



National Association of State Boards of Accountancy

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November 16, 2021

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

Via email: [comments@pcaobus.org](mailto:comments@pcaobus.org)

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

Dear Members of the Public Company Accounting Oversight Board:

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to offer comments on the Proposed Amendments referred to above. NASBA's mission is to enhance the effectiveness and advance the common interests of the Boards of Accountancy that regulate all Certified Public Accountants (CPAs) and their firms in the United States and its territories, which includes all audit, attest and other services provided by CPAs. State Boards are charged by law with protecting the public.

In furtherance of that objective, NASBA offers the following comments on the Proposed Amendments.

### **General Comment**

There are other projects underway by international and national standard setters regarding audits of group financial statements and using the work of other auditors. Consideration should be given to the status of these ongoing projects as it provides an opportunity for harmonization among standard setters, which is in the public interest.

### **Request for Comment 1:**

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

While we understand anecdotally that there have been changes in the use of other auditors, we believe that we do not have a further basis of commenting on this question at this time.

**Request for Comment 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 the COVID era, we have observed a far greater use of technology which facilitates the performance of audits and peer reviews of those audits remotely. The greater ability to perform audits remotely could result in a change in the use of other firms in performing the audits and in turn the designation of lead and other auditors. Likewise, it is possible that the lead auditor could find themselves in a position in which they are auditing less of the company than the other auditors.

**Request for Comment 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?*

The International Auditing and Assurance Standards Board (IAASB) is currently working on proposed revisions to International Standard on Auditing (ISA) 600 (revised), *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*. The AICPA’s Auditing Standards Board (ASB) is also working on a proposal to Statement on Auditing Standards AU-C 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*.

Consideration should be given to the status of these ongoing projects as it provides an opportunity for harmonization among standard setters, which is in the public interest.

**Request for Comment 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 misstatements, and extent of the engagement partner’s firm’s supervision – appropriate and clear?*

We believe that 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 locations, risks of material misstatements, and extent of the engagement partner’s firm’s supervision is appropriate and clear.

**Request for Comment 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?*

We do not have a basis for commenting on this question at this time.

**Request for Comment 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 revised by this release are clear and appropriate.

We agree with the requirement that the lead auditor obtain a written affirmation from the other auditor that its personnel who participate on the engagement possess the knowledge, skill and ability to perform the tasks on the audit assigned to them. In addition, the written affirmation from the other auditor should include a representation that the personnel who participate on the engagement are in compliance with the other auditor's jurisdictional registration status and licensing requirements.

**Request for Comment 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 amendments? If so, what are the specific challenges, and how could the proposed requirements be modified to address them?*

We believe that 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 are appropriate and clear.

**Request for Comment 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?*

Due to the challenge of developing rules that would anticipate the many permutations that exist in multi-tiered audits, we do not believe that the proposed requirements are appropriate. We believe that the complex multi-tiered audit situation requires a principles-based approach, which is embodied in the existing standards, rather than a codified, rules-based approach.

**Request for Comment 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 firms' 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 are clear and appropriate. Providing examples and illustrations as implementation guidance would assist in making the requirements understandable.

**Request for Comment 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 that the modifications in proposed AS 1206, including Appendix B, to reflect the auditor's report language in AS 3101 are appropriate and clear.

**Request for Comment 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 are clear and appropriate. The guidance provides a reasonable approach and is not too prescriptive to allow for the lead auditor to make judgments.

**Request for Comment 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 impact? 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 have no comment on the economic analysis and are not aware of other data sources that the Board should consider in establishing the baseline for evaluating economic impact.

**Request for Comment – Audits of Emerging Growth Companies**

*The Board requests further comments, 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.*

While the risk profile of an EGC is different from more mature entities, the proposed amendments should not be applied any differently to EGCs. To exclude EGCs from the proposed amendments in this release would be inconsistent with protecting the public interest.

**Request for Comment – Effective Date**

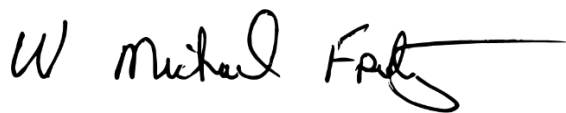
*The Board seeks comment on the amount of time auditors would need to prepare for the implementation of the proposed amendments and new auditing standard before they would become effective and applicable to audits, if adopted by the Board and approved by the SEC.*

We have no basis to comment on the amount of time auditors would need to prepare; however, we recommend the Board allow ample time for auditors to be able to implement the proposed amendments and new auditing standard correctly. Effective implementation of a new standard is in the public interest.

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We appreciate the opportunity to comment on the Proposed Amendments.

Very truly yours,



W. Michael Fritz, CPA  
NASBA Chair



Ken L. Bishop  
NASBA President and CEO