperson
Christina Ho, PCAOB Member
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APPENDIX 1

Definition, Roles, and Responsibilities of the Lead Auditor

As articulated in the “Overall Comments” section of this letter, we recognize and support the Board’s objectives and believe that sufficient oversight and involvement by the lead auditor in an audit that involves other accounting firms is critical to audit quality. We fully support strengthening requirements in the PCAOB’s standards in this area. As noted in the 2016 and 2017 Releases, many accounting firms and networks, including the Deloitte network, have adopted requirements and guidance beyond the requirements of existing AS 1205, and we believe embedding leading practices into the standards of the PCAOB is appropriate and will be beneficial to audit quality.

Serving as the Lead Auditor (2021 Release Question #4). We believe the consideration of multiple criteria is important when determining which registered accounting firm can, and should, act as the lead auditor, and we commend the Board in being responsive to previous requests for comment by expanding PCAOB AS 2101.06A to include additional factors beyond just the consideration of the risks of material misstatement; however, we believe additional changes are needed in the area of determining sufficiency of participation to serve as lead auditor.

Since the 2016 and 2017 Releases, we have continued to see advancements in how companies and their personnel, financial reporting systems, and related data are organized, including organizational structures whereby executives and key decision makers are physically located away from any operations of the company or companies that are entirely virtual (i.e., there is no office or physical work site where employees work). In addition, there are situations in which importance, risk, and extent of supervision may lead to more than one conclusion about the lead auditor, and other situations where determination based on importance, risk, and extent of supervision may conflict with auditor licensing requirements based on the legal domicile of the company. We recognize that page 16 of the 2021 Release clarifies that the requirement to consider the engagement partner’s firm’s extent of supervision of other auditors’ work is intended to address these scenarios; however, we suggest that the proposed standard provide explicit wording that the lead auditor determination is also based on these factors (i.e., legal domicile, licensing requirements, location of company executives, location of primary financial reporting decision-making, location where the consolidated financial statements are prepared, as well as situations where no single accounting firm audits a more than minor portion of the total work). This explicit wording would be consistent with existing AS 1205.02, which acknowledges there can be circumstances in which the other auditors perform a large portion of the work and in which the lead auditor’s participation in the other auditors’ work is sufficient based on the extent of their knowledge of the overall financial statements, among other factors.¹

In addition, while we acknowledge the PCAOB’s perspective that affiliation through a network does not automatically provide the lead auditor with an understanding of the other affiliates’ processes and experiences (page 24 of the 2021 Release), we believe that if a shared system of quality control at the network level exists and is operating effectively, reliance by the lead auditor on such commonalities can influence the nature, timing, and extent of direction and supervision of other auditors from the same network. A shared system of quality control, when operating effectively, provides shared methodologies and a common “language” and understanding that is distinct from other auditors outside of the network. We suggest that the proposed standard recognize this distinction as part of its risk-based, scalable approach to direction and supervision.

Additional Considerations When Serving as the Lead Auditor. As noted in the previous comment, we are supportive of including additional items for the lead auditor to consider as they determine whether they can serve as the lead auditor. We also have incremental observations related to proposed AS 2101.06A.a, which states, “In making this determination, the engagement partner should take into account the following... a. The importance of the locations or business units for which the engagement partner’s firm performs audit procedures

¹ See Deloitte’s comment letters in response to the 2016 and 2017 Releases for further explanation of this concern and examples of situations in which the lead auditor does not audit a significant portion of the company’s operations.

in relation to the financial statements of the company as a whole, considering quantitative and qualitative factors” We note that in identifying and assessing the risks of material misstatement in a multilocation audit, the auditor is required to consider the factors in proposed AS 2101.12. As we believe these factors already address the “importance” of the locations or business units for which the lead auditor is performing procedures as well as “the consideration of quantitative and qualitative factors,” the incremental effort that would be expected to “take into account importance” is not apparent. We therefore recommend that a specific reference to proposed AS 2101.12 be included in this factor. In addition, if the Board believes that consideration of the items in proposed AS 2101.12 may not adequately address the requirement in proposed AS 2101.06A, we recommend the Board identify the additional factors to be considered.

Consistent Definition of Engagement Team Across All Standards. The term “engagement team” is defined in proposed AS 2101.A3; however, the definition is only for purposes of proposed AS 2101, proposed AS 1206, and proposed AS 1201. We are concerned that there are implications to other standards when applying the new proposed amended definition of “engagement team.” We encourage the PCAOB to revisit instances of the term “engagement team” in existing standards² (including those not contemplated in the 2021 Release) and determine whether there are implications to those standards when applying the new proposed amended definition. In addition, we have specific observations with the following paragraphs:

- Proposed AS 1220.10d states, “In an audit, the engagement quality reviewer should ... d. Review the engagement team’s evaluation of the firm’s independence in relation to the engagement.” Proposed AS 2101.06D requires that in an audit that involves other auditors, the lead auditor should, with respect to each other auditor, perform procedures in conjunction with determining compliance with SEC independence requirements and PCAOB independence and ethics requirements. Therefore, we believe that it would only be relevant for the engagement quality reviewer to review the lead auditor’s evaluation of the firm’s independence in an audit that involves other auditors. However, as written, given that the term “engagement team” includes other auditors, proposed AS 1220.10d would require the engagement quality reviewer to pierce through and review other auditor’s independence conclusions (versus reviewing the lead auditor’s conclusions). As such, we recommend the PCAOB modify proposed AS 1220.10d to reflect that the engagement quality reviewer reviews the lead auditor’s evaluation of the firm’s independence.
- AS 1220.10j states, “In an audit, the engagement quality reviewer should ... Based on the procedures required by this standard, evaluate the engagement team’s determination, communication, and documentation of critical audit matters in accordance with AS 3101, *The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion.*” We believe that it would only be relevant for the engagement quality reviewer to evaluate the lead auditor’s determination, communication, and documentation of critical audit matters in an audit that involves other auditors; we therefore recommend the PCAOB modify AS 1220.10j to reflect this recommendation.

In addition, we observe that page 29 of the 2021 Release implies the PCAOB’s intent is that only other auditors (not referred-to auditors) would be deemed key engagement team members.

Page 29: “For example, for audits involving other auditors, AS 2110.49-.53 would require the auditor to hold brainstorming discussions about risks of material misstatements **with other auditors who are key engagement team members**. For audits involving referred-to auditors, proposed AS 1206 describes interactions between the lead auditor and the referred-to auditor.”

As a result, we recommend that the PCAOB explicitly state this in the PCAOB standards, and therefore revise footnote 15 to proposed AS 1201.08 and proposed AS 2110.50.

Serving as the Lead Auditor When Referring to Another Auditor. Proposed AS 2101.06A states, “In addition, in an audit that involves referred-to auditors (see AS 1206), the participation of the engagement partner’s firm

² Examples of standards in which the term “engagement team” is used include AS 1015, AS 1210, AS 1215, AS 1220, AS 1301, AS 2110, AS 2201, AS 2301, AS 2410, AS 2810, AS 3101, AS 4105, and AS 6115.

ordinarily is not sufficient for it to serve as lead auditor if the referred-to auditors, in aggregate, audit more than 50 percent of the company's assets or revenues." Use of the term "or" in that phrase means that either assets or revenues alone could preclude the lead auditor from making reference to a referred-to auditor. There are scenarios in which either assets or revenues audited by the referred-to auditor are greater than the assets or revenues audited by the lead auditor, such as when consolidated revenues of the company overall are nominal, however the amounts that do exist are audited by the referred-to auditor. If the goal of the PCAOB is to ensure that the lead auditor does not refer to another auditor in situations in which they haven't sufficiently participated, then use of "or" will allow for false positives and restrict the ability of the lead auditor to appropriately make available to them the option of making reference. Therefore, we recommend modifying proposed AS 2101.06A as follows:

In addition, in an audit that involves referred-to auditors (see AS 1206), the participation of the engagement partner's firm ordinarily is not sufficient for it to serve as lead auditor if the referred-to auditors, in aggregate, audit more than 50 percent of the company's assets and ~~or~~ revenues.

Existence of Lead Auditor (2021 Release Question #3). We believe there is a lack of clarity on whether the firm issuing the auditor's report is a "lead auditor" when the audit does not involve other auditors or referred-to auditors. This may create confusion as to who is responsible for fulfilling certain requirements in the standards as well as confusion as to the composition of the engagement team. For example:

- Proposed AS 2101.04 and proposed AS 2101.06A imply that a lead auditor exists only when the audit involves other auditors or referred-to auditors.
- Proposed AS 2101.A4 defines the term "lead auditor" but is silent as to whether an other auditor or referred-to auditor needs to also exist.
- However, proposed AS 2101.A3 defines the term "engagement team" to include "(1) partners, principals, and shareholders of, and accountants and other professional staff employed or engaged by, the lead auditor..." and "(2) specialists who (i) are employed by the lead auditor..." Therefore, the definition of "engagement team" appears to be contingent upon the existence of a lead auditor. We suggest that the proposed standard explicitly acknowledge, indicative of the PCAOB's intention, either: (1) the registered public accounting firm that issues the auditor's report is always the lead auditor, including when there are no other auditors or referred-to auditors or (2) the registered public accounting firm that issues the auditor's report is only a lead auditor if the audit involves other auditors or referred-to auditors (and therefore modifications would need to be made to the definition of engagement team).

Secondees (2021 Release Question #3). The definition of "lead auditor" in the Appendix to proposed AS 2101 states, "Individuals such as secondees who work under the direction and control of the registered public accounting firm issuing the auditor's report would function as the firm's employees." Footnote 5 to the Appendix goes on to state "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 with respect to entities in that other country (and not performing more than de minimis audit procedures over the term of the secondment in relation to entities in the country of his or her employer)." Over the past few years, there has been a shift in how secondees are managed. Often, secondees from one country do not physically relocate to where the country and office of the registered public accounting firm issuing the auditor's report is located. We believe that an employee from one country should be able to be considered "seconded" even if they don't physically relocate, as long as they meet the remaining requirements of footnote 5. We recommend that the PCAOB modify footnote 5 to reflect this view as well as to be consistent with current practice and to address the evolving nature of remote and virtual workforces. We acknowledge that Form AP guidance uses similar language for secondment arrangements, and we recommend that consistent modifications also be made to such guidance.

Dividing Responsibility for the Audit with Another Accounting Firm

The ability for the lead auditor to divide responsibility for the audit with another accounting firm is a recognized and allowable approach in the United States, and there are no compelling practice issues we are aware of that would suggest a need to change an approach that has long been permitted. Therefore, we do not believe that additional requirements, including supervisory requirements, are necessary to describe the responsibilities of the engagement partner's firm in situations in which the lead auditor divides responsibility for the audit. We believe that certain aspects of proposed AS 1206 are in conflict with the Board's goals with respect to divided responsibility, and we further describe our observations and recommendations below.

The Principles Underlying Division of Responsibility. Currently, the decision to divide responsibility most often happens when a significant transaction occurs toward the end of the fiscal year and the lead auditor determines that they will not have appropriate time to assume responsibility for work performed by the other auditor. It could also occur when there is an investment accounted for using the equity method along with an inability to obtain unfettered access to the necessary people and information in order to assume responsibility for the work of the investee auditor. In such circumstances the auditor's report provides transparency to the users of the audited financial statements about the responsibility taken by the lead auditor, as often evidenced with language similar to: "Our opinion insofar as it relates to Subsidiary B is based solely on the opinion of the other auditor."

The 2021 Proposal, however, contains additional requirements that go beyond current practice and that may result in more opaqueness around the responsibility and activities the lead auditor is required to undertake with respect to the referred-to auditor. Specifically, proposed AS 2101.14, proposed AS 2110.11A, and proposed AS 2401.53 as it relates to the lead auditor's involvement in the referred-to auditor's audit are not consistent with the principles underlying dividing responsibility.

The 2017 Release (page 28) discusses the diminishing of the clear line between assuming and dividing responsibility by referencing consistency with the following existing requirement in AS 1205.10, which states:

He also should adopt appropriate measures to assure the coordination of his activities with those of the other auditor in order to achieve a proper review of matters affecting the consolidating or combining of accounts in the financial statements....

We respectfully submit our view that the proposed changes are not consistent with the current AS 1205, including AS 1205.10. We therefore recommend, consistent with our 2016 and 2017 comments,³ that the Board remove the requirements in proposed AS 2101.14, proposed AS 2101.06A.b as it relates to referred-to auditors, proposed AS 2110.11A, and proposed AS 2401.53, as we do not believe these activities are necessary in a scenario in which a referred-to auditor is involved, nor are they required to be performed today.

Disclosures. Proposed AS 1206.08(c) states that the lead auditor's report should "[d]isclose the magnitude of the portion of the company's financial statements, and if applicable, internal control over financial reporting, audited by the referred-to auditor." Furthermore, the second note to proposed AS 1206.01 states that "[t]his standard applies when the lead auditor divides responsibility for the audit with one or more referred-to auditors. When there is more than one referred-to auditor, the lead auditor must apply the requirements of paragraphs .03-.09 of this standard [AS 1206] in relation to each of the referred-to auditors individually." In current practice, if there is more than one referred-to auditor, the auditor's report generally combines the disclosure about the magnitude of the portion of the company's financial statements and, if applicable, internal control over financial reporting, for all referred-to auditors, which has been a longstanding and accepted practice with auditor's reports filed with the SEC. We recommend that the Board clarify whether the intention is to require that this information be disclosed for each referred-to auditor individually and consider, in making this clarification, how this would conflict with current practice and what is currently acceptable to the SEC.

In addition, we believe the following edit to proposed AS 1206.08(c) is important as it provides the necessary flexibility as to the criteria that are used and referred to in the auditor's report. The existing use of "and"

³ See the Deloitte comment letters for the 2016 and 2017 Releases for further discussion on this topic.

implies that the criteria used and referred to always includes total assets and total revenues and other appropriate criteria; however, this is not always the case. Furthermore, we note that Section 4140.3 of the FRM only requires that the principal auditor's report "indicate clearly the division of responsibility between the principal auditor and the other auditor...." and does not state the criteria that must be considered or referred to:

Disclose the magnitude of the portion of the company's financial statements, and if applicable, internal control over financial reporting, audited by the referred-to auditor. This may be done by stating the dollar amounts or percentages of total assets, total revenues, ~~or~~ **and** other appropriate criteria necessary to identify the portion of the company's financial statements audited by the referred-to auditor.

Multi-Tiered Audits and Audit Documentation (2021 Release Questions #1, #2, #7, and #8)

Accounting firms continue to evolve and innovate in terms of organizational structure, engagement team composition, and audit execution techniques. This means that:

- Engagement team members may not all be from the same office (even when they are from the same firm).
- Some engagement team members may work partially remotely, mostly remotely, or fully remotely.
- Audit tools and techniques are becoming more data driven.
- Audit documentation and retention methods are increasingly paperless and virtual in keeping with similar changes in company record retention.

In addition to the evolution occurring at accounting firms, the structure of registrants being audited by the accounting firms is also continuing to evolve. For example, registrants are continuing to centralize activities and processes to be applicable to more than one location or business unit (e.g., shared service centers or centralized processing activities). The registrant's organizational structure and information system directly impact the lead auditor's audit plan, including whether the financial information of certain locations or business units may be considered together for purposes of planning and performing audit procedures. For example, a registrant may have three legal entities with similar business characteristics operating in the same geographical location under the same management and using a common system of internal control, including the information system. In these circumstances, the lead auditor may decide to treat these three legal entities as one location or business unit. It is important that the PCAOB's auditing standards are operationalized in an environment in which work structures and the nature of audit evidence will continue to change. Given these considerations, we have observations as follows:

- Proposed AS 1201.10 states, "The lead auditor should determine whether any changes to the other auditor's planned audit procedures (see paragraph .09) are necessary, and if so, should discuss the changes with, and communicate them in writing to, the other auditor." We appreciate the need for documentation between the lead auditor and the other auditors; however, we respectfully resubmit the view expressed in our firm's response to the 2016 and 2017 Releases that requiring changes in the nature, timing, and extent of audit procedures be in writing in all cases seems overly onerous and inconsistent with current practice of how the engagement partner (or engagement team members who assist with fulfilling the engagement partner's responsibility pursuant to proposed AS 1201) would manage communications about necessary changes in work performed by engagement team members. Determining whether changes to audit procedures are necessary and making the necessary communications often involves a collaborative effort between engagement team members and results in direct changes to related working papers (versus a separate document identifying the change in addition to the change in the related working paper). As the lead auditor may have the ability to review working papers of the other auditor, the lead auditor has the ability to determine that changes to audit procedures were appropriately incorporated; therefore, having written acknowledgement seems unnecessary. In addition, technology-enabled audit platforms and communication tools often allow lead auditors and other auditors to communicate and view work electronically and in real time. Therefore, we suggest that the requirement support more flexibility and an iterative collaborative approach. We recommend that the 2021 Proposal state that the lead auditor

determines when and how to communicate changes to the other auditor's planned audit procedures as well as the need to maintain related documentation.

- Proposed AS 1201.09 states, "The lead auditor should obtain and review the other auditor's written description of the audit procedures to be performed pursuant to the scope of work described in paragraph .08a." As noted above, given that the lead auditor may have the ability to review working papers of the other auditor and technological advances are changing how we perform audits whereby the lead auditor and the other auditors are able to communicate and view work electronically, we recommend the requirement be amended to remove "obtain." This additional layer of documentation that proposed AS 1201.09 is requiring to be "obtained" by the lead auditor, however not required to be "retained" in the audit documentation, is unnecessary and will result in confusion as to what the lead auditor should do with other auditor audit documentation that they obtain but don't need/want to keep.
- Proposed AS 1201.11 states, "The lead auditor should obtain and review a written affirmation as to whether the other auditor has performed the work in accordance with the instructions described in paragraphs .08-.10" To be consistent with AS 1215.19, we believe modifications to proposed AS 1201.11 are needed, such that the lead auditor should retain the affirmation.

Determining the Other Auditor's Compliance with Independence and Ethics Requirements

We commend the PCAOB for its responsiveness to our observations raised in our 2017 comment letter with respect to the lead auditor gaining an understanding of the other auditors' processes for determining compliance with SEC independence requirements and PCAOB independence and ethics requirements, and we offer further suggestions to refine various requirements.

Written Affirmations. Proposed AS 2101.06Db(3) requires the lead auditor to obtain from each other auditor a written affirmation as to whether the other auditor is in compliance with SEC independence requirements and PCAOB independence and ethics requirements (the "independence and ethics requirements") with respect to the audit client. We are supportive of the addition of the language "with respect to the audit client" in the 2021 Proposal, and in addition, we suggest this wording also be added to proposed AS 2101.06D. However, we believe that additional guidance is needed to specify how broadly (or narrowly) the independence and ethics requirements must be applied by other auditors in their determination of compliance with respect to the audit client. We encourage the PCAOB to consider the International Ethics Standards Board for Accountants' (IESBA's) project to revise their International Independence Standards (IIS), specifically *Engagement Team — Group Audits Independence*, and undertake similar efforts to provide clarity on the application of independence and ethics requirements for other auditors. An objective of the IESBA's project is to revise the IIS so that they are robust, comprehensive, and clear when applied in a group audit context. While the IESBA's project is currently in the exposure draft development stage, the proposed revisions include guidance on independence considerations applicable to network firms of group auditor firms and component auditor firms outside a group auditor firm's network. Because many public accounting firms that follow PCAOB standards are also subject to the IIS, we suggest, and are supportive of, PCAOB convergence with the IIS on this matter. Pages 12-13 of the 2021 Release discuss the definition of lead auditor, including "individuals who work under that firm's direction and control and function as the firm's employee." The 2021 Release states the following:

Importantly, the responsibilities of the engagement partner and other appropriate engagement team members for considering the independence and knowledge, skill, and ability, and for planning and supervising the work of these individuals under PCAOB standards would be the same as for employees of the lead auditor's firm who work on the audit.

Recognizing that some of the independence rules apply broadly to all employees in the firm, not only members of the audit engagement team, we believe that additional clarification is needed regarding the independence requirements for the population of individuals who work under the firm's direction and control and function as the firm's employees (e.g., temporary contractors or others as described in the 2021 Release) and specifically regarding the above statement in the 2021 Release that the requirements are the same as for employees of the lead auditor's firm who "work on the audit." These individuals only function as the firm's employees for purposes

of the audit engagement(s) on which they work; therefore, we believe that these individuals should only have independence obligations with respect to those specific audit client(s) and not with respect to any other audit clients of the lead auditor's firm. We recommend that clarification be made in proposed AS 2101 to reflect this perspective.

Other Matters

Effective Date. In regard to the effective date considered by the Board, we strongly recommend an effective date for audits with fiscal years beginning no sooner than two years after the approval by the SEC (or for audits of fiscal years beginning three years after the year of SEC approval if that approval occurs in the third or fourth quarter). We believe that public accounting firms will need more than one year to determine the full impacts of the approved adopted amendments and new auditing standard, implement new policies and guidance, develop and facilitate related trainings, and coordinate quality control processes with the firm network, other auditors, and referred-to auditors to ensure effective implementation and compliance. Furthermore, we believe it is important to consider the IAASB's suite of international quality management-related standards that public accounting firms will be adopting in the near term and the significant implementation time and impact to auditor firms that these will have. Specifically, ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*; ISQM 2, *Engagement Quality Reviews*; and ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*, are all effective in 2022. In addition, similar to the PCAOB, the IAASB is revising its auditing standard related to group audits, including those in which other auditors are used (referred to in the ISAs as "component auditors"). Although it is not yet final, the IAASB's proposed ISA 600 (Revised), *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)*, is proposed to be effective for audits of group financial statements for periods beginning on or after December 15, 2023.

Equity Method Investments and Investee Auditors (2021 Release Question #11). We are supportive of the Board's determinations reflected in the 2021 Release related to equity method investments. We note that Page 47 of the 2021 Release states:

The proposed amendments would add "making inquiries as to the independence of the investee's auditor (under the applicable standards)" (i.e., whether the investee's auditor is independent of the investee) to the list of procedures in AS 1105.B1 that the investor's auditor may consider performing in determining whether the investee's auditor's report is satisfactory. AS 2101.06b requires the auditor to determine compliance with independence and ethics requirements. This includes determining whether PCAOB and SEC independence requirements are applicable. [Emphasis added]

Proposed AS 2101.06b states, "The auditor should perform the following activities at the beginning of the audit... Determine compliance with independence^{3A} and ethics requirements...." The associated footnote 3A states:

Under PCAOB Rule 3520, Auditor Independence, a registered public accounting firm or associated person's independence obligation with respect to an audit client encompasses not only an obligation to satisfy the independence criteria applicable to the engagement set out in the rules and standards of the PCAOB, but also an obligation to satisfy all other independence criteria applicable to the engagement, including the independence criteria set out in the rules and regulations of the Securities and Exchange Commission ("SEC") under the federal securities laws. [Emphasis added]

The reference within the 2021 Release to proposed AS 2101.06b creates confusion as to whether investee auditors are subject to the independence and ethics requirements of proposed AS 2101, especially considering the investee auditor has not been engaged to perform an audit (or audit work) on the audit client of the investor auditor. Footnotes 3 and 5 in Topic 4, Section 4110.5 of the *SEC Division of Corporation Finance's Financial Reporting Manual* (FRM) require the investee auditor to be independent under the SEC and PCAOB requirements when the equity method investee's financial statements are filed to satisfy the requirements of Rule 3-09 of Regulation S-K. We believe the PCAOB, through its inclusion of the wording on Page 47 of the 2021 Release, did

not intend to change current practice as it relates to using an investee auditor's audit report as evidence; however, further clarity is needed if a change in independence considerations was intended.

Specialized Skill or Knowledge. Proposed AS 2101.16, states, “[t]he auditor should determine whether specialized skill or knowledge, including relevant knowledge of foreign jurisdictions, is needed to perform appropriate risk assessments, plan or perform audit procedures, or evaluate audit results.” There are many examples of when specialized skills may be needed, and we believe existing AS 2101.16 allows for appropriate consideration. If added focus on knowledge of foreign jurisdictions is considered to be needed, we suggest that additional clarity as to when this is needed, and how it should be achieved, be provided in the standard. While page A4-25 of the 2016 Release implies that the reasoning for this change is to assist with gaining an understanding of the qualifications of the other auditor's supervisory personnel (and those who assist the lead auditor with planning or supervision), this addition to the requirement in proposed AS 2101.16 may not appear to achieve this goal, particularly in light of this requirement being applicable to “the auditor” (and therefore not limited to those other auditors who assist the lead auditor with supervisory activities). We recommend this proposed wording in proposed AS 2101.16 be removed.

APPENDIX 2

The comments noted in this section are intended to clarify the auditor performance requirements to avoid misinterpretation (additions in bold and underlined, deletions are struck through).

<p>PCAOB AS 1105.B, Footnote 1</p>	<p>We recommend making the following changes to reflect current practice:</p> <p>In determining whether the report of the investee’s auditor is satisfactory for this purpose, the auditor may consider performing procedures such as making inquiries as to the professional reputation, standing, and independence of the investee’s auditor (under the applicable standards), visiting interacting (e.g., using video conferencing technology or visiting the other auditor) with the investee’s auditor....</p>
<p>PCAOB AS 1201.08, Footnote 15</p>	<p>We recommend making the following changes to create consistency in terminology across the standards:</p> <p>See requirements in AS 2110.49-.53 with respect to discussions among key engagement team members (including those in differing locations which may include engagement team members outside the engagement partner’s firm) regarding risks of material misstatement including the potential for material misstatement due to fraud.</p> <p>We also recommend that the PCAOB make a conforming amendment as follows to AS 2110.50:</p> <p>Key engagement team members (which may include engagement team members outside the engagement partner’s firm) include all engagement team members....</p>
<p>PCAOB AS 1206.07</p>	<p>It is unclear that the circumstances described in proposed AS 1206.07 exist in situations in which the lead auditor originally expected to divide responsibility with the referred-to auditor and has subsequently determined that this is not possible. In addition, when this situation does occur, the proposed AS 1206.07 limits the lead auditor’s performance requirements to only the three options presented. We believe that another alternative is to allow for the lead auditor to identify a different other auditor and appropriately apply the requirements of the 2021 Proposal. Therefore, we recommend making the following changes:</p> <p>In situations in which the lead auditor originally planned to divide responsibility for the audit with an other accounting firm but has subsequently determined that this is not possible is unable to divide responsibility with another accounting firm (e.g., due to concerns about the qualifications of the referred-to auditor or concerns about whether the referred-to auditor’s audit was in accordance with PCAOB standards), the lead auditor should:</p> <ul style="list-style-type: none"> (a) Plan and perform procedures with respect to the relevant business unit that are necessary for the lead auditor to express an opinion on the company’s financial statements and, if applicable, internal control over financial reporting; or (b) Appropriately qualify or disclaim an opinion on the company’s financial statements and, if applicable, internal control over financial reporting; or Note: The lead auditor should state the reasons for departing from an unqualified opinion, and, when expressing a qualified opinion, disclose the magnitude of the portion of the company’s financial statements to which the lead auditor’s qualification extends. (c) Withdraw from the engagement.

	<u>Note: The lead auditor may involve an other auditor when planning and performing procedures with respect to the relevant business unit.</u>
<i>PCAOB AS 1206.08(b)</i>	Proposed AS 1206.08(b) states that the lead auditor’s report should “[i]dentify the referred-to auditor by name and refer to the auditor’s report of the referred-to auditor when describing the scope of the audit and when expressing an opinion....” Given that the referred-to auditor’s report is included in the filing, it does not seem necessary to identify them specifically by name in the auditor’s report. We recommend the PCAOB delete this requirement.
<i>PCAOB AS 1215.18 and .19</i>	We recommend making the following changes in paragraphs 18 and 19(e) to improve readability and clarify the meaning. In addition, we recommend the following change to paragraph 19(b) to acknowledge that the form in which the lead auditor obtains the other auditor’s audit documentation may vary: 18. The office of the firm issuing the auditor’s report is responsible for ensuring that all audit documentation sufficient to meet the requirements of paragraphs .04-.13 of this standard [AS 1215] is prepared and retained. Audit documentation supporting the work performed by other offices <u>different from the office issuing the auditor’s report</u> of the firm and other auditors must be retained by or be accessible to... 19. In addition, the office issuing the auditor’s report must obtain, and review and retain, prior to the report release date, the following documentation related to the work performed by other offices <u>different from the office issuing the auditor’s report</u> of the firm and other auditors:... b. A list of Significant risks, the auditor’s responses, and the results of the auditor’s related procedures. e. Sufficient information to enable the office issuing the auditor’s report to agree or to reconcile the financial statement amounts audited by other offices <u>different from the office issuing the auditor’s report</u> of the firm and other auditors to the information underlying the consolidated financial statements.
<i>PCAOB AS 1301.10</i>	We recommend making the following changes to acknowledge that the specific names of other auditors and referred-to auditors (e.g., the names of all the people on an other auditor’s engagement team) do not need to be provided but that the name of the firm is acceptable: As part of communicating the overall audit strategy, the auditor should communicate the following matters to the audit committee, if applicable:... d. The names, locations, and planned responsibilities of other auditors that perform audit procedures in the current period audit and of referred-to auditors; and <u>Note: When communicating the names of other auditors or referred-to auditors, the auditor may communicate the name of the other auditor’s firm or the referred-to auditor’s firm.</u>
<i>PCAOB AS 2101.06b</i>	We recommend making the following changes to improve readability and clarify the meaning: In an audit that involves other auditors, see paragraphs .06D-F of this standard [AS 2101], which describe performing additional procedures <u>that are performed by the lead auditor</u> regarding other auditors’ compliance with independence and ethics requirements. In an audit that involves referred-to auditors, see AS 1206.05-.07.

<p>PCAOB AS 2101.06Ac</p>	<p>We recommend making the following changes to improve readability and clarify the meaning:</p> <p>In an audit that involves other auditors or referred-to auditors, the engagement partner should determine whether the participation of his or her firm is sufficient for the firm to carry out the responsibilities of a lead auditor and to report as such on the company’s financial statements. In making this determination, the engagement partner should take into account the following, in combination:...</p> <p>c. The extent of the <u>lead auditor’s</u> engagement partner’s firm’s supervision of the other auditors’ work for portions of the company’s financial statements for which the other auditors perform audit procedures. In a multi-tiered audit (see AS 1201.14), this subparagraph c applies only to the <u>lead auditor’s</u> firm’s supervision of a first other auditor and any other auditor that is supervised directly by the <u>lead auditor</u> firm.</p>
<p>PCAOB AS 2101.06D</p>	<p>In order for other auditors to assist the lead auditor in complying with the requirements laid out in proposed AS 2101.06Da-c, the other auditors must first have an understanding of what the relevant independence and ethics requirements and circumstances are. Therefore, we recommend adding the following requirement preceding proposed AS 2101.06Da:</p> <p><u>a. Communicate the relevant independence and ethics requirements that are applicable to the other auditors, given the nature and circumstances of the audit engagement; and</u></p> <p>a.<u>b.</u> Obtain an understanding of the other auditor’s (1) knowledge of SEC independence requirements and PCAOB independence and ethics requirements and (2) experience in applying the requirements; and....</p>
<p>PCAOB AS 2101.06D</p>	<p>We recommend making the following changes to improve readability and clarify the meaning:</p> <p>Note: For the matters described in paragraph .06D, information (including affirmations and descriptions) may be obtained from the other auditor <u>that addresses</u> covering the other auditor’s firm and <u>all the</u> engagement team members who are partners, principals, shareholders, or employees of the firm.</p>
<p>PCAOB AS 2101</p>	<p>Certain requirements are addressed to the lead auditor, other auditor, or referred-to auditor that we believe should instead be addressed to the lead auditor’s firm, other auditor’s firm, or referred-to auditor’s firm. Recognizing that the respective firm is included in the lead auditor, other auditor, or referred-to auditor as defined in proposed AS 2101, we believe that certain requirements would apply specifically to the firm and not the engagement partner or other engagement team members of the lead auditor, other auditor, or referred-to auditor. Therefore, we recommend making the following changes to improve readability and clarify the meaning:</p> <ul style="list-style-type: none"> Proposed AS 2101.06Db.(1): “A written affirmation as to whether the other auditor’s <u>firm</u> has policies and procedures that provide reasonable assurance that the other auditor maintains compliance with SEC independence requirements and PCAOB independence and ethics requirements, and if it does not, a written description of how the other auditor determines its compliance with the requirements;” Proposed AS 2101.06G: “In an audit that involves an other auditor that plays a substantial role in the preparation or furnishing of the lead

	<p>auditor’s report, the lead auditor may use the work of the other auditor only if the other auditor’s firm is registered with the PCAOB.”</p> <ul style="list-style-type: none"> Proposed AS 2101.06G footnote 4G: “See also AS 1206 for requirements for the lead auditor relating to the registration status of a referred-to auditor’s firm.” Proposed AS 2101.A5a.(1): “A partner, principal, shareholder, or employee of the lead auditor’s firm or”
<p>PCAOB AS 2101.06Db (3)</p>	<p>We recommend making the following changes to enhance the other auditor’s requirement with respect to instances of noncompliance with SEC independence requirements and PCAOB independence and ethics requirements:</p> <p>A written affirmation as to whether the other auditor is in compliance with SEC independence requirements and PCAOB independence and ethics requirements with respect to the audit client, and, if it is not in compliance, a written description of the nature of the instances of non-compliance <u>and the other auditor’s conclusion regarding whether it is capable of exercising objective and impartial judgment on all issues encompassed within the other auditor’s work.</u></p> <p>Furthermore, after AS 2101.06Db we recommend adding a requirement for the lead auditor to assess any instances of noncompliance reported by the other auditor:</p> <p><u>Assess any instances of non-compliance reported by the other auditor and the impact of such non-compliance on the other auditor’s objectivity and impartiality and consequently any impact on the lead auditor’s ability to use the work of the other auditor.</u></p>
<p>PCAOB AS 2101.A2</p>	<p>Proposed AS 2101 defines the term “engagement partner” for purposes of such standard, and we believe that the intention of the PCAOB is that the engagement partner is from the lead auditor’s firm. However, there could also be an engagement partner on the other auditor’s engagement team. We believe the PCAOB’s intent is that when “engagement partner” is used in standards other than AS 2101 (e.g., AS 1015, AS 1201, AS 1220, AS 2110, AS 2810), it also is intended to mean the engagement partner of the other auditor’s engagement team. We recommend making the following changes to the definition of engagement partner in proposed AS 2101 to clarify the meaning of engagement partner in such standard:</p> <p>Engagement partner — The member of the lead auditor engagement team with primary responsibility for the audit.</p> <p>If the PCAOB does not intend the term engagement partner as used in standards other than proposed AS 2101 to also include an engagement partner from the other auditor’s engagement team, we recommend clarifying this in the other standards (including in those standards that refer back to proposed AS 2101 for the definition). In addition, we specifically note that proposed AS 2110.50 may need to clarify that use of engagement partner refers to the engagement partner from the lead auditor’s firm.</p>
<p>PCAOB AS 2101.A3</p>	<p>Pertaining to the definition of “engagement team,” page A4-8 of the 2016 Release discussed that neither the proposed definition of “engagement team” nor any of the amendments in the proposal would affect the applicability of the independence and ethics requirements of the Board of the SEC to audits involving other auditors and that the Board’s proposal would not change the applicability or meaning of engagement team in the context of the PCAOB’s or SEC’s</p>

	<p>independence rules. The 2016 Release contained footnote 10 on page A4-8, which we recommend including as a footnote to proposed AS 2101.A3:</p> <p><u>The individuals covered by the Board’s definition of “engagement team” are also covered by the definition of “audit engagement team” in the SEC’s independence rules. See Rule 2-01(f)(7)(i) of Regulation S-X, 17 CFR 210.2-01(f)(7)(i). The definition in SEC Rule 2-01(f)(7)(i) also covers certain individuals who are not covered by the Board’s proposed definition of “engagement team,” such as the engagement quality reviewer.</u></p>
<p>PCAOB AS 2101.A3a(2)</p>	<p>We recommend making the following changes to improve readability and clarify the meaning, given that the auditor is responsible for obtaining audit evidence (not the firm):</p> <p>Specialists who (i) are employed by the lead auditor or an other auditor participating in the audit and (ii) assist their firm <u>the lead auditor or an other auditor</u> in obtaining or evaluating audit evidence with respect to a relevant assertion of a significant account or disclosure.</p>
<p>PCAOB AS 2101.A5</p>	<p>We recommend making the following changes to improve readability and clarify the meaning:</p> <p>Other auditor⁸ —</p> <p>a. A member of the engagement team who is not:</p> <p>(1) A partner, principal, shareholder, or employee of the lead auditor’s <u>firm</u> or</p> <p>(2) An individual who works under the direction and control of the registered public accounting firm issuing the auditor’s report and functions as that firm’s employee; and</p> <p>b. A public accounting firm, if any, of which such <u>member of the</u> engagement team member is a partner, principal, shareholder, or employee.</p> <p><u>⁸ The term other auditor is used to refer to a member of the engagement team as described in paragraph A.5.a of AS 2101 or the other auditor’s firm as described in paragraph A.5.b of AS 2101.</u></p>
<p>PCAOB AS 2601.19</p>	<p>The proposed amendment made to proposed AS 2601.19 results in replacing wording that stated “the user auditor should give consideration to the guidance in proposed AS 1205.12” with “the user auditor should consider performing one or more of the following procedures.” Appendix 4 of the 2016 Proposal states that the “proposed conforming amendments are not intended to change the meaning of existing requirements.” However, we believe the change to proposed AS 2601.19 does result in a change to the meaning as well as the related auditor performance requirement. The extant text to “give consideration to the guidance in proposed AS 1205.12” merely requires the user auditor to refer to and contemplate factors in proposed AS 1205.12 when considering whether the service auditor’s report is sufficient to meet his or her objectives; such guidance was not specifically intended for user auditors. By contrast, the proposed text to “consider performing one or more of the following procedures” specifically requires the user auditor to contemplate taking specific actions (one or all three of the proposed procedures) as part of considering whether the service auditor’s report is sufficient to meet his or her objectives.</p> <p>Therefore, we recommend the PCAOB align the modification closer to the extant text as follows:</p>

	<p>In considering whether the service auditor's report is sufficient to meet his or her objectives, the user auditor may give consideration to should consider performing one or more of the following procedures:</p> <ul style="list-style-type: none"> • Visiting the service auditor and discussing the audit procedures followed and results thereof. • Reviewing the audit programs of the service auditor. In some cases, it may be appropriate to issue instructions to the service auditor as to the scope of the audit work. • Reviewing additional audit documentation of the service auditor.
<p>PCAOB AS 3305.31c., Footnote 40</p>	<p>We recommend making the following changes to clarify that the lead auditor (as stated in proposed AS 1206) divides responsibility:</p> <p>AS 1206, <i>Dividing Responsibility for the Audit with Another Accounting Firm</i>, establishes requirements for situations in which the lead auditor of the consolidated financial statements ("lead auditor") makes reference in the auditor's report to the report of another accounting firm that audited the financial statements of one or more of the company's business units. (<i>See also</i> paragraphs .B2 and .B3 of AS 2101, <i>Audit Planning</i>, which establish requirements regarding serving as the lead auditor.)</p>