

July 30, 2015

VIA E-MAIL comments@pcaobus.org

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington DC 20006-2803

Re: PCAOB Staff Consultation Paper No. 2015-01, *The Auditor's Use of the Work of Specialists* ("Staff Consultation Paper")

Dear Office of the Secretary:

WeiserMazars LLP ("WeiserMazars") welcomes the opportunity to comment to the staff of the Chief Auditor (the "Staff") of the Public Company Accounting Oversight Board's (the "PCAOB" or the "Board") Staff Consultation Paper. WeiserMazars appreciates the PCAOB's efforts to improve AU 336, *Using the Work of a Specialist* ("AU 336"), in order to provide auditors with greater clarity and guidance about their responsibilities when using the work of a specialist; either employed or engaged by the company or by the audit firm. From our perspective, adding enhancements to AU 336 and related application guidance through the use of an appendix will serve to improve audit quality.

WeiserMazars is a firm with over 100 partners and 700 professionals in nine offices across the United States ("U.S."), an independent member firm of the Mazars Group, an organization with over 15,000 professionals in more than 70 countries around the world, and a member of Praxity, a global alliance of independent firms. Because we are a U.S. registered public accounting firm, and a member of an international network, our perspectives may differ from those our international counterparts due to variations in the client population and in the regulatory and litigation environments.

Our responses to the Staff Consultation Paper are driven primarily by our position in the U.S. marketplace as a medium-sized public accounting firm servicing mostly small business issuers and broker-dealers. Therefore, our primary focus is to address our concerns and challenges as they relate to companies with similar characteristics to our issuer and broker-dealer client base.

Overall Views

We concur with the Staff's observations that AU 336 in the current audit environment needs improvement in certain areas. Our vision for improved performance in auditing in areas where specialists are used includes alignment with the PCAOB's other relevant auditing standards as well as with other standard-setters, and clarification of the definition of a "specialist" and the auditor's responsibilities when using specialists. Issuance of a revised AU 336 would maintain the ability for auditors to exercise appropriate professional judgment of when and how to use the work of a specialist during the execution of their audits.

We offer our insights to certain questions raised by the Staff as follows:

1. Does the information presented in Section III accurately characterize current practice? Are other aspects of current practice – at larger and smaller accounting firms – relevant to the staff's consideration of potential standard setting in this area?

Overall, we believe that the information presented in Section III accurately characterizes current practice.

Whether a larger firm uses its own specialist or a smaller firm engages an outside specialist, the requirements of reaching an agreement with the specialist on the work to be performed, adequate evaluation of the specialist's work, and resolution of any differences for purposes of an audit are the same. In addition, engagement teams from any public accounting firm acknowledges the requirements of AU 336 in avoiding any appearance of actual or perceived "hand-off" of responsibility.

There are differences in practice in the execution of AU 336 between larger and smaller accounting firms when auditing the work of a specialist. We understand that larger accounting firms generally have employed in-house specialists. Smaller-sized accounting firms, at times, may engage an outside specialist when necessary, in their judgment, to effectively apply AU 336. The application of the principles of AU 336 (and related standards) is consistent regardless of the size of firm.

2. Are there any challenges associated with current practice, especially for those accounting firms that have incorporated the standards of the IAAS or of the ASB into their audit methodologies?

We do not believe that there are any significant challenges associated with the current practice of incorporating the IAAS or the ASB requirements and guidance into an international accounting firm's audit methodology.

3. For accounting firms that use the work of an auditor’s specialist:

a. Does the firm employ or engage those specialists?

We both employ specialists and engage specialists.

How does the firm decide to employ versus engage a specialist?

Engagement teams determine in planning whether a specialist is required on a particular engagement. If the expertise needed exists within the firm, we follow the requirements of AS No. 10, *Supervision of the Audit Engagement* (AS 10). If specific expertise is not employed, we would determine whether we should engage an outside specialist. Whether we employ or engage a particular specialist is a decision based both on risk and on a cost-benefit analysis and the need for particular expertise. Cost, however, will not override the need to comply with the current requirements of professional standards and the auditor’s risk assessment.

For larger firms that employ specialists, are there circumstances when the firm uses engaged specialists?

Yes, we believe that all firms will engage a specialist if such expertise is required and is not available within the firm (i.e. oil and gas reserves, valuation of precious metals, artwork, etc.).

b. Does Figure 1 in Section II.A accurately describe the activities for which the firm uses the work of a specialist? What other specialized knowledge and skill do specialists have and in what areas of the audit is their work commonly used?

Figure 1 in Section II.A, while not an all-inclusive list, does represent the majority of the activities for which we would use a specialist and apply the principles of AU 336.

c. What type of work do the specialists perform?

The activities of employed or engaged specialists most frequently used by our firm include: valuation of financial instruments, business combinations, goodwill impairment analysis, real estate valuations, share-based compensation, post-employment obligations, and insurance loss reserves.

Does the type of work vary depending on whether the firm employs or engages the specialist?

The type of work performed generally does not differ regardless of whether the firm employs or engages the specialist. However, the use of an employed specialist will require supervision of his or her work in accordance with AS 10.

Does the type of work vary depending on the specialist's field of expertise?

The specialist's field of expertise does not drive the type of work performed or compliance with the requirements of AS 10 or AU 336. The underlying assumptions and methodologies may vary based on financial statement assertions and related disclosures being audited.

d. Is the auditor's specialist more likely to assist in testing the company's process or developing an independent estimate?

The auditor's specialist is more likely to assist in testing the company's process. The nature and extent of testing conducted or the need to develop an independent estimate is driven by facts and circumstances and the auditor's risk assessment.

4. For accounting firms that use the work of an auditor's employed specialist:

a. Does supervising the work of employed specialists in accordance with Auditing Standard No. 10 present any challenges?

No, we do not see any challenges in the application of AS 10 with regard to the supervision of an employed specialist.

b. How does the firm evaluate whether the work was performed and whether the results of the employed specialist's work support the conclusions reached?

The engagement team evaluates the work performed by the employed specialist by obtaining an understanding of the assumptions and methodologies used and procedures performed. In addition, the auditor evaluates the underlying data used by the employed specialist, in accordance with AS No. 15, *Audit Evidence* ("AS 15"), as to whether such information is sufficient and appropriate for the purposes of the audit engagement team.

c. Does this evaluation vary by the nature of the specialization and degree of the auditor's familiarity with that particular specialization?

We do not believe that the evaluation process in accordance with relevant auditing standards would vary by the nature of the specialization. However, more complex or unfamiliar areas may require more time to be incurred by an engagement team, and potentially additional support from another employed or even an auditor engaged specialist to evaluate a specialist's findings.

d. How would the evaluation change if the firm engaged the specialist?

We do not believe that the evaluation of an engaged specialist's work would change as compared to that of an employed specialist. However, the auditor would need to initially evaluate the credentials, objectivity, and independence of an engaged specialist which would not be required for an employed specialist.

e. What is the process for determining whether more senior specialists in the firm, such as partners or principals, should assist the auditor in supervising the work of the specialist?

We believe that the industry, level of complexity, years of experience of an employed specialist, and any other factors, as identified during the planning process of an audit engagement, should determine whether a more senior specialist should assist in the supervision of an employed specialist. This decision is a matter of the engagement team's professional judgment during the planning and execution of the engagement.

How does that assistance affect the auditor's supervision of the work of the employed specialist?

Assistance from an employed senior specialist generally would not change the engagement team's supervision of an employed specialist.

5. For accounting firms that use the work of an auditor's engaged specialist:

a. What process does the firm use to assess the knowledge and skill of a specialist before engaging the specialist?

The process used to assess the knowledge and skill of a specialist before engaging the specialist includes the auditor's determination and understanding of:

- The specialist's professional certification, license, or other recognition of the competence of the specialist in his or her field
- The reputation and standing of the specialist in the views of peers and others familiar with the specialist's capability or performance
- The specialist's experience for the type of work under consideration

The performance of these procedures may include direct communication with the specialist and his or her firm and use of external sources and references.

- b. Are there circumstances when the auditor performs procedures in addition to those specified in AU sec. 336 to evaluate the work of the specialist (e.g., performs procedures similar to those in Auditing Standard No. 10)? If so, describe those circumstances and the reasons for using that approach. Do senior specialists in the firm (if any), such as managers and partners, assist in evaluating the engaged specialist's work?**

We do not routinely go beyond AU 336 for auditor engaged and company specialists. In our experience, the work of the auditor engaged specialist is evaluated in accordance with AU 336. However, in the circumstance that auditor's procedures lead him or her to believe that the engaged specialist's findings are unreasonable, he or she should apply additional procedures, which may include obtaining the opinion of another specialist, also in accordance with AU 336.12.

- c. How does the firm apply the requirements of AU sec. 336, in conjunction with the risk assessment standards, to the use of the work of an engaged specialist?**

The firm performs the engagement using the guidance contained in AS 8 through AS 15 to assess the risks associated with particular financial statement assertion(s) prior to the application of AU 336. During the planning phase of the audit, the firm determines which areas have risks of material misstatements and designs procedures to be responsive to those risks. If circumstances change, the risk assessment is revisited to ensure that the procedures performed are still responsive to the risks identified. In almost all cases, the use of an auditor engaged specialist is determined during the planning phase, and the risks associated with the use of an engaged specialist are factored into particular financial statement assertions. The specialist's work is then audited using the guidance in AU 336.

- d. In using the work of an engaged specialist, does the firm have access to all the methods and models of that specialist or are there instances when access to proprietary methods or models is restricted by the specialist or the specialist's employer?**

If the firm requires access to the models of the specialist, that would be discussed and agreed upon prior to engagement. There are instances where the models utilized by the specialist are proprietary, or the models utilized would require the installation of proprietary software, to which the auditor is not provided access. We have not been restrained in applying AU 336 in the circumstance where we have had limited access to the methods and models of the specialist.

6. For accounting firms that use the work of a company's specialist:

a. What are the circumstances in which the firm uses the work of a company's specialist?

The firm will use the work of a company's specialist and rely upon it when the guidance in AU 336 can be applied to the specialist and the firm is satisfied that the specialist's work can be audited in accordance with AU 336. Such specializations include:

- Valuation of financial instruments (Level 2 and Level 3 assets/liabilities)
- Assets and liabilities acquired/assumed in a business combination
- Goodwill impairment
- Stock options (ASC Topic 718)
- Equity instruments provided to non-employees (ASC Topic 505)
- Real estate
- Post-employment obligations (defined benefit plan, deferred compensation, etc.)
- Contingent and environmental liabilities
- Insurance loss reserves
- Property, plant, and equipment (salvage value)
- Inventory stockpiles
- Valuation of precious metals, stones, etc.
- Art work
- Oil and gas reserves

If so, describe the related audit procedures performed in connection with the specialist's work.

If a firm is to rely on the findings of a company's specialist, the related audit procedures performed in connection with the specialist's work are to obtain an understanding of:

- The objectives and scope of the specialist's work
- The specialist's relationship to the client
- The methods or assumptions used by the specialist
- A comparison of the methods or assumptions used with those used in the preceding period
- The appropriateness of using the specialist's work for the intended purpose
- The form and content of the specialist's findings that will enable the auditor to make the evaluation described in AU 336.12

Are there circumstances when the auditor performs procedures in addition to those specified in AU sec. 336 to evaluate the work of the specialist? If so, describe those circumstances and the reasons for using that approach.

We do not perform procedures beyond AU 336 unless the results of our work indicate the results of the specialist's work are unreasonable (AU 336.12). See our discussion in 6.c below.

b. Does Figure 1 in Section II.A accurately describe the activities for which the auditor uses the work of a company's specialist? Are there other activities in which the auditor uses the work of a company's specialist that should be considered within the scope of this project?

Figure 1 in Section II.A, while not an all-inclusive list, does represent the majority of the activities for which we would use a specialist and apply the principles of AU 336.

c. In what circumstances has the firm concluded that the findings of the company's specialist were unreasonable and therefore performed additional procedures, as required by AU sec. 336? In those circumstances, what procedures did the auditor perform?

If we determine that the results of the specialist's work are deemed unreasonable under the circumstances, we will perform additional procedures, which include conducting extensive discussions with the specialist to gain a better understanding of his or her thought process, assumptions, and methodologies used. If we still cannot use the work of the specialist, we may utilize an employed or an engaged specialist to (a) utilize another model to recalculate, (b) utilize assumptions from different sources, or (c) perform sensitivity analyses on the assumptions utilized, in order to assess whether the company's conclusions are within a reasonable range.

d. How does the firm currently apply the requirements of AU sec. 336, in conjunction with the risk assessment standards, to the use of the work of a company's specialist?

During the planning phase of an engagement, the firm determines which areas have risks of material misstatements and designs procedures to be responsive to those risks. If the fact pattern or circumstances change, the risk assessments are revisited to ensure that the procedures performed are still responsive to the risks identified. In almost all cases, the use of an auditor engaged specialist is determined during the planning phase, and the risks associated with the use of a company's specialist are factored into particular financial statement line items as well as overall risk assessments of the engagement. The company specialist's work is then audited using the guidance in AU 336.

e. Are there any differences between how the firm uses the work of a company's employed specialist and a company's engaged specialist?

Our audit response to company employed versus engaged specialist is facts and circumstances driven. If the results of our risk assessment procedures coupled with the results of our AU 336 inquiries indicate the specialist may lack objectivity, we will perform additional procedures to satisfy ourselves that the financial statement assertions are supported. See 6.c. above for types of additional procedures.

8. When an auditor obtains an understanding of the methods used by the company's specialist:

a. If the auditor has access to the specialist's methods (or models), is that access at a sufficiently detailed level (as opposed to a general level, such as a website description) to allow the auditor to obtain sufficient appropriate audit evidence?

We have not been deterred by limitations on access to proprietary models. In addition, the company specialist's reports are usually issued with sufficient detail to allow for audit procedures to be either performed in accordance with AU 336 or we are able to further satisfy ourselves through inquiry related to assumptions and methods used. If we are not satisfied, we perform additional procedures (AU 336.12 and discussed above in 6.c. & e).

b. If the auditor does not have such access, how does the auditor obtain sufficient appropriate audit evidence regarding the relevant assertion?

See 8.a. above.

14. Is it appropriate for an auditor to consider the knowledge, skill, and objectivity of a company's specialist when evaluating the reliability of information provided by that specialist?

It is essential for an auditor to consider the knowledge, skill, and objectivity of a company's specialist, as he or she would for an auditor engaged specialist when evaluating the reliability of the information provided by the company specialist. As auditors, we must always maintain a healthy level of professional skepticism when evaluating the reliability of information as audit evidence.

If so, how might the company's use of the work of a competent and objective specialist under the potential alternatives affect the nature, timing, and extent of the auditor's procedures?

We do not agree with the elimination of the responsibilities of the company's specialist for the appropriateness and reasonableness of their methods and assumptions used. We recommend retaining and enhancing AU 336 to provide additional guidance to the auditor which would assist the auditor with the evaluation of methods and assumptions used by the company specialist.

15. How do auditors currently obtain an understanding of the assumptions and methods used by a specialist under AU sec. 336?

In order to obtain an understanding of the assumptions and methods used by a specialist under AU sec. 336, we:

- Obtain and read a copy of the specialist's report.
- Review the methodology and underlying assumptions for applicability, and reasonableness, including how they relate to the financial statement line items being addressed by the specialist. Compare assumptions/methods used in the current year specialist's report to the prior year's specialist report for consistency or proper changes therein.
- Query the specialist to gain a better understanding of the assumptions and methods used on the client's data.

16. Should the work of a company's specialist be treated as audit evidence the same way as other information provided by the company?

No. We believe that AU 336 should be retained.

Are there concerns associated with more rigorous testing of the work of a company's specialist that may result from this approach? For example, would auditors increasingly need to employ or engage specialists to perform work to assist the auditor with such testing?

We do not believe that the elimination of AU 336 would improve audit quality. We do, however, support enhancements to AU 336 to improve auditor performance.

20. Is it appropriate to retain the definition of a specialist from AU sec. 336 or is there a need to update the definition to reflect the increased use of the work of persons with specialized knowledge or skill in accounting and auditing? For example, should that definition also include those with specialized knowledge or skill in income taxes or IT?

It is appropriate to retain the definition of a specialist from AU 336. We do agree income taxes and IT have become more complex, but the definition of a specialist should continue to exclude those with specialized knowledge or skill in income taxes or IT, as they are covered

under AS 10 and should remain under AU 336 as included in the field of accounting or auditing.

- 21. Is it clear what constitutes a specialized area of accounting and auditing? For example, are persons with specialized knowledge or skill in regulatory compliance (e.g., related to audits of brokers and dealers) considered to be persons with specialized knowledge or skill in accounting and auditing? Should the staff provide clarification about what constitutes a specialized area of accounting and auditing? Does the discussion in this staff consultation paper appropriately describe when third parties may be inside or outside the scope of the potential definition of an auditor's specialist?**

It would be beneficial to have additional clarity regarding what constitutes a specialized area of accounting and auditing.

We believe that, generally, it is clear what constitutes a specialized area in accounting and auditing, and that such specialization does not qualify the auditor as a specialist in accordance with AU 336. It would be helpful, however, for the staff to provide additional clarity about what constitutes a specialized area of accounting and auditing as compared to that of a specialist as noted in Figure 1 in the Staff Consultation Paper.

We believe that the Staff Consultation Paper describes, appropriately, when third parties are deemed to be auditor's specialists.

- 27. Do the potential requirements appropriately reflect what the auditor's responsibilities should be when an auditor's specialist develops an independent estimate? How would these potential requirements differ from current practice (e.g., for audits performed in accordance with ISA 620 or AU-C Section 620)?**

We do not believe that all of the potential requirements reflect, appropriately, the auditor's responsibilities. The potential requirements state, among others, that the auditor should evaluate whether the methods (which may include models) used by the specialist are generally accepted within the specialist's field of expertise, and are applied consistently, including whether consistency is appropriate considering changes in the environment or circumstances affecting the company. Both of these evaluations by the auditor are outside of the scope of the auditor's normal skillset and would require either the use of another auditor's specialist or specialized auditor training to evaluate the work of the auditor's specialist when he or she develops an independent estimate. Such evaluations are discussed but are not mandatory within the scope of AU-C 620.

- 28. Do the potential requirements appropriately reflect what the auditor's responsibilities should be when an auditor's specialist tests the company's methods and significant assumptions? How would these potential requirements differ from current practice (e.g., for audits performed in accordance with ISA 620 or AU-C Section 620)?**

Our response regarding when the auditor's specialist tests the company's methods and significant assumptions is similar to our response to question 27.

- 29. Do the potential requirements appropriately reflect what the auditor's responsibilities should be when the auditor evaluates the results and conclusions of the work of an auditor's specialist? How would these potential requirements differ from current practice (e.g., for audits performed in accordance with ISA 620 or AU-C Section 620)?**

We believe that the potential requirements reflect, appropriately, the auditor's responsibilities. The potential requirements as noted in the shaded box on page 41 of the Staff Consultation paper relating to the evaluation of results and conclusions of the specialist's work are within the scope of AU 336 and AU-C Section 620. In addition, such potential requirements do not require additional areas of expertise for the auditor.

- 31. Are the potential requirements for evaluating the work of an auditor's specialist appropriate for all types of specialists used in audits (e.g., valuation specialist, actuary, geologist, lawyer, or engineer)? If not, how should the potential requirements be tailored?**

We do not believe that the potential requirements for evaluating the work of an auditor's specialist is appropriate for all types of specialists used in audits. We believe, however, that general requirements for evaluating the work of an auditor's specialist, as in AU 336, are necessary with added appendices, such as in the format of AS 18 Appendix A, that would provide special discussions and guidance for specific types of specialists such as those noted in Figure 1 in the Staff Consultation paper. We also believe that current requirements in AU 336 can be revised to provide additional guidance that results in increased consistency in application without adding significant cost of implementation of meeting performance requirements.

In Summary

We applaud the Staff for its extensive analysis of possible alternatives to improve audit quality in connection with the use of specialists. We support a revised AU 336, inclusive of an appendix that would provide auditors with greater clarity and guidance about their responsibilities relating to an auditor's use of the work of a specialist. We do not support the elimination of AU 336 or the creation of less subjective audit requirements as methods to improve audit quality. We remain committed to participating in future discussions with the Board and its Staff about how to best implement appropriate recommendations generated by the Staff Consultation Paper that would enhance audit quality and improve transparency with respect to audits of issuers and broker-dealer audits where specialists are used.

We would be pleased to discuss our comments with you at your convenience. Please direct any questions to Wendy B. Stevens, Partner-in-Charge, Quality Assurance, at (212) 375-6699 (wendy.stevens@weisermazars.com) or David Bender, Director, Quality Assurance, at (516) 620-8497 (david.bender@weisermazars.com).

Very truly yours,



WeiserMazars LLP