

# In brief

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## At a glance

The PCAOB has requested comments on a proposal that builds on previously issued proposals intended to enhance the oversight of other auditors used in an audit. Audits of multinational companies would be most affected by the proposals.

## PCAOB requests additional feedback on proposals addressing other auditors

On September 26, 2017, the PCAOB issued a [supplemental request for comment](#) on its April 12, 2016 [proposal](#) regarding audits that involve accounting firms and individual accountants that are outside the accounting firm that issues an audit report.

### What happened?

The PCAOB is interested in strengthening existing requirements and imposing a more uniform approach to the lead auditor's supervision of other auditors. The Board's April 2016 proposal and proposed revisions in the supplemental request for comment are intended to increase the lead auditor's involvement in, and evaluation of, the work of other auditors, enhance the ability of the lead auditor to prevent or detect deficiencies in the work of other auditors, and facilitate improvements in the quality of the work of other auditors. Specifically, more explicit procedures would be required to bolster the lead auditor's involvement in the work of other auditors through enhanced communication, including requiring certain information to be in writing, and more robust evaluation of other auditors' qualifications and work.

The proposal also seeks to address (i) how a firm determines whether it can serve as the lead auditor, and (ii) the circumstances when a firm may divide responsibility for an audit with another firm because it is impracticable to supervise the other firm's work.

The PCAOB received 23 comment letters on its April 2016 proposal, [including one from PwC](#). Commenters generally supported the PCAOB's objective of improving the quality of audits involving other auditors, in particular the PCAOB's consideration of a scalable, risk-based approach to the supervision of other auditors' work. However, commenters identified matters that they believe would require modification or clarification before finalizing the proposal.

The supplemental request for comment discusses significant comments received on the 2016 proposal, presents the revisions to the proposed amendments that the PCAOB is considering for adoption, and requests comment on those revisions and related matters.

### The revised proposal

The most recent draft of the proposal seeks to refine and clarify the April 2016 proposal in the following areas:

- *Determining whether the firm can serve as lead auditor* – The revised proposal would require consideration of the importance of the locations or business units on which the lead auditor performs procedures in relation to the financial statements of the company as a whole. The consideration should take into account quantitative and qualitative factors. Respondents to the April proposal expressed concern that the previous focus solely on risks of material misstatement was primarily quantitative and too narrow.

- *Other auditors' knowledge, skill, and ability* – The new proposal would require the lead auditor to inquire about the other auditors' policies and procedures related to the training of all personnel who work on audits performed under PCAOB standards and the assignment of personnel to PCAOB audits.
- *Review of the work of other auditors* – In light of comments received, the new proposal clarifies that the level of detail of documentation to be obtained and reviewed by the lead auditor will depend on the extent of supervision of the other auditor's work deemed necessary.
- *Multi-tiered audits* – The PCAOB has preliminarily concluded that, in a multi-tiered audit, it would be appropriate to permit a first other auditor to make certain additional communications to a second other auditor as long as the lead auditor receives adequate information about the communications. The lead auditor would be required to obtain, review and retain a copy of these communications as well as the summary memorandum the second other auditor provided to the first other auditor.

The supplemental request for comment also seeks feedback on revised requirements addressing other auditors' compliance with independence and ethics requirements, as well as the proposed new standard on divided responsibility.

### **Why is this important?**

Many companies have significant operations around the world. When auditing a multinational company, a lead auditor often needs the participation of other auditors to complete the audit, from both within and outside their firm's network. As a result, the proposal will impact these audits and the efforts and costs related to the lead auditor's supervision of other auditors. The impact could be particularly significant as mandatory audit firm rotation comes into effect in Europe and auditors increasingly need to involve other auditors from outside their firm's network.

### **What's next?**

The Board is considering the revisions in the supplemental request for comment for adoption. Comments are due on November 15, 2017.

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