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November 30, 2021

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 Rulemaking Docket Matter No. 042

Dear Office of the Secretary:

BDO USA, LLP (BDO) appreciates the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB" or the "Board") 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* included in PCAOB Release No. 2021-005, issued on September 28, 2021 (collectively, the "proposed amendments" or "proposal")¹.

We appreciate the Board's efforts to date in taking account of our views and those of other commenters with respect to the proposed amendments to its auditing standards on this important topic. Consistent with the views expressed in our previous comment letters to the proposed amendments in this area in 2016 and 2017, we remain highly supportive of the Board's overall objectives of improving audit quality by strengthening the existing requirements relating to the lead auditor's involvement in the work of other auditors in a manner that is both risk-based and scalable to audits of issuers of different sizes and complexities.

Our comments focus on the following areas of the proposal that, in our opinion, would benefit from further clarifications, scalability considerations, and emphasis on exercising professional skepticism and professional judgment.

- 1) Definition of the term "seconded" (Refer to our comments to Question 3)
- 2) Lead auditor determination (Refer to our comments to Question 4)
- 3) Supervision of other auditors (Refer to our comments to Question 7)
 - Nature and extent supervision and review activities by the lead auditor.

¹ Including certain amendments first introduced in the *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. 2016-002 (April 12, 2016); and subsequently amended in the *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*, PCAOB Release No. 2017-005 (September 26, 2017).



- Lead auditor's approach to obtaining, reviewing, and retaining documentation.
- Emphasis on effective two-way communication between the lead auditor and the other auditor.

Alignment with the International Auditing and Assurance Standards Board (IAASB)

The Board's objectives with respect to this proposal are consistent with the objectives of other standard setters, including the IAASB. The IAASB has an active project associated with revising its auditing standard that is relevant to multi-location engagements that involve other auditors, ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*. The IAASB issued an exposure draft of the proposed revisions to ISA 600 with an invitation for public comment on April 27, 2020 that was due by October 2, 2020. Based on our understanding of the status of this project, an enhanced version of ISA 600 (Revised) that takes account of the public comments received is expected to be approved by the IAASB in December 2021, and a final revised standard is expected to be issued in the first half of 2022 upon approval by the Public Interest Oversight Board (PIOB).

We ask that the Board carefully monitor the IAASB's progress and proposed revisions to ISA 600 in comparison to its proposal to achieve directional alignment and avoid unnecessary differences. Significant differences between the two standards may create additional challenges in implementing the standards, particularly within firms that are part of a global network that rely on common methodologies, technologies, tools, training, and quality assurance monitoring. Such factors play an important role in supporting the effectiveness of the communication and coordination of audit work between the lead auditor and other auditors that are affiliated with the same network.

Overall Changes

- **Question 1 - In recent years, have there been changes to auditor practices related to the use of other auditors?**
- **Question 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?**

In recent years, the rapid pace of growth in emerging technologies has contributed, in varying degrees, to evolving: (i) organizational structures; (ii) business models, including the creation of new business models; (iii) internal business processes; (iv) interactions of employees with each other; and (v) interactions of companies with their customers.

For example, the use of cloud computing has contributed to an increasingly agile and distributed workforce that is capable of working from any location, thereby blurring the lines between an individual's physical and online presence, particularly in hybrid and remote work environments. Cloud-based enterprise systems and platforms, including collaboration and productivity tools, have played a significant role in supporting companies establishing remote and hybrid work environments. Cloud-based solutions have enabled companies to eliminate geographical barriers that otherwise posed challenges for employees in different physical locations from remotely accessing shared information and collaborating with each other on a real-time basis. Such technology solutions have contributed to the growth in geographically dispersed operations, providing companies with access to a wider and more diverse workforce, increasing cross-border investments in geographic locations with lower cost structures, and reducing the time and costs associated with business travel.

Cloud-based solutions have facilitated enhancements in auditor practices related to the use of other auditors, specifically with respect to the manner in which: (i) lead auditors and other auditors communicate and coordinate activities relating to the audit; and (ii) lead auditors supervise and review the other auditor's work remotely, when not prohibited by laws or regulations. Similarly, cloud-based solutions have enabled auditors to improve the manner in which they coordinate and communicate with clients on matters relating to the audit, including managing audit requests relating to source documents and other information prepared by the client. Further, the lead auditor's ability to remotely access such information prepared by the client at the business unit level, when not prohibited by laws or regulations, further supports the lead auditors' supervisory responsibilities.

Other examples of emerging technologies affecting the operations of many issuers include increased investments and use of data analytics, Internet of Things (IoT), artificial intelligence / machine learning, blockchain, and robotic process automation. The increasing use of such emerging technologies has enabled companies to gather and evaluate large amounts of data relating to its operations, automate processes, and monitor and source predictive analytics that support faster and more informed business decisions.

In light of the evolving use of technology in this manner, we ask that the Board reconsider the ongoing relevance of a professional's physical location with respect to its definition of a 'secondee'. Refer to our comments to Question 3 for further details.

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?

In light of the increasing use of hybrid and remote working environments and the emerging use of technology that is described in our comments to Questions 1 and 2, we ask the Board to reconsider its definition of "seconded" included in the footnote to the proposed definition of "lead auditor" in paragraph .A4 of AS 2101. Specifically, footnote 5 describes a seconded as 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)".

While secondment arrangements have been traditionally structured to require secondees to physically relocate to a host country firm for a specified period of time, we believe that the physical location of the professional is not particularly important to the substance of such arrangements. In light of the travel restrictions imposed by various jurisdictions in response to the ongoing COVID-19 pandemic, we believe that the application of this definition in the current environment is very challenging.

We suggest the following revision to the definition of "seconded" in footnote 5 to proposed AS 2101.A4 (Additions are presented in **bold** text and deletions in ~~strikethrough~~):

For this purpose, the term "seconded" refers to a professional employee of an accounting firm in one country who ~~is physically located in another country, in the offices~~ **works under the direction and control** of the registered public accounting firm issuing the auditor's report **in another country and functions as that firm's employee** 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)".

Additionally, we recognize that the definition of a seconded in the proposed amendments may have been adopted from the PCAOB's Staff Guidance - Form AP, *Auditor Reporting of Certain Audit Participants and Related Voluntary Audit Report Disclosure Under AS 3101, Reports on Audited Financial Statements* (February 16, 2017). As such, any revisions to the description of a seconded in the proposed amendments to modernize the standards will require conforming amendments to the above Staff Guidance.

Lead Auditor Determination

- **Question 4 - Are the proposed considerations regarding serving as the lead auditor in an audit that involves other auditors or referred-to auditors - based on the importance of the locations, risks of material misstatement, and extent of the engagement partner's firm's supervision - appropriate and clear?**

We find the three considerations listed in proposed AS 2101.6A to be reasonable; however, we find the proposed requirements, as written, to be incomplete with respect to the considerations presented and prevents further consideration of other relevant factors that may collectively inform an auditor's professional judgement in determining whether it is appropriate to serve as the lead auditor.

In our experience, determining which firm is in the best position to serve as the lead auditor is often much more complex and involves consideration of various other facts and circumstances that are relevant to both: (a) the company; and (b) the auditor, particularly with respect to determining how the audit will be conducted, and whether the auditor is able to appropriately direct and supervise the work of other auditors effectively.

- For example, factors relating to the company that may inform the auditor's professional judgment include:
 - (i) where the company is domiciled in the U.S. or outside the U.S., and the geographic locations or jurisdictions in which the company operates;
 - (ii) the geographic location of members of the audit committee, key decision makers of the company, including those in financial reporting oversight roles; and
 - (iii) whether the company uses centralized accounting functions such as shared service centers to process transactions on behalf of several business units of the company.
- For example, factors relating to the audit that may inform the auditor's professional judgement include:
 - (i) whether the engagement team has direct access and ability to effectively communicate with the audit committee and the key decision makers of the company, including those in financial reporting oversight roles based on the geographic location of such individuals and consideration of potential differences in language, time zones, or cultures;
 - (ii) the engagement team's knowledge and experience working with the other auditor, including whether the other auditor is part of the same network as the lead auditor; and



- (iii) legal restrictions imposed by certain jurisdictions in providing foreign access to the company's financial information and other auditors' work papers.

We suggest that the Board clarify the requirements in proposed AS 2101.6A to enable the engagement partner to consider any other facts and circumstances that are relevant to the lead auditor's determination in addition to the three considerations currently listed in the proposal.

We suggest the following revision to proposed AS 2101.06A (Additions are presented in **bold** text and deletions in ~~strikethrough~~):

In making this determination, the engagement partner should take into account the following, as well as other relevant factors specific to the audit in combination:

Supervision of 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 are highly supportive of the Board's objectives of enhancing the lead auditor's oversight of other auditors in a manner that is risk-based and scalable; however, we find the proposed amendments in paragraphs .07-.13 of AS 1201 do not achieve the flexibility necessary in the lead auditor's approach to obtaining, reviewing, and retaining documentation under a wide range of circumstances that exist in practice. For example:

- 1) The nature and extent of audit documentation required to be retained by the lead auditor to demonstrate its supervision and review of the other auditor's work in accordance with paragraphs .09 - .12 do not appear to be adequately scalable.

For example, the lead auditor and the other auditor may be part of the same network of firms. Additionally, the lead auditor may have access to the other auditor's work papers during the audit to facilitate its ongoing supervision and review responsibilities. In such situations, the lead auditor is able to directly review the audit procedures to be performed pursuant to the scope of work assigned to the other auditor to comply with the requirements in paragraph .09. In practice, the lead auditor's communication with respect to necessary changes to the other auditor's planned procedures may be iterative and fluid in nature, and achievable through more effective means than a formal written



communication. The lead auditor can confirm that such changes have been made based on its access and review of the other auditor’s workpapers. In such situations, we believe that the proposed requirements in paragraphs .09 and .10 establish unnecessary and incremental document retention requirements on the lead auditor.

- 2) The proposed amendments do not adequately acknowledge the importance of the other auditor’s role in the audit. In certain situations, the other auditor may have a more in-depth knowledge of the business unit, and the foreign jurisdiction in which it operates. In such situations, the scope of work to be performed by the other auditor may include:
 - a) designing and performing risk assessment procedures on the financial information of the business unit or on one or more specific accounts; and
 - b) determining the nature, timing, and extent of audit procedures to be performed in response to the assessed risks of material misstatement of the financial information of the business unit and the consolidated financial statements.

In such instances, effective two-way communication between the lead auditor and the other auditor is particularly important, and facilitates the lead auditor’s direction, supervision, and review of the other auditor’s work.

Effective Date

Based on the nature and scope of the proposed amendments and new auditing standard, we recommend that the proposed amendments should be effective for audits of fiscal years beginning no earlier 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 calendar quarter).

The effective date and implementation period will provide firms with the time needed to implement these changes to firm policies and guidance, develop and deliver necessary learning, coordinate alignment of quality control processes across firm networks, and communicate the changes in advance of the effective date.

On pages 66 and 67 of the Release, it states 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).” In our opinion, the effective date considered in this section would not provide adequate time needed to effectively implement the changes in the proposal.

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We appreciate the opportunity to comment on the Second Supplemental Request for Comment and would be pleased to discuss our comments or answer any questions that the PCAOB staff or the Board may have regarding the views expressed in this letter. Please direct any questions to Patricia Bottomly at 310-557-8538 (pbottomly@bdo.com) or Ashwin Chandran at 214-689-5667 (achandran@bdo.com).

Sincerely,

BDO USA, LLP

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