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# U.S. Regulatory and Standard-Setting Activities Related to Group Audits

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## Introduction

In today's global economy, many U.S. companies have significant operations in foreign jurisdictions, including in emerging markets, and many multinational companies domiciled in foreign jurisdictions are listed on U.S. securities exchanges. Such cross-border operations pose unique challenges for members of the financial ecosystem (e.g., companies, investors, auditors, and regulators) because of a number of factors — including a myriad of laws and regulations, access to information, the ability to conduct oversight, and different professional standards. As a result, auditing standard setters have added group audits to their agendas and have ongoing projects to revise their standards, with the goal of improving audit quality. The United States is also strengthening regulatory oversight of U.S.-listed companies that are based in emerging markets, as well as of those companies' external auditors. Therefore, it is important for multinational companies listed in the United States to remain aware of recent regulatory and standard-setting activities and to understand their impact on the environment in which the companies operate.

This *Heads Up* discusses recent activities related to group audits.

## New PCAOB Rule Related to the HFCAA

On December 18, 2020, the [Holding Foreign Companies Accountable Act](#) (HFCAA) was signed into law. Under the HFCAA, if a company's auditors are located in a foreign jurisdiction and the PCAOB "is unable to inspect or investigate completely because of a position taken by an authority in [that] jurisdiction," the company will be identified, required to make special disclosures, and ultimately delisted from U.S. securities exchanges after three consecutive

years of restricted PCAOB access.<sup>1</sup> The HFCAA requires that the PCAOB determine to which registered public accounting firms its access is restricted and report that to the SEC for use in making other determinations under the HFCAA.

As highlighted in Deloitte's September 22, 2021, *Quarterly Accounting Roundup: Third Quarter — 2021*, the PCAOB recently issued [Release 2021-004](#),<sup>2</sup> which announces its adoption of a new rule related to its responsibilities under the HFCAA. The rule provides a framework for the PCAOB's determinations, under the HFCAA, of whether "the Board is unable to inspect or investigate completely registered public accounting firms located in a foreign jurisdiction because of a position taken by one or more authorities in that jurisdiction." Mainland China and Hong Kong are currently the only registered jurisdictions that deny the PCAOB the necessary access to conduct oversight because of positions taken by local authorities; as a result, registrants audited by firms in those jurisdictions may be required to make special disclosures and are at risk of being delisted.

## PCAOB Standard-Setting Activities

The PCAOB currently has a project underway to amend existing auditing standards related to audits of group financial statements, with an objective of improving audit quality. As part of this project, on September 28, 2021, the PCAOB issued [Release 2021-005](#),<sup>3</sup> which requests additional comments on proposed amendments to its auditing standards related to the supervision of audits that involve accounting firms and individual accountants outside the accounting firm that issues the auditor's report. This release is a second supplemental request for comment on amendments that were first included in a 2016 proposing release and subsequently revised in a 2017 supplemental request for comment.

As discussed in Deloitte's April 29, 2016, *Audit & Assurance Update*, the amendments are designed to improve the quality of audits involving other auditors and to align with the PCAOB's risk-based standards. The roles of other auditors have become more significant as a result of the growth of companies' global operations.

The proposed amendments in the PCAOB's releases would strengthen the requirements that apply to audits involving accounting firms and individual accountants that are outside the accounting firm that issues the auditor's report. In such audits, the lead auditor issues the auditor's report, but other auditors often perform important audit work so that sufficient appropriate audit evidence is obtained to support the lead auditor's opinion. In addition, the amendments are designed to update requirements for situations in which the lead auditor divides responsibilities for the audit with another accounting firm.

PCAOB Release 2021-005 includes proposals to:

- "Rescind AS 1205, *Part of the Audit Performed by Other Independent Auditors*, [and clarify that the lead auditor] would be required to (i) when assuming responsibility for the other auditors' work, supervise the other auditor under AS 1201, and (ii) when dividing responsibility for the audit with a referred-to auditor, comply with proposed AS 1206, *Dividing Responsibility for the Audit With Another Accounting Firm*."

<sup>1</sup> In June 2021, the Senate passed the Accelerating Holding Foreign Companies Accountable Act, which, if signed into law, would reduce the period for the delisting of foreign companies under the HFCAA from three consecutive years to two consecutive years. It is not clear when or if this change will be passed by the full Congress.

<sup>2</sup> PCAOB Release No. 2021-004, *Rule Governing Board Determinations Under the Holding Foreign Companies Accountable Act*. The new rule is subject to approval by the SEC. If approved, the rule will immediately become effective and the PCAOB will promptly make any determinations under the rule that are appropriate.

<sup>3</sup> PCAOB Release No. 2021-005, *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*. Stakeholders are encouraged to review and submit comments on the supplemental request. All comments should mention "PCAOB Rulemaking Docket Matter No. 042" in the subject or reference line and should be received by the PCAOB by November 30, 2021.

- “Amend AS 1201, *Supervision of the Audit Engagement*, [to] provide additional direction to the lead auditor on how to apply the principles-based provisions of the standard to the supervision of other auditors.”
- “Amend AS 2101, *Audit Planning*, [to] incorporate and update certain requirements from AS 1205, and amend certain existing requirements to specify that they be performed by the lead auditor.”
- “Adopt a new standard, AS 1206, *Dividing Responsibility for the Audit With Another Accounting Firm*. The new standard would retain, with modifications, many of the current requirements in AS 1205 that apply when the lead auditor divides responsibility with the referred-to auditor and refers to its report in the lead auditor’s report [but] also would establish certain new requirements.”
- “Define the terms ‘engagement team,’ ‘lead auditor,’ ‘other auditor,’ and ‘referred-to auditor,’ to operationalize the proposed requirements.”

“It is important for investor protection that the lead auditor sufficiently plans, supervises, and evaluates the work of other auditors,” said PCAOB Acting Chairperson Duane DesParte in an accompanying [news release](#). “With the supplemental request for comment . . . , we look forward to receiving further stakeholder input as we move to strengthen existing requirements.”

### Other Standard-Setting Activities

The International Auditing and Assurance Standards Board and the AICPA’s Auditing Standards Board have also undertaken projects that are similar to those of the PCAOB. We encourage stakeholders to review the proposed amendments to auditing standards and remain alert to further updates to these ongoing projects.

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