

# Snapshot

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## SEC staff statement on lead auditor's responsibilities

Paul Munter, Chief Accountant of the SEC's Office of the Chief Accountant (OCA), recently issued a [statement](#) summarizing the OCA staff's views on the lead auditor's responsibilities in a global audit when other auditors are involved, in light of the increased use of other auditors along with recent academic research that indicates inconsistencies in the quality of work performed by other auditors. The OCA statement focuses on (1) the auditor's responsibilities when other auditors are involved in an audit, (2) PCAOB standards, including quality control standards, that incorporate the auditor's responsibilities, and (3) reminders for audit committees and issuers.

### Use of other auditors

The statement highlights the OCA staff's observations regarding lead auditor shortcomings related to the use of other auditors, including

- Violations of PCAOB Rule 2100, when an other auditor that is not registered with the PCAOB plays a substantial role in an audit;
- Violations of PCAOB Accounting Standard (AS) 1301 when firms communicate incorrect information about the use of other auditors to the audit committee; and
- Deficiencies in the reporting on PCAOB Form AP.

In order for audit committees to oversee and evaluate the performance of the lead auditor and other auditors used on an audit engagement, the OCA staff reminds auditors that clear and accurate communication with audit committees regarding the use of other auditors is critical.

### Firms' systems of quality controls

The OCA statement highlights recent PCAOB actions and observations where a lead auditor's quality control system failed to ensure that firm personnel, including the personnel of other auditors, had complied with applicable professional standards in an audit engagement. Firms were reminded of the importance of properly designing and applying quality controls, especially in the area of supervising and reviewing other auditors, as well as communicating appropriately with audit committees about the use of other auditors.

### Network-member firms

The statement also discusses the mistaken assumption that audit quality is consistent across all member firms in the same network. Auditors are reminded to be vigilant in their supervision and review responsibilities when using network firms and are encouraged to consider the training and professional experience of personnel in network firms, including the personnel's competence in performing audits in accordance with PCAOB standards. Further, given market perceptions about network firms that use the same branding, networks of firms are encouraged to strive for consistent governance policies and procedures among firms as it relates to quality control and supervision and review, to support high audit quality throughout the network.

In addition, an effective firmwide or network-wide approach is encouraged to monitor existing and anticipated business relationships with audit clients and to identify potential independence threats timely.

## Reminders for audit committees and issuers

The OCA statement reminds audit committees that it is important to engage with the lead auditor to understand the firm's quality control system, including the policies and procedures around the supervision and evaluation of the work performed by other auditors. The statement includes a nonexhaustive list of questions that audit committees may consider asking when engaging with the lead auditor, including

- Are there other participating accounting firms that play a substantial role in the audit and, if so, are they registered with the PCAOB and subject to PCAOB inspections?
- How does the lead auditor supervise the audit work performed by other auditors?
- How does the lead auditor assure that the work is being performed by other auditors that understand the requirements of the applicable financial reporting framework and the PCAOB's auditing and related professional standards?

To underscore the importance of audit committees' and issuers' understanding of the role and registration status of other auditors used in an engagement, the statement reminds stakeholders that if an other auditor that is not PCAOB registered plays a substantial role in an audit, the lack of PCAOB registration of that other auditor would deem those financial statements to be "not audited." In turn, if these financial statements are included or incorporated by reference into an SEC document, potential liabilities may arise, as well as costly remediation efforts.

### Grant Thornton insight

As noted in the statement, it is imperative that audit committees and issuers are aware of the other auditors used to conduct an audit, the role each other auditor plays, and each firm's PCAOB registration status.

To help understand when an other auditor plays a substantial role, audit committees and issuers should look to PCAOB Rule 1001, *Definitions of Terms Employed in Rules*, which states that the phrase "play a substantial role in the preparation or furnishing of an audit report" means (1) to perform material services that a public accounting firm uses or relies on in issuing all or part of its audit report, or (2) to perform the majority of the audit procedures with respect to a subsidiary or component of any issuer, broker, or dealer, the assets or revenues of which constitute 20% or more of the consolidated assets or revenues of such issuer, broker, or dealer necessary for the principal auditor to issue an audit report.

## Contacts



**Kendra Decker**  
*Partner-in-charge*  
*SEC Regulatory Matters*  
T +1 202 521 1530  
E [Kendra.Decker@us.gt.com](mailto:Kendra.Decker@us.gt.com)



**Rohit Elhance**  
*Partner*  
*SEC Regulatory Matters*  
T +1 202 861 4110  
E [Rohit.Elhance@us.gt.com](mailto:Rohit.Elhance@us.gt.com)



**Cindy Williams**  
*Managing Director*  
*SEC Regulatory Matters*  
T +1 202 521 1520  
E [Cindy.Williams@us.gt.com](mailto:Cindy.Williams@us.gt.com)

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