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Office of the Secretary
Public Company Accounting Oversight Board
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Via Email to comments@pcaobus.org

Re: PCAOB Rulemaking Docket Matter No. 042, *Proposed Amendments Relating to the Supervision of Audits Involving Other Auditors and Proposed Auditing Standard – Dividing Responsibility for the Audit with Another Accounting Firm*

Dear Board Members and Staff:

Grant Thornton LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or Board) Supplemental Request for Comment (SRC) on the *Proposed Amendments Relating to the Supervision of Audits Involving Other Auditors and Proposed Auditing Standard – Dividing Responsibility for the Audit with Another Accounting Firm*. We continue to support this project and commend the Board for furthering its outreach on this topic in order to inform amendments and the related standard that will drive high-quality audits. We are generally supportive of the revisions proposed in the SRC and respectfully submit our comments on the areas that may benefit from further refinement.

Sufficiency of participation

We are generally supportive of the proposed revisions to paragraph .B2 of Auditing Standard (AS) 2101, *Audit Planning*. The changes provide for a more risk-based approach to determining sufficiency of participation. They also make the proposed requirement more consistent with the principles within the extant requirement in paragraph .02 of AS 1205, *Part of the Audit Performed by Other Independent Auditors*, and we believe there is a general understanding and execution regarding the "importance" of components in performing risks assessment and designing further audit procedures. Thus, we would not anticipate significant operational challenges in implementing the revised proposed requirement.

We question, however, whether the Board's addition of language related to the 50 percent threshold brings a new or alternative meaning to the current SEC guidance with respect to evaluating participation. We are concerned the proposed revision creates a rebuttable presumption rather than providing a general guideline. Therefore, we recommend using

language similar to what exists in Section 4140.1 of the *Financial Reporting Manual* of the SEC Division of Corporation Finance in paragraph .B2 of AS 2101, marked for changes, as follows:

~~In addition, the participation of the engagement partner's firm to serve as lead auditor ordinarily is not sufficient if the referred to auditors, in aggregate, audit more than 50 percent of the company's assets or revenues. Generally, the lead auditor is expected to have audited or assumed responsibility for reporting on at least 50% of the assets and revenues of the consolidated entity.~~

Other auditors' compliance with independence and ethics

While we appreciate the increased clarity provided by the proposed revisions to paragraph .B4 of AS 2101, we have considerable concerns with the resulting proposed requirements. We believe these requirements could create operational challenges as well as introduce undue cost into the system. Requiring the lead auditor to gain an understanding of each other auditor's processes represents a significant change from current practice. We believe the proposed requirement would result in a significant duplication of effort among many engagement teams. Additionally, there may be practical challenges related to data privacy and confidentiality restrictions, especially in certain foreign jurisdictions or if the lead auditor is using an other auditor that is not part of the lead auditor's global network. Overall, we foresee the costs and challenges of the proposed revisions outweighing the perceived benefit of enhancing procedures in this area for every engagement where this situation is applicable.

We acknowledge that there may be instances where the lead auditor determines that obtaining an understanding of the other auditor's policies and procedures is appropriate in the circumstances, for example, if the lead auditor plans to use an audit firm with which the lead auditor has no previous experience or the firm is not well established in a certain geography or jurisdiction. However, we do not agree with creating a presumptively mandatory requirement to obtain such information for each engagement.

We continue to believe that the written representations play an important role in evaluating the other auditor's independence, and that the representations should not be diminished by creating a framework that could result in a lengthy, burdensome administrative exercise. To address these concerns, we recommend amending AS 2101 as follows:

.B4 In an audit that involves other auditors, the lead auditor should confirm ~~determine~~ each other auditor's compliance with the SEC independence requirements and PCAOB independence and ethics requirements by obtaining from each other auditor:

~~a. Gaining an understanding of each other auditor's (1) process for determining compliance with the SEC independence requirements and PCAOB independence and ethics requirements and (2) experience in applying the requirements; and~~

~~b. Obtaining from each other auditor:~~

~~a. (1) A written description of all relationships between the other auditor and the audit client or persons in financial reporting oversight roles at the audit client that may reasonably be thought to bear on independence; and~~

~~b. (2) A written representations of the following:~~

~~(1) That the other auditor is, or is not, in compliance with SEC independence requirements and PCAOB independence and ethics requirements and, if it is not, a description of the nature of any noncompliance; and~~

~~(2) That the other auditor has appropriate policies and procedures in place in assessing compliance with SEC independence requirements and PCAOB independence and ethics requirements, including consideration of matters that may reasonably be thought to bear on independence.~~

Note: If the lead auditor becomes aware of information during the course of the audit that contradicts an other auditor's ~~description of its relationships that may reasonably be thought to bear on independence or a written representation made by an other auditor~~ regarding its compliance with the SEC independence requirements and PCAOB independence and ethics requirements, or the appropriateness of its policies and procedures, the lead auditor should perform additional procedures to determine the effect of such information on the independence of the other auditor.

Use of network firms

In our letter dated July 29, 2016, we indicated that “we believe the lead auditor should have the ability to consider and, when appropriate, rely on a network firm’s system of quality control in determining the nature and extent of the assessment.” We acknowledge the Board’s consideration, and ultimate rejection, of “relying” on network firms’ systems of quality control relative to verifying independence and ethics. However, currently, a network of firms generally has baseline policies related to independence and ethics to which each network firm is expected to adhere, and such policies are subject to regular inspection through the network’s system of quality control. We believe that those baseline policies, coupled with the results of inquiries and the representations provided by the network firm indicating compliance with the appropriate independence and ethical frameworks and network policies, are suitable and sufficient for lead auditor purposes. Not including a note or other acknowledgment specific to the use of global network policies and procedures may be viewed as a considerable change in what is acceptable practice for firms with international networks. We believe that this could result in uncertainty with respect to the appropriate reliance on network firms and potentially result in significantly increased administrative cost on firms that utilize their global networks, with no further benefit to audit quality.

Other auditors' knowledge, skill, and ability

We agree that consideration of the other auditor's knowledge, skill, and ability is important in determining the appropriate level of supervision needed by the lead auditor. Nevertheless, we do not agree with the proposed revisions to paragraph .B6a. We believe the proposed revisions could create the same operational challenges and introduction of undue cost related to the independence, as discussed in the section above. We do not see a significant benefit to audit quality in requiring the lead auditor to obtain an understanding of the other auditors' policies and procedures relative to assignments and training. Rather, we believe the focus should remain on the specific individuals who are assigned to the lead auditor's engagement, since that will have the most direct impact on the lead auditor's determination of the nature and extent of its supervision of the other auditor. Therefore, we encourage the Board to reject the proposed revision to paragraph .B6a and retain the language as originally proposed.

Further, we recommend that the Board insert a note after this paragraph to include the notion that the lead auditor's own experience working with the other auditor is relevant to the lead auditor's understanding of the knowledge, skill, and ability of relevant personnel. This guidance, as acknowledged on page 16 of the SRC, would be helpful in assisting auditors to better understand how to apply the requirements of the standard with regard to other auditors.

Written reports

We appreciate the staff's proposed revision from requiring a written report to requiring a summary memorandum in AS 1201, *Supervision of the Audit Engagement*. We agree that the form of final communication will depend on the facts and circumstances of each engagement and believe this provides appropriate flexibility for the lead auditor to determine what is sufficient and appropriate. However, it is unclear how the summary memorandum described in proposed paragraph .B2d interacts with the engagement completion document required by paragraph .19 of AS 1215, *Audit Documentation*.

We believe there may be instances whereby the other auditor's documentation provided in accordance with AS 1215.19 would be sufficient for the lead auditor's purposes. We ask the Board to clarify if there are certain situations where a lead auditor may not need to obtain specified documentation beyond the requirements in AS 1215.19. As currently drafted, we foresee potential duplication of efforts or documentation exercises that is not risk-based in other auditors' efforts to comply with both AS 1215.19 and portions of proposed AS 1201.B2. We recommend that the Board further consider the interaction between these two paragraphs to determine what would be the most beneficial approach to audit quality and effectiveness.

Effective date

We continue to believe that audit firms will need sufficient time to develop and implement policies and quality control processes and to provide adequate communication to its network firms. Since planning for large, international engagements begins very early in the audit process, we strongly recommend making the proposed standard and

amendments effective for audits of fiscal years beginning two years after approval by the SEC or, if SEC approval occurs in the third or fourth quarter, fiscal years beginning three years after the year of SEC approval.

We would be pleased to discuss our comments with you. If you have any questions, please contact Bert Fox at (312) 602-9080 or Bert.Fox@us.gt.com, or Trent Gazzaway at (704) 632-6834 or Trent.Gazzaway@us.gt.com.

Sincerely,

