



Ernst & Young LLP  
5 Times Square  
New York, NY 10036

Tel: +1 212 773 3000  
ey.com

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

29 July 2016

**Re: 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 Rulemaking Docket Matter No. 042**

Dear Ms. Brown:

Ernst & Young LLP is pleased to submit these comments to the Public Company Accounting Oversight Board (PCAOB or Board) on its proposed amendments relating to the supervision of audits involving other auditors and proposed auditing standard – *Dividing Responsibility for the Audit with Another Accounting Firm* (collectively, the Proposal).

We support the PCAOB's efforts to strengthen the requirements for the lead auditor in an audit involving other auditors. Other auditors perform important work in many audits, and we agree that the lead auditor needs to be appropriately involved in and appropriately evaluate the work of other auditors. We believe that many of the changes contemplated in the Proposal would improve the quality of these audits and benefit investors.

We also appreciate that the Board is considering the work of other standard setters, such as the International Auditing and Assurance Standards Board (IAASB), on this important topic. We encourage the Board, where appropriate, to continue to engage with the IAASB to understand the responses it received to its "Invitation to Comment" that explores, among other things, improvements in group audits. As both international auditing standards and the PCAOB standards have wide-reaching global use, minimizing any unnecessary differences between them can prevent confusion or misapplication by auditors that conduct audits under both sets of standards and would further improve audit quality.

Our comments below focus primarily on areas where we believe the Proposal might be improved or made more practical. We highlight the key areas of concern immediately below and then follow with further discussion on these and other topics along with proposed alternatives.

*The lead auditor determination and the importance of a risk-based approach*

We believe that the proposed amendments that would require an auditor to evaluate whether it is the lead auditor require further study. We think those proposed amendments would result in a change in practice that could have some unintended consequences, including situations in which no auditor

could participate sufficiently to qualify to serve as the lead auditor. In addition, requiring an auditor to perform work in other locations to satisfy the Proposal's sufficiency criteria could increase the risk of deficiencies, thereby diminishing audit quality, such as when an auditor works in another country and may not fully appreciate how different business practices and market conditions could affect its risk assessments. This concept is discussed in the "Lead auditor determination" section of this letter.

We support the Board's objective of requiring a risk-based approach. However, in several areas, the Proposal appears to introduce fairly specific or prescriptive requirements that do not appear to be scalable based on the assessed risk. Examples include the proposed requirement for the engagement quality reviewer (EQR) to evaluate the engagement partner's determination that participation is sufficient, the proposed requirement for the lead auditor to review the nature, timing and extent of the procedures performed by other auditors, and the proposed requirement to include a list of workpapers of other auditors that the lead auditor reviewed.

Allowing the lead auditor to exercise professional judgment when determining the extent of supervision required would encourage the lead auditor to give greater consideration to areas and components that are more likely to contain risks of material misstatement, which we believe would positively contribute to audit quality. We offer some suggestions to further those objectives.

#### *Distinguishing the approach for in-network firms*

As we discuss in more detail later in our letter, the Proposal does not differentiate between in-network and out-of-network firms. Based on our understanding, any audit firm participating in the audit other than the lead auditor would be considered an other auditor. The proposal does not appear to consider the structure of the multinational network firms that are designed to address the basic supervision and review concepts included in the proposed amendments. We believe any final standard should be scalable based on risk and permit lead auditors that are part of multinational network firms with consistent audit methodologies and independence, ethics and training compliance policies to rely on the firm's system of quality control when evaluating other auditors that are in their network. That would allow for the scalability of the standard and enable lead auditors to achieve the Proposal's objectives in a more cost-effective manner.

#### *Supplementing the definitions*

We agree that the definitions in the Proposal are helpful, but we suggest supplementing the definitions of "lead auditor" and "other auditor" in order to address situations where we believe the definitions may miscategorize who is part of the lead auditor and the other auditor as defined in the Proposal.

We also suggest a change in the definition used for "substantial role" in the Proposal and a change in the proposed communication requirements so that a consistent structure of communications exists between "first other auditors" and "second other auditors". Finally, we observe a need for guidance on the form and content of reports that other auditors provide to the lead auditor.

#### *Providing more guidance on dividing responsibility*

Finally, while we support the Board's approach of proposing a separate standard on dividing responsibility in an audit, we have identified a few areas where additional guidance is needed in the new proposed standard on the circumstances when an auditor would divide responsibility and to allow for divided responsibility when financial reporting frameworks differ.

## Further discussion

### AS 2101, Audit Planning

#### Lead auditor determination

As mentioned previously, we believe that further study is needed before finalizing the proposed amendments to AS 2101 to determine the sufficiency of participation to serve as lead auditor. Those amendments could result in some unintended consequences, including situations where no auditor could be identified as the lead auditor.

Based on our understanding of the rules governing the practice of accountancy in the United States, all states, including the District of Columbia and other US territories, define the issuance of audit reports as the practice of public accountancy. Almost every state requires that audit reports issued to companies headquartered in the US be issued by an auditor licensed by a US State Board of Accountancy. Furthermore, the majority of US jurisdictions require audit reports issued to companies headquartered in a particular state to be issued by an auditor licensed in that state.<sup>1</sup>

While the Securities and Exchange Commission specifically permits a non-US public accounting firm that is registered with the PCAOB to issue the report, the vast majority of state laws do not. Even if substantially all operations of the entity reside outside of certain states or the US, the audit opinion must still be issued by a firm licensed in that state. And to obtain a license to practice public accounting in that state, state laws also often require that the firm be majority-owned by US certified public accountants. As a result, a non-US public accounting firm would generally be unable to issue the report in many cases.

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<sup>1</sup> The following state laws are representative of the requirements in the majority of U.S. jurisdictions:

California Cal. Bus. & Prof. Code § 5072(a) states that "No persons shall engage in the practice of accountancy as a partnership unless the partnership is registered by the board." Section 5096(d) states, "(d) An individual who qualifies for the practice privilege under this section may perform the following services only through a firm of certified public accountants that has obtained a registration from the board pursuant to Section 5096.12: (1) An audit or review of a financial statement for an entity headquartered in California." Cal. Bus. & Prof. Code § 5096(d)(1).

New York N.Y. Educ. Law § 7408(3)(a) states that "Any firm that is established for the business purpose of lawfully engaging in the practice of public accountancy pursuant to subdivisions one and two of section seventy-four hundred one of this article or uses the title "CPA" or "CPA firm" or the title "PA" or "PA firm" must register with the department." Section 7401 defines the practice of public accountancy to include (1) offering to perform or performing attest and/or compilation services, as defined in section seventy-four hundred one-a of this article; (2) incident to the services described in subdivision one of this section, offering to perform or performing professional services for clients, in any or all matters relating to accounting concepts and to the recording, presentation, or certification of financial information or data. N.Y. Educ. Law § 7401(1), (2).

Texas TEX. OCC. CODE ANN. § 901.351 states, (a) "A firm may not provide attest services or use the title "CPA's," "CPA Firm," "Certified Public Accountants," "Certified Public Accounting Firm," or "Auditing Firm" or a variation of one of those titles unless the firm holds a firm license issued under this subchapter or practices in this state under a privilege under Section 901.461.

(a-1) A firm is required to hold a firm license under this subchapter if the firm:

- (1) establishes or maintains an office in this state; or (2) performs for an entity with its principal office in this state:
  - (A) a financial statement audit or other engagement that is to be performed in accordance with the Statements on Auditing Standards; (B) an examination of prospective financial information that is to be performed in accordance with the Statements on Standards for Attestation Engagements; or (C) an engagement that is to be performed in accordance with auditing standards of the Public Company Accounting Oversight Board or its successor."

Example 3 in Appendix 4 to the Proposal illustrates the potential issue. Assume that Country A is outside the US and Country B is the US. The company engages a US accounting firm because state laws require the company to have the audit opinion issued by a firm licensed in the state in which that company is headquartered. The US accounting firm plans on using a network firm in Country A to perform audit procedures on the company's principal operations in Country A that would constitute substantially all of the audit procedures on the company's financial statements. We have seen situations like Example 3 when foreign businesses are acquired by a US holding company whose shares are sold in a US initial public offering.

Based on our understanding of the example, the US firm would be prohibited from being considered the lead auditor, even if the engagement partner and manager were in Country A for the duration of the audit. If our understanding is correct, it seems that in this example, in order for the company to be able to comply with state law to have its audit report issued by a firm licensed to practice public accounting in that state, the US firm would need to increase its participation in the audit in Country A.

As the Proposal observes, however, audit quality could be affected if a lead auditor performs an audit in a different country. The lead auditor may not have a full appreciation of how different business practices, cultural norms, regulations and market conditions should be addressed in the audit, and it may not be reasonable to expect the same level of country-specific experience and quality of work from members of a lead audit team outside of the country. In these cases, the other auditors may be best positioned to perform the audit procedures in the local jurisdiction.

Moreover, local laws in the foreign jurisdiction could prohibit the US firm in this example from practicing public accounting in that foreign jurisdiction. In that case, the US firm would not be able to be considered the lead auditor, and (presumably) the network firm in Country A would be considered the lead auditor. As a result, it's not clear how the company would be able to meet state law.

We generally followed the proposed amendments described in AS 2101.B2 and agree that describing a sufficiency of participation criterion in terms of risk rather than importance would be more consistent with existing PCAOB standards. The Proposal states, however, that in evaluating the sufficiency of participation, ordinarily the lead auditor would need to audit the location at which the primary financial reporting decisions were made and the consolidated financial statements were prepared in order to address the risks related to those important judgments and activities, and a sufficient number of locations to cover a greater portion of the risks than any of the other audit firms performing procedures on the audit.

The provision to audit the location at which the primary financial reporting decisions were made could result in a lack of clarity as to where the lead auditor should be located because the requirement is overly focused on the physical location. While we agree that the risks related to the consolidation and financial statement preparation, significant accounting judgments and complex accounting issues should be considered, the proposed amendments seem to appropriately weigh the coverage by the lead auditor as the key determinant in applying the sufficiency criteria. We believe these points could be made clearer in the last paragraph of Example 2.

Under current practice, AS 1205 provides that the auditor should consider whether its own participation is sufficient to enable it to serve as the principal auditor. AS 1205 allows for professional judgment, indicating that the auditor should consider, among other things, the materiality of the portion of the financial statements it has audited and the extent of its knowledge of the overall financial statements. We believe AS 1205 also enables the auditor to consider the sufficiency of its participation with the level of involvement it will have in the work performed by other auditors.

We believe that the nature, timing and extent of involvement of the lead auditor in the work of the other auditor should be driven by a risk-based approach in which the level of involvement is a matter of professional judgment and depends on factors such as (1) the significance of the location(s) audited by others to the group audit work, (2) the identified significant risks of material misstatement of the group financial statements and (3) the lead auditor's understanding of, and experience with, the other auditors. Under this approach, the lead auditor would need to be more involved with the other auditors' work based on the risks of material misstatement audited by the other auditors.

We recommend the Board explore these issues further before finalizing the proposed amendments. Although any assessment required of the lead auditor should consider whether its participation allows it to issue the report, we believe the sufficiency of its participation also should be linked to the level of involvement it will have in the work performed by other auditors. In cases where an auditor is best suited to issue the opinion and therefore serves as lead auditor but does not audit a large portion of the entity, its involvement in the work of other auditors should increase accordingly.

### ***Registration status of other auditors***

To promote compliance with PCAOB Rule 2100, the Proposal would introduce a requirement that the lead auditor determine whether the other auditor that plays a substantial role in the audit was registered pursuant to the rules of the PCAOB in order to use the work of the other auditor. This new requirement references Rule 1001 for the definition of "play a substantial role."

One of the ways that PCAOB Rule 1001 defines "play a substantial role" is through the performance of material services that a public accounting firm uses or relies on in issuing all or part of its audit report. In this context, material services means services for which the engagement hours or fees constitute 20% or more of the total engagement hours or fees, respectively, provided by the principal auditor. Information about total group audit hours and total audit fees applicable to the group audit is not typically readily available or transparent to other auditors.

Since Rule 1001 was issued, the Board has issued its audit transparency rules that require the auditor to gather information about other accountants participating in the audit. As part of that new rule, the Board provided guidance on how to measure hours related to other auditor involvement in the group audit, including permitting the use of statutory audit hours.

We believe that the Board should consider permitting the use of the hours from Form AP as a basis for determining whether an other auditor plays a substantial role in the audit. Because that information would now be publicly available, we believe it would better allow for the monitoring of whether a firm plays a substantial role to be done more consistently and efficiently. The Board might also want to consider modifying certain information requests from the PCAOB (Appendix C of the requests made to auditors preparing for PCAOB inspection) to be consistent with the suggestions above.

### ***Definitions***

The Proposal observes the use of short-term personnel-sharing arrangements, during which some personnel are seconded to other firms and function as their employees as well as other arrangements such as personnel from temporary workforce agencies that work alongside and in the same capacity as personnel on the engagement team that are employed by the lead auditor. We believe that personnel participating in these arrangements should be treated as part of the team into which they are integrated (or engaged by) because they work together with other members of the lead audit team and are under the direct supervision of that team. Similarly, when an other auditor uses short-term personnel who work with the other auditor's team, they should be considered part of that other auditor's team.

Shared service centers operate similarly. Under these arrangements, a pool of resources (that may be centralized) located in another country perform certain portions of the audit. These personnel typically operate as extended members of the team that engaged them. These personnel act under the direct supervision of the team that uses them, and that team reviews their work. In both of these examples, there are no separate workpapers maintained by the firm that employs those professionals; the work they perform is considered part of the archive of the auditor that supervised them.

We believe that the definition of lead auditor should be supplemented to include considerations in applying that definition. Individuals who are directly supervised and whose work is reviewed by the lead team (rather than just being subject to oversight by the lead team) should be considered part of the lead auditor. Examples of potential considerations in determining the lead auditor include whether:

- ▶ The audit program the individuals use to execute their procedures is the same audit program that the lead audit team uses to perform its procedures
- ▶ The individuals document their work in the same set of workpapers that will be archived together with the lead audit team's workpapers
- ▶ The results of procedures and related findings for work done by the individual are documented in the same engagement completion documents that the lead audit team creates

### ***Risks of material misstatement***

The proposed amendment to AS 2101.14 would require the lead auditor to hold discussions with and obtain information from the other auditors or referred-to auditors, as necessary, to identify and assess risks of material misstatement. As currently worded, it is unclear whether the phrase "as necessary" in the proposed amendment is intended to indicate that it may not be necessary to hold discussions and obtain information from both other auditors and referred-to auditors or whether "as necessary" means that this requirement may not apply only to referred-to auditors.

We believe that the proposed amendment to AS 2101.14 should be clarified. We also believe that the lead auditor should be able to use judgment in determining how to execute these procedures (e.g., live discussions, written communications). If the Board believes live discussions are required, we believe any final guidance should provide its expectation.

### ***Compliance with independence and ethics requirements***

The Proposal would require the lead auditor to understand the other auditors' knowledge and experience regarding SEC and PCAOB independence and ethics requirements. We generally believe that the lead auditor's procedures should be limited to inquiry of the other auditors and obtaining written confirmation from the other auditors. In our view, lead auditors should also be able to rely on their firms' system of quality control to satisfy this requirement.

For example, firms within a network may have a global code of conduct that provides a clear set of standards that guide its actions and perform procedures to monitor compliance with that code of conduct. Similarly, a firm may have global independence policies that contain the independence requirements for firms in the network, its professionals and other personnel and processes and programs aimed at monitoring the compliance with those requirements. There may also be learning requirements, including annual independence learning.

We believe that the lead auditor should have the ability to rely on quality control requirements and policies and procedures that are common within a network when the results of the underlying control procedures are frequently monitored by the firm and reported to engagement teams, and specific actions are taken by firm leadership to address weaknesses identified. Privacy laws, which restrict personnel information from being shared, may also require lead auditors to place more reliance on a firm's system of quality control.

We believe this concept should be included in any final guidance.

### ***Qualifications of other auditors***

We believe that the lead auditor should seek responses to its inquiries and obtain written confirmations from the other auditors about their knowledge, skill and ability, but should not need to assess the training programs of other auditors. This is another area in which an acknowledgement that multinational network firms may leverage the information available within their networks to provide a basis to rely on their systems of quality control would be helpful.

### ***AS 1201, Supervision of the Audit Engagement***

We support the proposed amendments that would require the lead auditor to communicate to other auditors the scope of work, tolerable misstatement and, if determined, the amount below which misstatements are clearly trivial and do not need to be accumulated. These communications are commonly made in practice.

We believe that the proposed requirement to communicate identified risks of material misstatement, however, is too broad because auditors typically identify these risks as part of their work to understand each significant class of transactions and perform walkthroughs, and the risks are identified at an assertion level. This detailed assessment is performed on each component of a multilocation audit, and the lead audit team may not be best suited to perform the procedures necessary to identify risks of material misstatements for every component.

We suggest that the requirement for communication of risks of material misstatement be narrowed to require the communication of significant risks of material misstatement and other risks of material misstatement that are relevant to the work of the other auditor, rather than all risks of material misstatement.

Similarly, we believe the proposed requirement to review the description of the nature, timing and extent of the procedures performed by other auditors should be risk-based so lead auditors can focus on areas or components with higher risk rather than all areas of work performed by all other auditors. Furthermore, to provide for consistent application, it would be helpful for the Board to include guidance about whether this requirement is intended to be a detailed review of the other auditors' audit programs or whether, in most circumstances, a review of a summary level description, such as a summary level planning memorandum, might be appropriate.

Finally, we believe that adding paragraph .B3 to AS 1201 that would require lead auditors to directly inform all other auditors of the scope, tolerable misstatement, risks of material misstatement and amount below which misstatements are clearly trivial (the .B2a requirements) would result in an inconsistent structure of communications between first other auditors and second other auditors (i.e., inconsistent with the communication flow for other phases of the audit). This may have an unintended consequence to audit quality.

In many multi-tier audit arrangements, the first other auditor (i.e., rather than the lead auditor) provides all communications, including the .B2a requirements, to the second other auditor. This is because the first other auditor has primary responsibility for all communications with the second other auditor. Evaluation of the reporting provided by the second other auditor is performed by the first other auditor, and the related communications occur directly between these other auditors. The basic communication structure should be consistent for all communications between other auditors.

We recognize that the lead auditor is responsible for the overall audit and, therefore, may need to understand both the scope and results of work performed by second other auditors as part of its supervision of the first other auditors. The lead auditor may therefore decide to be involved directly as necessary (e.g., by attending a conference call to understand results discussed by the first and second other auditors). However, we believe the responsibility for the direct communications with the second auditor is best placed with the first other auditor. The first other auditor is responsible for its work product to the lead auditor, which includes all work of the second other auditor. We believe that the lead auditor, in turn, should follow the standards for supervision and review of the first other auditor described in the Proposal. As a result, we don't believe that having two sets of communications and duplicative oversight should be required.

In response to several of the Proposal's questions about responsibilities, we believe that the reporting provided by the other auditor to the lead auditor plays a significant role in communicating the other auditor's responsibilities. However, there is no guidance on the content and format of reports provided by other auditors, and there is currently a wide divergence in practice as to the form and content of these reports. If the Board has a view, it would be helpful for any final guidance to include a description of the content and format of inter-firm reports to promote consistency in practice.



***AS 1220, Engagement Quality Review***

We believe the proposed requirement that the EQR evaluate the engagement partner's determination that the participation of his or her firm is sufficient to carry out the responsibilities of a lead auditor should be risk-based. We believe that the EQR should be required to evaluate that determination only when it is concluded to be a significant judgment, which would be more aligned with the Proposal's risk-based approach. Because AS 1220.09 currently requires the EQR to evaluate the significant judgments made by the engagement team and the related conclusions reached, we don't believe the current requirements in AS 1220.09 need to be amended.

***AS 1215, Audit Documentation***

The Proposal would add a requirement that the audit documentation of the office issuing the auditor's report contain a list of additional workpapers of other auditors that were reviewed but not retained by the lead auditor. We suggest that the PCAOB clarify whether it would expect the lead auditor to review all significant workpapers of other auditors. If so, such a requirement could lead to additional levels of review that increase costs without providing significant improvements to audit quality.

A requirement to review all significant workpapers also has the potential to distract the lead auditor and result in a less-effective mix of procedures being performed by the lead auditor. For example, the lead auditor may review workpapers rather than hold more live discussions with the other auditor. We believe that any requirement to document workpapers that were reviewed but not retained should be in the context of documenting which procedures were performed out of the various options available to the lead auditor to be adequately involved in the work of other auditors.

We believe a more appropriate requirement is for the lead auditor to document how it has been adequately involved in the work of other auditors. That documentation could include the overall involvement of the lead auditor (e.g., communications, workpaper reviews, discussions) in the work of other auditors. We believe that providing a more principles-based objective – rather than a prescriptive requirement to document the specific workpapers reviewed – would better demonstrate the lead auditor's supervision and review.

We believe that a more principles-based approach would also better address a potential issue when other auditors are required to maintain their documentation in a language that is different from the lead auditor's documentation language. Some jurisdictions require statutory audit documentation to be maintained in the local language. By providing a more principles-based approach in this area, the lead auditor can perform a variety of procedures (which may include some workpaper review) to provide for an appropriate level of involvement.

If the Board decides to require the lead auditor to document the specific workpapers reviewed, we believe the description of the workpapers should be limited to the workpaper reference and title of the workpaper reviewed. Creating a summary description of the nature of the workpaper would create several practical challenges for the lead auditor, especially lead auditors dealing with a number of other auditors. For example, given the nature of this documentation, much of it would occur during year end, which is time constrained. In addition, the lead auditor would presumably need to review the final version of each workpaper. As the review process is iterative, the lead auditor may not have sufficient time to re-review final versions of the respective workpapers before the report release date.

We support the Board's decision not to require the lead auditor to include a list of all documents in the other auditor's files. As previously discussed, there are a number of procedures a lead auditor can perform in order to be adequately involved in the work of other auditors.

We do not believe amendments to AS 1215 that would require the lead auditor to obtain documentation supporting the other auditor's work regarding related parties and significant transactions are needed given the documentation requirements of AS 2410, *Related Parties*. A next step for the Board could be to assess the implementation of AS 2410 and only make adjustments if it appears that additional review is required.

#### **Proposed AS 1206, *Dividing Responsibility for the Audit with Another Accounting Firm***

We support the Board's approach of proposing a separate standard on dividing responsibility in an audit, and support updating the requirements in this area.

We believe that the Proposal could result in an increase in opinions where the lead auditor refers to another auditor, especially in countries where audit firm rotation is mandatory. The proposal could also result in references to auditors within the same multinational network firm. The additional references to other auditors, particularly those in the same multinational network firm, could be confusing and diminish investor confidence.

We generally believe that dividing responsibility for the audit should occur only in certain circumstances that should be provided for in the guidance. AS 1205 currently provides guidance on when the principal auditor may be able to express an opinion without making reference to the audit of the other auditor. It specifically indicates that the principal auditor would ordinarily be able to express an opinion without making reference to the audit of the other auditor when part of the audit is performed by an auditor that is an associated or correspondent firm and whose work is acceptable to the principal auditor based on its knowledge of the professional standards and competence of that firm.

However, the Proposal would not carry forward the guidance in AS 1205 on when to make reference. We believe that retaining the presumptive language that the lead auditor would not make reference to another auditor in the same multinational network firm described in AS 1205.05a would enable lead auditors to continue to apply professional judgment and reduce the potential for an increase in opinions where the lead auditor refers to an other auditor.

The Proposal would not allow a lead auditor to divide responsibility when the financial reporting frameworks are different. Currently, paragraph .26 of AU-C Section 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*, allows for such division of responsibility, provided that the measurement, recognition, presentation and disclosure criteria of the financial reporting framework used by the component are similar to the financial reporting framework used by the group and the lead auditor has obtained sufficient appropriate audit evidence to evaluate the adjustments to convert the component’s financial statements to the financial reporting framework used by the group. We believe this provision that allows a lead auditor to divide responsibility when the financial reporting frameworks are different has worked in practice and should be retained.

Proposed paragraph .07 of AS 1206 describes what the lead auditor should do in situations in which the lead auditor is unable to divide responsibility. We believe paragraphs .07a-c are designed to be mutually exclusive options. That is, a lead auditor either (1) plans and performs procedures necessary to issue an opinion without referring to an other auditor, (2) qualifies or disclaims an opinion or (3) withdraws from the engagement. If our understanding is correct, we believe the word “or” is needed at the end of paragraph .07a.

Finally, the Proposal does not address joint audits. Although it appears that certain of the Proposal’s provisions are consistent with how many joint audits are conducted in practice, there are unique aspects of joint audits that we believe should be addressed in any final guidance.

#### **Considerations in using a service auditor’s report**

It wasn’t clear to us whether the proposed amendments to paragraph 19 of AS 2601 are designed merely to remove the cross reference to AS 1205, which would be superseded by the Proposal, or instead to suggest that the auditor should be performing the procedures described.

The information provided in service auditor’s reports is carefully designed to be detailed enough to address the needs of substantially all user entities and their auditors because, in most cases, it is highly impractical for the organization and its auditors to individually support the needs of each of the respective user entities and their auditors. Moreover, reviewing the service auditor’s audit program and issuing instructions to the service auditor as to the scope of the audit work would effectively eliminate the benefit of using a service auditor’s report. As a result, we generally believe it would be rare for an auditor to perform the procedures described.

It would be helpful for the Board to include guidance in the final release to clarify whether a change in practice is expected as a result of the amendment to paragraph 19 of AS 2601.

#### **Emerging growth companies**

We do not think that audits of emerging growth companies (EGCs) should be excluded from the Proposal because we believe EGCs have characteristics similar to other public companies.

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We would be pleased to discuss our comments with the Board or its staff at your convenience.

Very truly yours,

*Ernst & Young LLP*

cc:

**PCAOB**

James R. Doty, Chairman  
Lewis H. Ferguson, Board Member  
Jeanette M. Franzel, Board Member  
Jay D. Hanson, Board Member  
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Julie Erhardt, Deputy Chief Accountant