Virginia Society of Certified Public Accountants

July 29, 2016

Office of the Secretary, PCAOB
1666 K Street, NW
Washington, DC 20006-2803

Dear Board Members:

The Virginia Society of CPAs (VSCPA) Accounting & Auditing Advisory Committee has reviewed the following documents issued by the Public Company Accounting Oversight Board (PCAOB):

- PCAOB Release No. 2016-002, April 12, 2016
  Proposed Amendments Relating to the Supervision of Audits Involving Other Auditors, and
- PCAOB Rulemaking Docket Matter No. 042 Proposed Auditing Standard — Dividing Responsibility for the Audit with Another Accounting Firm.
  (Collectively referred to herein as Release)

The VSCPA is a leading professional association dedicated to enhancing the success of all CPAs and their profession by communicating information and vision, promoting professionalism, and advocating members' interests. VSCPA membership consists of more than 12,000 individual members who actively work in public accounting, private industry, government and education. We appreciate the work the PCAOB has undertaken on this effort and the opportunity to respond to this Release.

Overall, we agree with the requirements of the Release. We have attached detailed responses to the questions posed by the PCAOB. We also believe the amendments will improve the quality of audits in these circumstances and align the applicable requirements with the PCAOB's risk-based, supervisory standards.

The VSCPA appreciates the opportunity to respond to this Release. Please direct any questions or concerns to VSCPA Vice President, Advocacy Emily Walker, CAE, at ewalker@vscpa.com or (804) 612-9428.

Sincerely,

Charles M. Valadez, CPA, CGMA, CITP
Chair

<u>2016–2017 VSCPA Accounting & Auditing Advisory Committee</u>
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Response to PCAOB Release No. 2016-002, April 12, 2016
Proposed Amendments Relating to the Supervision of Audits Involving Other Auditors, and
Proposed Auditing Standards
Dividing Responsibility for the Audit with Another Accounting Firm

Question Responses:

1. Yes, the description of existing audit practice accurately depicts the state of practice. Evaluations indicating that there have been identified deficiencies in audits attributable to the guidance, or lack thereof, provided in the standards as currently written, are sufficient reason to improve the standards related to the use of other auditors.
2. Yes, the proposed amendments to existing standards are appropriate, specifically the proposals to supersede AS 1205 in the area of work and reports of other auditors by requiring risk-based auditing supervision as under AS 1201. Additionally, proposing revisions to the requirement on representation of licensing both under applicable jurisdiction as well as pursuant to rules of PCAOB is essential, as not all firms are "created equal", and the present standards allow too much ambiguity in the requirements of the lead auditor in relation to the other auditors. The Board should further develop specific procedures or guidance to address language, cultural and other differences between lead auditors and other auditors — for example, specific communication requirements and required understanding of specific audit procedures that would be standard to the nature and scope of the majority of audits.
3. While the proposed amendments appear to address a variety of the areas that are deficient and even too broad for consistent application, adding requirements for determining/applying tolerable misstatement for locations or units at the direction of the lead auditor would add to the overall efficiency and consistency of reporting and subsequently incorporating the multiple sources of information to the final cumulative report.
4. The Board's discussion does indicate that due to the more recent nature of the standards, limited baseline data exists for evaluating the potential economic impact of the proposal. Until more incidents with direct financial impact occur, there are only limited sources to use in assessing the cost/benefit analysis.
5. The Board has provided a detailed discussion of the need for the proposal as well as the potential positive and negative aspects to additional requirements on lead auditors. There are always costs to change; it is early to determine the exact nature of the proposed changes. However, we agree that the many firms that have already taken the initiative to add a methodology that improves their own procedures in lieu of actual existing requirements will be least impacted, while other firms may have limited negative issues with a risk-based approach, as some less complex scenarios will not warrant a great deal of added cost.
6. Auditors and the accounting profession in general are viewed as the "gatekeepers" of the financial world, whether or not the depiction is an appropriate burden or not. As such, implementing the proposed changes should decrease the overall likelihood of misstatement by enhancing the verification process of information relied upon by other auditors, and therefore should serve as added safeguards for the investors and general public through their ability to rely on the financial statement data and related disclosures.
7. Added costs generally with more standards and requirements, comes both to the auditors as well as the companies they audit. In this particular situation, however, auditors should already be performing the essence of the proposed changes, and hopefully adding further specifications will result in manageable changes to overall costs.
8. The Board's evaluation of the potential unintended consequences of the proposal seems adequate. We would not add any additional responses at this time.
9. The proposal does not diminish the other auditor's accountability for the work performed. If the new standards are applied correctly, the lead auditor's supervision should hold the other auditors to a higher level of overall accountability, thus accomplishing the primary purpose of making such changes.

10. While there is always a possibility that lead auditors could shift to a divided-responsibility scenario, based on current data, the likelihood appears minimal.
11. In evaluating alternative approaches to changes, the Board appears to have reached logical conclusions that serve the intent of the proposed amendments without thwarting the outcome by making the process burdensome or overly tedious. In general, the approach the Board is proposing appears sound. We do not recommend a different approach.
12. There are always alternatives to be considered in every situation, but the Board has made a thorough analysis of the economic impact of the proposal. The only added thought to consider is perhaps some type of added risk-based analysis developed in correlation to entity size that would provide a streamlined set of procedures for smaller companies.
13. The proposal should apply to EGCs primarily for the enhanced risk associated with their size and unknown elements that are inherent in the nature of their existence. While it is not in any entity's interest to create standards that deter them from being competitive, the risks associated with the methods of competition are those at the heart of many audit requirements. Therefore, in order to be considered a good risk to investors, their standards should be as high as their competitors.
14. The proposal should apply to audits of brokers and dealers in order to enhance the reliability of financial data between management and the customer.
15. Since the essence of the standards substantially exists in practice, implementing proposed amendments should not be as time consuming. One year following the end of the year of issuance should be sufficient.
16. The definitions appear appropriate and clear.
17. Although temporary and contracted personnel should be evaluated for the appropriate skill, knowledge, and experience of the assigned tasks, they should not necessarily be the same as the lead auditor.
18. We cannot identify any circumstances.
19. There should be workpaper documentation of the engagement team members responsible for assisting the engagement partner in the supervisory duties. It is not a necessity for the individuals assisting in the supervision to be from the office issuing the report as long as adequate documentation of the team is maintained in the workpapers. Current technology provides the capability of multi-office supervision with proper standards and documentation.
20. We agree that the definition "lead auditor" appropriately addresses the planning and supervision requirements as detailed.
21. Using the risk of material misstatement associated with financial statements audited by the firm is sufficient for the evaluation of the lead auditor role. Applying alternative quantitative criteria is too broad from entity to entity and could potentially lead to unintended or unfavorable outcomes.
22. Sufficient communication and evaluation of materiality by location or unit, while incorporating the whole for a full understanding of the firm's participation, is the challenge in general.
23. The proposed sufficiency determination is well designed to evaluate the firm serving as lead auditor, but there is always an unknown situation that can arise in practice. For situations of an unusual and infrequent nature, perhaps additional quantitative elements could be evaluated to ensure the accuracy of the determination.
24. If applied consistently, the proposed sufficiency determination should be effective in the divided responsibility scenario as well.
25. Communication is crucial to the process between lead and other auditors, especially in the evaluation of risk. Therefore, the proposed requirements are appropriate and clear. In the current age of technology, communication barriers should be easily addressed even in the most challenging of situations, but should not be an impediment to accomplishing the overall goal.
26. Yes, the requirements on independence and ethics, registration, qualifications of, and communication are clear.
27. Since firms are subject to various oversight and licensing requirements, obtaining the experience and qualification of the other auditor should not be a costly process, but something easily provided in most cases.
28. Team leaders and firm qualifications should be sufficient for the SKE evaluation.
29. Yes, the requirements for communication and access are clear.
30. Yes, the requirements for determining location and business unit are clear and appropriate.

31. Yes, the proposed procedures to be performed by the lead auditor with respect to supervision of the other auditor's work are appropriate and clear.
32. The procedures under AS 1205.12 that indicate they should be considered, but are not included in the proposal. The consideration of the procedures should be documented and indicated as to why performed or not, but the actual performance should based on the professional judgment of the lead auditor, as those procedures that become necessary under these provisions vary by specific audit situation and should not be required in every case.
33. Yes, the written report requirements are clear and appear appropriately scalable to the nature and significance of the work referred to the other auditor.
34. Yes, the scalability of the proposed supervision amendment is clear and appropriate, and the proposed requirements for the lead auditor to direct the other auditor to perform supervisory procedures are also clear.
35. Yes, as complex as multi-tied scenarios can become, the procedures for the lead auditor to direct the first other auditor to perform certain procedures with respect to the second other auditor are appropriate within the guidance.
36. Yes, the proposed requirement for the lead auditor to evaluate the first other auditor's supervision of the second other auditor in a multi-tiered audit are clear.
37. The proposed requirements appear to sufficiently cover the types of multi-tiered structures used today.
38. A clear line of communication from lead auditor to first auditor and then second auditor respectively should be established and documented to prevent any misinterpretation of the responsibilities at each level.
39. As long as a documented trail of procedures performed with indication of responsibility and why by particular office, it should not be necessary for the issuing office as opposed to the issuing firm to do any specific set of procedures in all audits.
40. Yes, the proposed requirements provide sufficient emphasis on the need for two-way communication between lead auditor and the other auditor throughout the audit.
41. Yes, the proposed requirement for review of working papers by the lead auditor is appropriate and clear.
42. While omissions of items contained in workpapers, whether reviewed or not, could be misleading, the lead auditor should review the areas significant to the material presentation and conclusions in the financial statements. The detailed list of those items reviewed would be a sufficient indicator of the process. Requiring a listing of all documents in the other auditor's files, specifically those not reviewed by the lead auditor, seems cumbersome, costly from a time perspective, and very impractical from a pure documentation viewpoint.
43. Yes, in most cases the office issuing the auditor's report should be required to obtain, review, and retain documentation on areas of significant risk or transaction class.
44. Yes, the office issuing the auditor's report should be required to obtain, review and retain information about all control deficiencies identified by other offices. They should also follow up in subsequent years as to corrective actions, if any, in the risk determination process.
45. Yes, there should be a requirement for the engagement quality reviewer to review the engagement partner's determination of the firm's sufficiency of participation in the audit.
46. The quality review should perhaps include a review of the engagement partner's evaluation of the other auditors licensing/qualifications as part of the documentation process.
47. Yes, the objectives of the proposed new standard are clear and appropriate.
48. Yes.
49. Yes.
50. Yes.
51. The Board should not necessary prohibit divided responsibility arrangements, but further evaluation of potential imposed limitations should be explored before a final determination on procedures is completed.
52. No, not additional requirements are recommended at this time.
53. We are not necessarily in agreement with superseding AI 10 as the interpretation provides useful information to describe the auditor's responsibilities.
54. Yes, it is appropriate and clear.

55. Yes, it is clear.
56. No further conforming amendments are recommended at this time.
57. In our opinion, the lead auditor’s communication with the audit committee is very important, but adding further information would possibly lead to confusion rather than clarity.
58. If reviews are to include the work of other auditors and have an implication of reliance by the lead, then the proposal should apply to them.