



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

Issued 30 November 2021

ICAEW welcomes the opportunity to comment on the *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* published by Public Company Accounting Oversight Board (PCAOB) on 28 September 2021, a copy of which is available from this [link](#).

ICAEW welcomes the PCAOB's proposals and looks forward to the finalisation of the relevant standards.

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KEY POINTS

1. ICAEW welcomes the PCAOB's proposals and looks forward to the finalisation of the relevant standards.

ANSWERS TO SPECIFIC QUESTIONS

Questions 1 and 2 *In recent years, have there been changes to auditor practices related to the use of other auditors? And:*

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?

2. Yes, there have been significant changes to auditor practices related to the use of other auditors in recent years. These relate to:
 - changes in the use of technology by both auditors and audited entities
 - increasing complexity in group structures
 - greater consistency in the application of audit procedures arising from the development and extension in the reach of global audit methodologies
 - a movement away from full scope audits performed at component level towards work on specific balances, and the specification of procedures to be performed.
3. The use of **shared service centres** has led to a change in the nature of the work performed by auditors, the distribution of that work among auditors, and communications between auditors, particularly in relation to the work on IT general controls required by ISA 315. Other auditors increasingly require work to be performed and information to be provided by lead auditors for the purposes of other audits, just as lead auditors require work of and information from other auditors. The situation sometimes becomes circular. The other auditors cannot complete their work without assurances from the lead auditor and vice versa. Similar issues arise where the other entity's systems are managed by head offices. Lead and other auditors have an increasing need to see and understand the planned audit procedures to be performed by multiple other auditors, and the results thereof.
4. Highly **complex group structures** generally, particularly very large scale multi-locational audits, and highly structured groups with many equity method investees, give rise to an increased risk of inconsistencies in group audit instructions, the work performed, and reporting.
5. One area particularly worthy of note is the increasing complexity of group structures and the ever-growing amount of data flowing through systems and applications, often cross-border. This has greatly increased the challenge to group and other auditors in relation to:
 - understanding data flows
 - developing appropriate approaches to obtain audit evidence relating to the accuracy and completeness of information produced by the entity and information used in the control
 - assigning responsibilities for testing this data.
6. More time is required for planning, more judgement required in determining the work to be performed and in evaluating the results obtained. More robust and clearer two-way communications generally are needed and the proposed revisions help facilitate communications.

7. EU mandatory **auditor rotation requirements** have given rise to issues relating to auditors within and outside networks. There are now more networks than there used to be and while auditing standards do not permit distinctions to be made between network and non-network other auditors, the general trend, as a result of rotation requirements, is for auditors from different networks to be involved in group audits.
8. Technology has facilitated better **access to other auditor working papers**, but access remains a perennial problem exacerbated by the pandemic and EU GDPR and equivalent data protection requirements that prevent the transfer of papers across borders, particularly as they relate to statutory audit requirements. Previously, some of these problems have been overcome by group auditors travelling to inspect working papers, but travel restrictions look set to hamper such inspections for some time to come. Alternatives will need to be found.

Question 3. Are the proposed definitions of “lead auditor” and “other auditor,” with respect to the descriptions of individuals who work under the firm’s direction and control and function as the firm’s employees, clear? If not, how should the definitions be revised?

9. Concern has been expressed about the A1-15 definition of ‘lead auditor’. The definition as drafted appears to be closely aligned with the physical location of the office issuing the audit opinion.
10. In practice, audit teams are often assembled from many different jurisdictions. We acknowledge that footnote 5 relating to secondees attempts to deal with this. The addition appears to reflect the Form AP disclosure rules. However, it does not go far enough.
11. The lead auditor team includes individuals who work under that firm’s direction and control and function as the firm’s employees, including secondees who must spend at least 3 months in the offices of the firm issuing the auditor’s report.
12. Many firms are no different to the businesses that they audit to the extent that highly complex IT systems mean that essential audit work is necessarily carried out by teams with specialist skills on a remote basis, often offshore. Some of these highly skilled teams can clearly be seen to be working under the firms’ direction and control because they are legally employees of the ‘home’ firm and work closely with audit teams despite, being physically located elsewhere on a permanent basis. However, where those teams are not legally employees of the home firm, for purely administrative reasons, we are concerned that that audit inspectors may seek to construe the note to paragraph .A4 too narrowly, and to rule that such teams are not under the firm’s direction and control, because they are neither employees nor secondees, as currently defined, despite the fact that in substance, they are under the firm’s direction and control. Consistency in the placement of employees on the form AP is important.
13. These working arrangements seem likely to become more, not less prevalent, post-pandemic, and we believe that the note to .A4 should make it clearer than it does that individuals who are neither legally employees of the firm, nor secondees as defined, may in fact be under the direction and control of the firm. The inclusion in the note to .A4 of factors that might indicate working under the direction and control the registered public accounting firm issuing the auditor’s report would assist with consistency of interpretation of the definition of lead auditor.

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

14. We are content with the addition of paragraph c to paragraph .06A on page A1-4 which clarifies that the lead auditor is only required to review the work of first other auditors.

Question 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?

15. The 2017 proposals required the lead auditor to gain an understanding of each other auditors’ *process* for determining compliance with, and experience in applying, the independence and ethics requirements.
16. The proposed amendment to paragraph .06D changes this to require lead auditors to understand the other auditor’s *knowledge* and experience, as well as a new requirement for the lead auditor to obtain and review a written affirmation as to whether other auditors have *policies and procedures* that provide reasonable assurance that they maintain compliance with independence and ethics requirements
17. It is unclear how far these amendments are intended to go, and the extent of understanding required outwith the written confirmation. Consistency of interpretation would be improved with additional guidance as to the nature and extent of procedures to gain an understanding of the knowledge and experience of the other auditor contemplated by the requirement. Similar considerations apply to the following question.

Question 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?

18. This proposal is to require the lead auditor to obtain a written affirmation from other auditors that their personnel possess the knowledge, skill, and ability to perform the audit tasks assigned to them. Again, it replaces a proposal for auditors to obtain an understanding of process and again, it is unclear how far this amendment is intended to go, and the extent of understanding obtained outwith the written confirmation, although the requirements appear similar to those in AS 1210.03.

Question 7. Are the proposed amendments to AS 1201 regarding procedures to be performed by the lead auditor with respect to the supervision of work performed by other auditors appropriate and clear? Are there any practical challenges associated with the proposed amendments? If so, what are the specific challenges, and how could the proposed requirements be modified to address them?

19. The proposed amendments in paragraph .11 on page A1-21 would require lead auditors to obtain and review a written affirmation as to whether other auditors have performed the work in accordance with instructions provided, including the use of applicable PCAOB standards.
20. Paragraph .08 covers the group audit instructions, the others auditor’s written description of the procedures to be performed, and the need for lead auditors to specify the level of detail in the information required. It is not clear from these requirements whether the lead auditor is looking for statements about what will and has been done, the findings, the conclusions reached, or all three. Memoranda differ across firms, and the quality of content varies. Further emphasis in para .09 with regards to the nature, timing and extent of these supervisory procedures may assist with consistency of interpretation and practice.

21. Firms often receive information that describes procedures performed as being in accordance with the firm’s methodology, rather than specifically with PCAOB, IAASB or other standards. The requirement to make a specific statement regarding compliance with PCAOB standards is therefore welcome.

Question 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?

22. These amendments are intended to avoid unnecessary duplication of the first other auditor’s review of other auditors’ work by lead auditors.
23. Instead of requiring lead auditors to review a ‘summary memorandum’, the proposed amendments would require that lead auditors to take into account the first other auditors’ review of second other auditors’ work in determining the extent of their own review, if any, of second other auditors’ work.
24. Lead auditors may request first other auditors to both (i) obtain, review, and retain audit documentation related to second other auditors’ work and (ii) incorporate the information in that documentation in first other auditor documentation provided to lead auditors.
25. We understand this to mean that it is no longer proposed that lead auditors should ‘ignore’ the ‘firm in the middle’. This is welcome. Lead auditors do not generally need to re-perform the work performed by any other auditors, or re-supervise the work performed by second other auditors. However, there are circumstances in which they might need to, such as where there are doubts about whether the other auditors have performed the required work adequately.
26. Paragraph .14 on page A1-23 states that lead auditors may seek the assistance of first other auditors in performing this work. This is the right approach, because lead auditors need to have confidence that the work performed by second other auditors, and the supervision of those auditors, are adequate.

Question 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?

27. In multi-tiered audits we believe that provided the requirements relating to supervisory procedures dealt with in question 8, above, have been satisfactorily dealt with, the proposed revisions relating to the sufficiency determination and the permission to seek assistance referred to in this question are appropriate.

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

28. The modifications in the proposed new standard on divided responsibility do not appear to make significant substantive changes. However, there is no guidance for the referred-to

auditor in respect of their communications with the audit committee of the company audited by the lead auditor, and in particular the circumstances under which they should make such direct communications. We understand that the referred-to auditor is not engaged as auditor of the company audited by the lead auditor, but the absence of any line of communication could be problematic, particularly in the context of equity method investees.

Question 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?

29. While we are content with the proposed amendments to AS 1105.B1, the proposals do not adequately address the nature and extent of work to be performed by lead auditors either in cooperation with, or independently of equity method investee auditors. This is an increasingly important area. We do not understand why this section has not been updated to align it with other requirements. B1 only refers to 'reputation' rather than the broader 'knowledge, skill and ability of investee auditors.'
30. Non-coterminous year ends are a common problem. A variety of approaches are used in practice, including the performance of supplementary agreed-upon-procedures by the other auditors, lead auditor access to the investee entity to permit them to perform their own procedures, and divided responsibility. However, divided responsibility is often an unsatisfactory solution and, by definition, access of any sort and the right to instruct other auditors is not guaranteed in these situations. There is a lack of clarity about the nature and extent of work to be performed by lead auditors, even where other auditors and investee companies co-operate, particularly in the area of lead auditor work on the competence, independence and oversight of investee auditors.

Question 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?

31. The amendments do not appear to add any incremental challenges associated with the use of other auditors.