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Via E-mail: comments@pcaobus.org

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

Re: PCAOB Release No. 2017-005, Rulemaking Docket Matter No. 042: *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*

Dear Office of the Secretary:

BDO USA, LLP appreciates the opportunity to respond to the request for comments on the Public Company Accounting Oversight Board's (the PCAOB or the Board) 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* (the proposed amendments and proposed standard, respectively) (the Release). As previously expressed in our comment letter dated July 29, 2016 on this topic, we support the PCAOB's efforts to strengthen the auditing standards relating to audits in which other auditors participate, and in particular where other auditors operate in different countries with differing cultures, languages, or economic markets. While we are supportive of the Board's efforts to improve audit quality and appreciative of the consideration of comments previously received, we have included below our additional thoughts on the Supplemental Request for Comment, which are consistent with our previous view that a risk-based supervisory approach is the best approach to enhancing audit quality and serving the public interest. Our comments align with the topical sections set out within the Supplemental Request for Comment, and generally focus on audit planning and supervision of other auditors.

Audit Planning

Definitions

In our prior comment letter, we suggested broadening the definition of 'lead auditor' to recognize the differing firm practices that may allow for personnel sharing between network firms, in particular seconded employees, that may work on a U.S. public company engagement under the direct supervision of the U.S. engagement partner but retain their employment status with the foreign firm. We note that the Release, starting on page 33, discusses the proposed definition of 'Lead Auditor' and explains that 'under the auditing standards amended by its proposal, secondees from other accounting firms and employees of shared service centers working under the lead auditor's guidance and control (as with other individuals who work in the role of firm employees) should be treated as employees of the lead auditor's firm.'



However, this concept is not included in the definition of lead auditor within the proposed amendments to AS 2101. To clarify the definition of lead auditor, consistent with the explanatory material in the forepart of the Supplemental Request for Comment, we suggest including this explanation in a note to AS 2101.A4.

Another area where we believe additional context provided within the forepart of the Release would be helpful within the standard relates to the definition of 'Other Auditor.' We note that footnote 20 on page 12 of the Release explains that the proposed definition of 'other auditor' includes both a firm and individuals from that firm, and that as a practical matter, this requirement would typically be applied at the firm level because the other auditor firm would typically have both the processes for determining compliance with PCAOB independence and ethics requirements and SEC independence requirements and some level of experience in applying those requirements. We agree with this explanation, and believe that it would provide helpful context in consistent application of the standard if the content from this footnote was incorporated as a note to the definition of 'other auditor' in AS 2101.A5.

Independence and Ethics

As explained in the Release, the Board has proposed to require auditors to gain an understanding of the other auditor's process for determining compliance with the independence and ethics requirements, rather than understand the other auditor's knowledge of the requirements, as proposed in the 2016 Proposal.^{1, 2} Specifically, the 2016 proposal would have required the auditor to understand each other auditor's knowledge of independence and ethics requirements and experience in applying the requirements, and obtain a written representation from each other auditor.

We believe the proposed requirement to require each lead auditor at an engagement team level to gain an understanding of each other auditor's processes represents a significant change in current practice without an apparent benefit. Additionally, we are uncertain of the ability of a lead auditor to evaluate the adequacy of the processes of the other auditor's firm, since such an evaluation would likely require specialized subject matter experts to be involved. Moreover, the level of detail provided by an other auditor may not be sufficiently robust to provide the lead auditor with an understanding of the process for determining compliance with the SEC independence requirements and PCAOB independence and ethics requirements.

The proposed requirement to obtain the written representation from the other auditor that it is, or is not, in compliance with SEC independence requirements and PCAOB independence and ethics requirements, in addition to a representation that the other auditor has appropriate policies and procedures in place for assessing such compliance, would appear to be sufficient for the lead auditor to determine each other auditor's compliance with SEC independence requirements and PCAOB independence and ethics requirements, particularly since it is the

¹ PCAOB Release No. 2017-005, page 12.

² The 2016 Proposal refers to 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* (April 12, 2016)



responsibility of each audit firm to maintain systems and processes to comply with SEC independence requirements and PCAOB independence and ethics requirements. Only when deemed necessary, based on risk, should the lead auditor consider performing additional procedures.

We note that the Release explains that 'information obtained by the lead auditor about the other auditor could either support or contradict the other auditor's representation regarding compliance with independence and ethics requirements or the written description of relationships between the other auditor and the audit client or persons in financial reporting oversight roles at the audit client that may reasonably be thought to bear on independence.'³ The sources of this information, as listed in the Release, include regulatory reports or news articles. If there is an expectation for the lead auditor to perform such searches, we suggest including this language in the body of the standard. Moreover, in general, we believe content within the Release that provides helpful application guidance should be included within the standard itself to ensure consistent application by all practitioners.

Other Auditors: Qualifications and Communication

Proposed AS 2101.14 states that in an audit that involves other auditors or referred-to auditors, the lead auditor should hold discussions with and obtain information from the other auditors or referred-to auditors, as necessary, to assess risk and determine the locations or business units at which audit procedures should be performed. However, in circumstances where the lead auditor refers to the work of an other auditor, the lead auditor does not take responsibility for the work of the referred-to-auditor, and as such, it would be inconsistent with the division of responsibility to require the lead auditor to hold discussions with the other auditor as part of risk assessment. Furthermore, with respect to equity method investees, there are often challenges in engaging in discussions with such entities and, in practice, company management may not always have direct access to investee management. For these reasons, we do not believe such discussions should be required.

We note the Board is also considering a new requirement for the lead auditor to inquire about the other auditor's policies and procedures relating to the (1) assignment of individuals to audits conducted under PCAOB standards; and (2) training of individuals who perform procedures on audits conducted under PCAOB standards, regarding the relevant financial reporting framework, PCAOB standards and rules, and SEC rules and regulations.⁴ While we agree it is important for the lead auditor to understand the knowledge, skill, and ability of the other auditors who assist the lead auditor with planning and supervision, we do not believe it is necessary to require the lead auditor to inquire about the other auditors' policies and procedures relating to assignment and training of individuals for two reasons. First, as part of understanding the knowledge, skill, and ability of the other auditor who assists in supervision, it would be reasonable for the lead auditor to expect that such supervision would include ensuring the work performed is appropriate and performed with due care. Second, an other auditor's response to a request for policies and procedures with respect to job assignment and

³ PCAOB Release No. 2017-005, page 14.

⁴ PCAOB Release No. 2017-005, page 15.



training would likely not result in a communication with the degree of granularity to permit the lead auditor to evaluate the effectiveness of such policies and procedures. Accordingly, we suggest deleting proposed paragraph 2101.B6a., and adding the concept of the performance of a review, in addition to planning and supervision, to the requirement for the lead auditor as follows (deletions in bold strike through text and additions in bold italics):

.B6b. Gain an understanding of the knowledge, skill, and ability of the other auditors who assist the lead auditor with planning, ~~of~~ supervision, ***or review***, including their...

Supervision of the Audit Engagement

Communication

Paragraph .B2a(2) of AS 1201 requires the auditor to inform the other auditor about the identified risks of material misstatement, among other matters, and the footnote to this guidance refers to AS 2110, *Identifying and Assessing Risks of Material Misstatement*, (AS 2110) paragraphs 49-51. These paragraphs in AS 2110 provide guidance regarding the conduct of discussions among engagement team members regarding risks of material misstatement and in particular, paragraph .51 refers to communication among the engagement team members about significant matters affecting the risks of material misstatement. Consistent with AS 2110.51, we believe the guidance in .B2a(2) should be focused on the more significant matters affecting the risks of material misstatement.

Multi-tiered Audits

The proposed procedures to be performed when the engagement team is organized in a multi-tiered structure include a requirement for the lead auditor to obtain, review, and retain a copy of the summary memorandum provided by the second other auditor to the first other auditor without consideration of a risk-based supervisory approach. We believe such a requirement would result in redundancies in work effort between the lead auditor and the first other auditor without an increase in audit quality. The first other auditor's supervision over the second other auditor should be sufficient to inform the lead auditor whether additional procedures may be necessary, in particular given the lead auditor's assessment of the knowledge, skill, and ability of the first other auditor during the planning phase of the audit.

Effective Date

Given the nature and scope of the changes being proposed, the development of policies and procedures to implement the changes will require international coordination, which will take time to operationalize. For this reason, we suggest the proposed standard and amendments be effective for audits of fiscal years beginning no sooner than two years after 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).



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We appreciate your consideration of our comments and suggestions and would be pleased to discuss them with you at your convenience. Please direct any questions to Christopher Tower, National Managing Partner - Audit Quality and Professional Practice at 714-668-7320 (ctower@bdo.com), Phillip Austin, National Managing Partner - Auditing at 317-730-1273 (paustin@bdo.com), or Patricia Bottomly, Partner - National Assurance at 310-557-8538 (pbottomly@bdo.com).

Very truly yours,

/s/ BDO USA, LLP

BDO USA, LLP