

# In brief

The latest news in financial reporting



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## At a glance

In many audits, audit work is performed in support of the consolidated financial statements by auditors other than the firm issuing the report. The PCAOB's proposal addresses the lead auditor's responsibilities in overseeing those other auditors.

## PCAOB proposes new requirements for audits involving other auditors

### What happened?

On April 12, 2016, the Public Company Accounting Oversight Board ("PCAOB") issued for public comment a [proposal](#) to modify its auditing standards pertaining to a lead auditor's responsibilities for planning, supervising and evaluating the work of other auditors (from the same network of firms as the lead auditor or outside the network). The proposal is intended to strengthen the existing requirements and impose a more uniform approach to the lead auditor's supervision of the work of other auditors, and enhance the ability of the lead auditor to prevent or detect deficiencies in the work of other auditors. Changes proposed include:

- Directing the lead auditor's supervisory responsibilities to the areas of greatest risk.
- Making clear that, to act as lead auditor, an audit firm must itself audit a meaningful portion of the financial statements. The lead auditor ordinarily would need to audit the location at which the primary financial reporting decisions were made and the consolidated financial statements were prepared in order to address the risks related to those important judgments and activities, and a sufficient number of other locations to cover a greater portion of the risks on the audit than any other audit firm.
- Requiring more explicit procedures to prompt the lead auditor to bolster its 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.

### Amendments relating to the supervision of other auditors

The PCAOB's proposal would:

- Revise requirements for determining a firm's eligibility to serve as lead auditor.
- Require the lead auditor to gain an understanding of each other auditor's knowledge of SEC and PCAOB independence and ethics requirements and their experience in applying the requirements.
- Prescribe certain procedures to be performed by the lead auditor with respect to the supervision of other auditor's work, including requiring the lead auditor to:
  - Determine it will be able to communicate with the other auditors and gain access to their work papers. This includes audit documentation required to be retained today, but also additional items the lead auditor determines is needed to meet the requirements. For example, the lead auditor may request additional information

for review with respect to the work performed by less experienced auditors, or with respect to an area of heightened risk of material misstatement.

- Inform the other auditor of the scope of work to be performed by them.
- Obtain and review the other auditor's description of the nature, timing, and extent of audit procedures to be performed.
- Obtain from the other auditor a written report describing the other auditor's procedures, findings, conclusions, and, if applicable, opinion.
- Determine whether the other auditor complied with the lead auditor's communications and whether additional audit evidence should be obtained with respect to the work performed by the other auditor.
- Require the lead auditor's documentation to contain a specified list of other auditors' working papers reviewed, but not retained by the lead auditor.
- Require the engagement quality reviewer to evaluate the engagement partner's determination of a firm's eligibility to serve as lead auditor.

#### *New auditing standard related to divided responsibility*

The PCAOB also proposed a new standard which applies when the lead auditor divides responsibility for the audit with, and makes reference in the audit report to, another auditor (referred-to auditor). The proposed new standard would retain, with modifications, many of the requirements of the current standard, but include new requirements that a lead auditor:

- Obtain a representation that the referred-to auditor is appropriately licensed.
- Determine whether the referred-to auditor that would play a substantial role in the preparation or furnishing of the lead auditor's report is registered with the PCAOB.
- Disclose the name of the referred-to audit firm in the lead auditor's report.

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

Many companies have significant operations around the world. When auditing a multinational company, a lead auditor often needs participation of other auditors to complete the audit. As a result, the proposal may impact these audits and the efforts related to the lead auditor supervising the other auditors.

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

Comments on the proposal are due on July 29, 2016.

#### **Questions?**

PwC clients who have questions about this *In brief* should contact their engagement partner. Engagement teams who have questions should contact the National Professional Services Group (1-973-236-7800).

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