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November 30, 2021

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street N.W.
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 042 – Release No. 2021-005

Dear Office of the Secretary:

RSM US LLP appreciates the opportunity to offer our comments on PCAOB Release No. 2021-005, *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* (the proposal).

As companies' global operations have grown, the roles of other auditors in audits have become more substantial. It is important that the lead auditor adequately plan and supervise the work of other auditors. With respect to audits involving other auditors, we continue to support a risk-based supervisory approach.

We appreciate the PCAOB's thorough efforts to address the responsibilities of the lead auditor in supervising other auditors' work and to update the requirements for situations in which the lead auditor divides responsibility for the audit with another accounting firm. We believe this revised standard strengthens the role of the lead auditor and emphasizes the need for the lead auditor to supervise other auditors. However, we believe the lead auditor's role needs to stay focused on risks, and, as discussed in our comments within this letter, there are a few aspects of the proposal that potentially could dilute that focus.

Our letter addresses the questions and requests for comment in the proposal.

Questions in the proposal

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

In recent years, companies have continued to enlarge their global footprints with expansion strategies and, at the same time, have continued to make investments in their financial reporting systems. This expansion has contributed to a growing number of audits that require the use of other auditors to support the lead audit firm's audit opinion, but also has been impacted by new and improved technology that allows for more efficient and effective audits. Auditor practices related to the use of other auditors also have been affected by the increased need, and enhanced capabilities, for supervising other auditors and reviewing the audit work papers of other firms remotely.

Overall, we believe the audit profession has recognized the changing global landscape and emerging strategic endeavors that are driving more global expansion and corporate joint venture arrangements. Many audit firms have responded with increased training, improved quality control measures and enhanced utilization of innovative technology that better enables remote global audits.

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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?

Since 2017, we have seen middle market registrants transitioning their consolidation financial reporting technology to more sophisticated global enterprise resource planning (ERP) systems (such as D365) that allow for global access to all (or at least the majority) of the original transactions. If not global ERP systems, many other technologies, such as Blackline, have been adopted to allow much greater access to and visibility into the underlying transactions of the components at the corporate level. These registrant technology advancements, combined with the technology now available to auditors for remote access and review of other auditors' work, have expanded the auditor's access to client records without being physically present with an other auditor. However, it should be noted that this enhanced access to and export of data could be jeopardized to the extent that foreign jurisdictions may seek to restrict international data flows in the future.

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?

We believe the proposed definitions of "lead auditor" and "other auditor" are clear.

We note that the proposal now defines "secondee," and we are curious as to why it is necessary to define this term. Audit firms have had and increasingly will have several types of arrangements whereby they use professionals who are located in or from a different country (e.g., secondees, subcontractors, employees) to perform audit procedures. It seems that it may be confusing to define just one type of such arrangements. We believe the extent of supervision and review of such individuals should be based on the auditor's evaluation of the knowledge and skills of the individual, regardless of the type of arrangement.

If the Board believes it is necessary to define "secondee," we suggest that consideration be given to explaining why the term is necessary and how it relates to the other requirements in the standard. We also think it would be very beneficial to clarify the definition by making it more principles-based and less granular. In that regard, we note the proposed definition states that:

- A secondee is a professional employee. Our experience indicates that laws vary from country to country as to whether a secondee is an employee.
- A secondee "is physically located in another country." We are curious as to why the physical location of the professional is relevant. If secondees have access to the audit firm's systems and are supervised by the firm, does it matter where they are physically located?
- A secondee is physically located in another country "for at least three consecutive months." If the location of the professional is relevant, why is the length of their stay in that location relevant? Would a stay in another country of two months mean that the individual is not a secondee? If the individual is not a secondee, would that change how the individual is supervised?

Also, we observed that the definition of "secondee" currently is in a footnote to a note below paragraph .A4.b(2) in Appendix A, "Definitions," of PCAOB Auditing Standard (AS) 2101, *Audit Planning*. We suggest that, if the definition of "secondee" is relevant to the interpretation of the definition of "lead auditor," it should be elevated to be included in the definition or in a note below the definition. If the definition of "secondee" is not relevant to the definition of "lead auditor," we suggest it be removed.

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 agree with the proposed addition of paragraph .06A.c. to AS 2101. We agree that the engagement partner should take into account the extent of the firm’s supervision of other auditors’ work in determining whether the participation of their firm is sufficient for the firm to carry out the responsibilities of a lead auditor and to report as such on the company’s financial statements. However, we believe related footnote 4B should be revised to reference AS 1201.07, instead of AS 1201.06. Although we acknowledge that AS 1201.07 directs the lead auditor to determine the extent of supervision of the other auditors’ work in accordance with AS 1201.06, we think it is important for the lead auditor to refer to AS 1201.07 to also see its reference to the additional procedures to be performed by the lead auditor with respect to the supervision of the work of other auditors in AS 1201.08 - .15.

We continue to believe that the concept of “importance” already is factored into the auditor’s consideration of the risks of material misstatement associated with the portion of the financial statements audited by the lead auditor as required in proposed paragraph .06A.b. of AS 2101. Including importance as an additional consideration in paragraph .06A.a. of AS 2101 would be confusing to apply in practice because “importance” is not defined in the auditing standards; whereas, the consideration of the risks of material misstatement is a familiar concept for auditors and is well supported by the auditing standards. We therefore suggest that proposed paragraph .06A.a. of AS 2101 be deleted. If this paragraph is not deleted, we suggest that “importance” be clearly defined.

In determining whether the participation of their firm is sufficient for the firm to carry out the responsibilities of a lead auditor and to report as such on the company’s financial statements, we believe the engagement partner also should take into account whether the firm is licensed in the location where the auditor’s report will be issued.

5. Are the proposed requirements relating to the lead auditor’s responsibilities regarding other auditors’ compliance with the independence and ethics requirements appropriate? Are there any practical challenges associated with the proposed amendments? If so, what are they, and how could the proposed requirements be revised to address the challenges?

Paragraph .06D.a.

Paragraph .06D.a. requires the lead auditor to “Obtain an understanding of the other auditor’s (1) knowledge of SEC independence requirements and PCAOB independence and ethics requirements and (2) experience in applying the requirements...”. We believe this requirement would not be practical to implement for the following reasons:

- It is difficult to determine what would satisfy the threshold of “obtain an understanding” in this context. Although it is unclear what “obtain an understanding of the other auditor’s knowledge” means, we envision that this could entail extensive inquiry of the individual at the firm who is responsible for such matters and also could require reading the firm’s policies governing such requirements, which, in many instances, could be volumes of material. We do not believe such an approach provides a benefit to investors that is commensurate with any potential improvement to audit quality resulting from, or the extensive cost involved with, performing the necessary procedures to comply with the requirement.

- We also could envision that obtaining an understanding of the other auditor’s “experience in applying the requirements” could entail obtaining confidential information.

We believe the evaluation of the other auditor’s knowledge of and experience in applying the independence and ethics requirements is best addressed through a written statement from the other auditor affirming that such knowledge and experience is in place and sufficient with respect to the audit engagement. If the Board elects to retain the requirement for the lead auditor to obtain an understanding of the other auditor’s knowledge of and experience in applying the independence and ethics requirements, we believe it would be helpful to provide additional guidance to help the lead audit firm determine what would satisfy the threshold of “obtain an understanding” in this context.

Paragraph .06D.b(1)

Congruent with paragraphs .06D.b(2) and (3), we believe paragraph .06D.b(1) of AS 2101 should be revised to further clarify that the lead auditor’s responsibility for determining compliance with the independence and ethics requirements relates solely to the audit for which the other auditor is supporting the lead auditor, as follows (proposed additions are in bold font):

- (1) A written affirmation as to whether the other auditor has policies and procedures that provide reasonable assurance that the other auditor maintains compliance with SEC independence requirements and PCAOB independence and ethics requirements **with respect to the audit client**, and if it does not, a written description of how the other auditor determines its compliance with the requirements;

Paragraph .06D.b

Paragraph .06D.b. of AS 2101 requires the lead auditor to obtain from the other auditor and “review” written affirmations in the case of subparagraphs (1) and (3) and a written description in the case of subparagraph (2). We suggest consideration be given to clarifying whether there is a specific action contemplated by a “review” of an affirmation, versus a “review” of a description. Also, we suggest consideration be given to changing the requirement for “review” to “evaluate” as we believe this may be more descriptive of the lead auditor’s responsibilities in this context.

Paragraph .06E

We believe it is unclear as to how “the first other auditor may assist the lead auditor” as contemplated by paragraph .06E. of AS 2101, especially given the last sentence in that paragraph, which makes it clear that the lead auditor remains responsible for determining compliance. We suggest clarifying guidance be added to paragraph .06E as to how the first other auditor could assist the lead auditor in performing the procedures described in paragraph .06D.

Paragraph .06F

Paragraph .06F of AS 2101 indicates that the lead auditor would be required to investigate the other auditor’s basis for affirming its compliance with the independence and ethics requirements if the lead auditor becomes aware of contradicting information. This proposed requirement does not indicate how the lead auditor would perform such an investigation. We could envision that, in such scenarios, the lead auditor would need to require the cooperation of the other auditor in order to perform an effective investigation. Doing so could require the other auditor to provide information that it very likely would consider to be confidential, thereby potentially making the investigation ineffective. We believe it may not be practical to expect that a firm outside the network of the lead auditor (and, in some cases, within the same network due to local privacy requirements) would provide such confidential information to the lead auditor. Such limitations make investigations in this regard difficult to conduct.

We suggest paragraph .06F of AS 2101 be revised as follows (proposed additions are shown in bold font, and proposed deletions are struck through):

If the lead auditor becomes aware of information that contradicts an affirmation or description provided by an other auditor pursuant to paragraph .06D, the lead auditor should **bring such information to the attention of the other auditor. The lead auditor should then evaluate the sufficiency of the other auditor's response to such information** ~~investigate the circumstances~~ and consider the reliability of the affirmation or description. If, after such **evaluation** ~~investigation~~, or based on the other auditor's affirmation, the lead auditor obtains information indicating that the other auditor is not in compliance with SEC independence requirements or PCAOB independence and ethics requirements **with respect to the audit client**, the lead auditor should consider the implications for determining compliance with those requirements pursuant to paragraph .06b of this standard.

6. Are the proposed amendments relating to the knowledge, skill, and ability of the other auditor, revised by this release, clear and appropriate? Are there any practical challenges associated with the proposed amendments? If so, what are they, and how could the proposed requirements be modified to address the challenges?

We believe the proposed amendments relating to the knowledge, skill and ability of the other auditor, as revised by Release No. 2021-005, generally are reasonably clear and appropriate. However, we believe consideration should be given to allowing the lead auditor's procedures with respect to the knowledge, skill and ability of other auditor to be scalable based on a risk assessment, taking into account the considerations in paragraph .06A of AS 2101. In other words, the need to gain an understanding regarding the knowledge, skill and ability of the other auditor would increase in situations where there is greater importance of locations, more risks of material misstatement or less supervision of the other auditor's work. For example, we believe the lead auditor's procedures with respect to the knowledge, skill and ability of an other auditor who audits 40 percent of the company's assets or revenues should be different than those related to an other auditor who audits 8 percent of the company's assets or revenues.

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?

Paragraph .09

Proposed paragraph .09 of AS 1201 requires the lead auditor to "Obtain and review the other auditor's written description of the audit procedures to be performed..." We believe this proposed requirement would involve the performance of a review at a level of detail that may not be necessary or effective in all circumstances. For example, it may not be necessary for the lead auditor to obtain the entire audit program from the other auditor when the other auditor performs a full-scope audit and uses a common set of network-provided tools and methodologies.

We believe a more effective and efficient risk-based approach would instead be limited to requiring the lead auditor to obtain and review the other auditor's description of the nature, timing and extent of audit procedures to be performed in response to identified risks of material misstatement that are applicable to the location or business unit. In addition, we believe the lead auditor also could use the

results of its procedures performed regarding the knowledge, skill and ability of the other auditor to inform its determination of the necessary review of the other auditor's procedures to be performed.

Paragraph .10

Proposed paragraph .08 of AS 1201 requires the lead auditor to "Inform the other auditor in writing of...the identified risks of material misstatement to the consolidated financial statements that are applicable to the location or business unit." We agree that this initial communication with respect to the work requested to be performed should be in writing, and that the other auditor should communicate the results of final procedures performed in writing to the lead auditor as prescribed by proposed paragraph .11 of AS 1201.

However, because the identification of risks of material misstatement is an iterative process that continues until completion of the audit, after the initial written communication of planning matters, the lead auditor continues to communicate with the other auditor at various points throughout the audit regarding such risks and other matters related to the audit. We note that, in practice, the nature of the matter to be communicated and other factors will influence the auditor's professional judgment in determining which method of communication (e.g., phone call, video conference, email) is most appropriate and effective for such subsequent communications with the other auditor.

We therefore believe that proposed paragraph .10 of AS 1201 may be overly prescriptive in its requirement for the lead auditor to discuss with, *and* communicate in writing to, the other auditor any changes to the other auditor's planned audit procedures. We are concerned that this requirement to communicate such matters via two communication methods may create added administrative and cost burdens that don't improve audit quality. We believe it would be more effective to allow the lead auditor to apply professional judgment in determining whether such subsequent communications of changes to the other auditor's planned audit procedures should be made in writing or orally.

- 8. *In multi-tiered audits, are the proposed requirements for situations in which the lead auditor directs an other auditor to perform supervisory procedures, and evaluates such supervision, with respect to a second other auditor on behalf of the lead auditor, clear and appropriate? If not, how should the proposed requirements be revised?***

We believe the proposed requirements for multi-tiered audit situations in which the lead auditor directs an other auditor to perform supervisory procedures, and evaluates such supervision, with respect to a second other auditor on behalf of the lead auditor are clear and appropriate. If properly planned and supervised, these proposed requirements should enhance overall audit quality.

- 9. *In multi-tiered audits are the proposed requirements in audit planning regarding:***
- a. *The sufficiency determination relative to the extent of the engagement partner's firm's supervision of the other auditors' work, clear and appropriate; and***
 - b. *Allowing the lead auditor to seek assistance from the first other auditor in performing the proposed planning procedures relating to the second other auditor's qualifications (i.e. independence and ethics, and knowledge, skill, and ability), clear and appropriate?***

If the answer to questions 9.a or 9.b is that the proposed requirements are not clear and appropriate, how should they be revised?

We believe the proposed requirements for multi-tiered audit planning are clear and appropriate regarding (a) the sufficiency determination relative to the extent of the engagement partner's firm's

supervision of the other auditors' work and (b) allowing the lead auditor to seek assistance from the first other auditor in performing the proposed planning procedures relating to the second other auditor's qualifications (i.e., independence and ethics, and knowledge, skill, and ability).

10. Are the modifications in proposed AS 1206, including Appendix B, to reflect the auditor's report language in AS 3101, appropriate and clear?

We believe the modifications in proposed AS 1206, including Appendix B, to reflect the auditor's report language in AS 3101 are appropriate and clear.

11. Are the proposed amendments to AS 1105.B1 to guide auditors in equity method investment circumstances clear and appropriate? If not, how should the proposed requirements be revised?

We believe the proposed amendments to AS 1105.B1 to guide auditors in equity method investment circumstances are clear and appropriate. We concur that the investor's auditor should not be required to supervise the work of the investee's auditor under AS 1201. We agree that, instead, the investor's auditor should look to the requirements of Appendix B of AS 1105 for the auditor's responsibilities for obtaining sufficient appropriate evidence in situations in which the valuation of an investment is based on the investee's financial results.

12. Comment is requested on the new information provided in this section. Are there other data sources the Board should consider in establishing the baseline-for evaluating economic impacts? Are there additional academic research papers or external reports of which the Board should be aware? Are there additional economic problems associated with the use of other auditors? Would the revised proposed amendments result in economic impacts or unintended consequences beyond those described in the 2016 Proposal? Are there any other matters not addressed in this release that the PCAOB should consider in its economic analysis?

We are not aware of other data sources the Board should consider in establishing the baseline for evaluating economic impacts, or additional academic research papers or external reports of which the Board should be aware.

We believe some of the proposed requirements will result in increased audit fees for registrants. For example:

- The proposed standard makes no distinction between the supervisory requirements for other auditors from the same global network of firms as the lead auditor and those for other auditors outside the network. We believe that, when network firms participate in the audit, this lack of differentiation could create additional effort that would not improve audit quality and would result in additional costs for the audit client. For example, because the proposed standard ignores a network firm's system of quality control that is operating effectively, there could be duplication of effort between the lead auditor and the other auditor, especially related to evaluating independence, technical training and the performance of members of the engagement team.
- Proposed paragraph .09 of AS 1201 requires the lead auditor to "Obtain and review the other auditor's written description of the audit procedures to be performed..." We believe this proposed requirement, among others, could cause an other auditor that is not a member of the lead auditor's network to be concerned about the confidentiality of its audit methodology. This, in turn, could cause a registrant to need to engage other auditors that are part of the same network as

the lead auditor, resulting in (a) incremental fees in changing audit firms or (b) the performance of duplicate work by two audit firms – one that has the statutory appointment and one that is reporting to the lead auditor as an other auditor.

Requests for comment in the proposal

V. Special considerations for audits of emerging growth companies

The Board requests further comment, including any available empirical data, on how the proposed amendments discussed in this release would specifically affect audits of EGCs and on whether the proposed amendments would protect investors and promote efficiency, competition, and capital formation.

We believe the proposed amendments should be applicable to all issuers, regardless of size, in order to protect investors. Given the complexities involved in global operations and the use of other auditors, we believe it is appropriate for the Board to request that the SEC determine that it is necessary and appropriate to apply the amendments to audits of emerging growth companies.

VI. Application to audits of brokers and dealers

The Board continues to consider the applicability of the proposed amendments to audits of brokers and dealers and welcomes further comment on whether the revisions discussed in this release present specific issues with respect to these audits.

We do not believe the revisions discussed in the release present specific issues with respect to audits of brokers and dealers.

VII. Effective date

The Board seeks comment on the amount of time auditors would need to prepare for the implementation of the proposed amendments and new auditing standard before they would become effective and applicable to audits, if adopted by the Board and approved by the SEC. Specifically, 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).

If finalized, the proposed new auditing standard and amendments will require that audit firms spend a considerable amount of time to develop and implement effective quality control procedures and related training. Also, the new requirements likely will require extensive discussions with other auditors as implementation of the new requirements is evaluated. Due to the extent of these efforts, we believe it would be prudent for the proposed new auditing standard and amendments to be effective for audit periods ending two years after the SEC approves the final standard, regardless of the calendar quarter in which the final standard is approved.

Office of the Secretary
Public Company Accounting Oversight Board
November 30, 2021
Page 9

We would be pleased to respond to any questions the Board or its staff may have about our comments. Please direct any questions to Adam Hallemeyer, Audit Policy Leader, at 619.641.7318 or Sara Lord, Chief Auditor, at 612.376.9572.

Sincerely,

RSM US LLP

RSM US LLP