Texas Society of
Certified Public Accountants

July 27, 2016

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803

RE: 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.

To Whom It May Concern:

One of the expressed goals of the Texas Society of Certified Public Accountants (TSCPA) is to speak on behalf of its members when such action is in the best interest of its members and serves the cause of Certified Public Accountants in Texas, as well as the public interest. The TSCPA has established a Professional Standards Committee (PSC) to represent those interests on accounting and auditing matters. The views expressed herein are written on behalf of the PSC, which has been authorized by the TSCPA Board of Directors to submit comments on matters of interest to the committee membership. The views expressed in this letter have not been approved by the TSCPA Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the TSCPA.

We have chosen to direct our response to this ED by focusing on what we consider to be the four important issues addressed in this document. The four aspects we wish to address are: (1) our overall reaction to the amendments included in the document, (2) the alternative approaches that the Board considered but is not proposing, (3) some economic considerations associated with the proposal that the Board should address, and (4) the need for further research on issues that are in need of further clarification.

We are in agreement with the Board's efforts to address issues that are designed to enhance audit quality. The basic issues addressed in this proposal need to be examined as they strongly impact the potential quality of audit engagements, as well as the audit process. The Board has taken a broad look at the process of audit supervision and audit responsibility. We are in agreement with the direction of this proposal and believe, with further study, it will prove to be a great benefit to the audit process both in quality of performance and appropriateness of responsibility.

We have some concern regarding the alternative approaches that the Board considered but is not proposing. The Board considered but did not propose requiring the lead auditor to gain an understanding of the qualification of all engagement team members outside of the lead auditor's firm. AU 543 currently requires the lead auditor to satisfy himself/herself as to the independence and professional reputation of other auditors, including taking steps considered appropriate to satisfy the lead auditor that he/she may express an opinion on

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financial statements or elements of financial statements of an audit performed by other auditors. We believe that this assessment of a firm's professional reputation and qualifications is sufficient in relying on other auditor's qualifications. Additionally, we believe it would be overly burdensome from a cost/benefit assessment to document the qualifications of every team member used by the other auditor.

The Board also considered, but is not proposing, requiring the lead auditor to determine the nature, timing and extent of audit procedures to be performed by the other auditors. Instead, the proposal would require that the lead auditor determine the scope of the work of other auditors and review the other auditor's description of the nature, timing and extent of audit procedures. We believe this is a "facts and circumstances" decision and should be determined on a risk-based approach by the lead auditor, with such risk-based assessment being appropriately documented by the lead auditor. If the lead auditor is assuming responsibility for work performed by other auditors and the work is deemed to be insignificant to the financials taken as a whole, then the proposed amendment is sufficient. However, if the lead auditor is not assuming responsibility and will refer to the work performed by other auditors in a divided responsibility audit, then we believe the amendment as proposed is sufficient. This should be clearly described in the final draft of the proposal.

We believe the Board must consider the potential economic issues that are likely to surface as a result of cost increases likely incurred by lead auditors. Under the proposal, lead auditors would be required to perform additional supervisory responsibilities. These responsibilities will increase the costs for the lead auditor, particularly in smaller audit firms. Such costs will most likely result in an increase in the costs for the issuer as well. This will increase the issuer's cost of capital, particularly smaller issuers who cannot or will not move to larger more costly audit firms, particularly U.S. national firms that may not incur as significant an increase in costs as smaller audit firms. Some audit firms may determine that they will no longer perform audits if another audit firm is required. If they choose to perform the entire audit by themselves, they will likely incur additional personnel, travel and overhead costs. Such costs would most likely be passed on to issuers whose cost of capital would increase accordingly. Some audit firms may determine that they will no longer perform audits if another audit firm is required, due to additional supervisory responsibilities resulting in actual or perceived increased liability. This could reduce the pool of auditors available to smaller issuers, resulting in increased costs of capital when the fees of larger firms are required.

Finally, we encourage the Board to commission research that will help shed some light on the critical issues that are sure to surface as this area of shared audit responsibility continues to expand. We are not aware of additional studies (other than those referenced in the proposal) or data currently available which focus on the issues being addressed in this proposal. We agree that the lack of accessible data is a significant factor in the lack of research regarding international audits involving multiple audit firms. We do believe that additional research in this area is needed and are aware of germane academic studies which have been proposed. Participation and data from audit firms and their personnel practicing in these situations are necessary in developing relevant studies that are likely to produce useful information in crafting useful guidance. Thus, we strongly recommend that the Center for Audit Quality fund research in this area of the audit process that is going to need well-structured guidance for years to come.

We believe auditors should be given a minimum of 18 months after SEC approval of the proposed amendments and new auditing standard requirements for implementation.

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

Sincerely,

Jerilyn K. Barthel

Jerilyn K. Barthel, CPA
Chair, Professional Standards Committee
Texas Society of Certified Public Accountants