November 15, 2017
By email: comments@pccaobus.org

Hunter College Graduate Program
Economics Department
695 Park Ave.
New York, NY 10065

Re: PCAOB Proposed Amendments Relating to the Supervision of Audits Involving Other Auditors and Proposed Auditing Standard – Dividing Responsibility for the Audit with Another Accounting Firm (PCAOB Release No. 2017-005, September 26, 2017) (PCAOB Rulemaking Docket Matter No. 042)

To Whom It May Concern:

The Advanced Auditing class (ACC 775) at Hunter College Graduate program in New York City appreciates the opportunity to comment on this exposure draft.

The class discussed the above proposed exposure draft and have attached our comments.
If you would like additional discussion with us, contact Professor Joseph A. Maffia, at 917-847-6382.

Sincerely,

Joseph A. Maffia

Professor Joseph A. Maffia, CPA

Hunter College Graduate Program
Economics Department
Advanced Auditing Class
ACC 775

COMMENTS TO THE Public Company Accounting Oversight Board ON THE proposed Exposure Draft 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

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GENERAL COMMENTS

The Advanced Auditing Class has reviewed the above-referenced PCAOB Exposure Draft for supplemental request for comment and offers the following comments for consideration by the Public Company Accounting Oversight Board. In general, we agree with the proposed changes; however, we've identified areas that can be further enhanced. The areas can be categorized as comments pertaining to specific questions.

COMMENTS PERTAINING TO SPECIFIC QUESTIONS

Question 1 (page A1-3):

The revised requirement for determining the sufficiency of participation to serve as lead auditor, based on risk and importance of the locations is not clear. The first requirement that the lead auditor must consider being sufficient in regards to risk of material misstatement associated with the lead auditor in comparison with the portion of other auditors or portions audited by the referred-to auditors should also explicitly state whether the comparison should be applied singly or aggregately. We recommend the first requirement of paragraph .B2a to be modified as follows:

"The risk of material misstatement associated with the portion of the company's financial statements for which the engagement partner's firm performs audit procedures, in comparison with the portions for which the other auditors perform audit procedures or the portions audited by the referred-to auditors **singly, not in the aggregate;** and"

Also, as mentioned in Section III.A.1 of this release, commenters had suggested additional criteria to be considered for determining sufficiency of participation. In response, the proposed changes give a heavier weight on risk of material misstatement and extend the requirement of including the assessment of the locations or business units as an additional consideration. The qualitative factor should be elaborated further to suggest additional guidance on what qualitative

factors should take precedence in situations for determining sufficiency of participation for audits that are complex, for example, locations and business units of parent-subsidiary consolidations.

In addition, we recommend paragraph B2b to be modified as follows:

"The importance of the locations and business units for which the engagement partner's firm perform audit procedures in relation to the financial statements of the company as a whole taking into account quantitative factors **that could be generic empirical information such as physical metrics, or monetary values such as financial metrics** **and qualitative factors such as reputation, enterprise specific cases of compliance and business ethics and also operating environment factors such as market and regulations, economic trends, political realities and social license to operate."**

Question 2 (page A1-3):

The proposed requirement would require that the engagement partner determine its sufficiency of participation based on the risk of material misstatement associated with the portions of materiality of the financial statements, audited by the lead auditor in comparison with portions of the other auditors. The question is, does combining a risk approach with a bright line better than the previous principle-based methodology? For example, what if the lead auditor is auditing the riskier parent company, but does not meet the 50% requirement?

Consideration of the 50% threshold should also be given to multi-tiered audits where the other auditor, who is not the lead auditor, audits the Financial Statements of a location or business unit and its subsidiaries that has international locations. If the work done by the other auditor exceeds the 50% threshold for assets or revenues, the lead auditor should still be allowed to serve as lead auditor once the requirements of AS1201 are met. As long as the lead auditor receives adequate information about the communications, the lead auditor can still take charge of the engagement even though the 50% threshold requirement has not been met. Just as in the case of AS1201, the lead auditor should be required to submit an argument for not meeting the 50% threshold in writing.

The additional qualitative threshold for divided responsibility engagements is not clear merely because it does not take into account other situations that may arise. We must consider how this would be interpreted in the case where there are several auditors, and no sole auditor audits more than 50% of the assets. For example, in the situation where there are four auditors that audit 25% each, there is no sole auditor that audits more than 50% of the assets. If there are four auditors that audit 20%, 20% 30% and 30%, no sole auditor audits more than 50% and two auditors audit the majority.For further clarity, this bright-line requirement should include when there are three or more auditors but no sole auditor audits the majority the responsibility should be proportional. However, if two auditors audit the majority further application guidance is needed.

Also, please explain how the 50% of the company's assets or revenues threshold is evaluated. In the instance, that one auditor audits 50% of the company's assets, and another auditor audits 50% of the revenues it should be stated which takes precedence. A possible solution might be to consider the greater of revenues or assets. In addition, factors such as industry background and type of company can be taken into account when determining which is a preferable benchmark to use. We must also consider risk of material misstatement when determining the 50% threshold. For example, in cases where assets may not meet the 50% threshold but there is a higher risk of material misstatement, the lead audit may not meet the 50% threshold but plays a more influential role in the overall quality of the audit.

Question 5 (A1-8; B2 paragraph b):
The proposed revision to AS 1201 relating to the other auditor's responsibility does not provide sufficient guidance for the lead auditor. Please provide further clarification on the extent to which the lead auditor must supervise the other auditors in the engagement. If each lead auditor is to determine the extent of supervision over other auditors, there should be a guideline to follow in order to know how much supervision is needed. A possible solution would be assessing the other auditors based on categories such as years of experience, industry experience, or familiarity with the client. This would help the lead auditors have a more clear guideline to follow when decided how much supervision is needed for each "other auditor."

We respectfully submit these comments with the hopes that the final decision of the PCAOB is in the best interest of the profession as a whole. Should you desire further explanations, please do not hesitate to contact us.