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

**PCAOB Release No. 2017-003, *Proposed Amendments to Auditing Standards for Auditor's Use of the Work of Specialists* (June 1, 2017)**

This letter provides the GAO's comments on the Public Company Accounting Oversight Board's (PCAOB) referenced proposed amendments to auditing standards. GAO promulgates generally accepted government auditing standards, which provide professional standards for auditors of government entities in the United States.

We support the PCAOB's efforts to improve the quality of financial reporting and increase the confidence users have in the audit of financial statements. Specifically, we concur with the PCAOB's view concerning the need for improvements to PCAOB standards related to use of specialists. In addition, we generally concur with the potential amendments presented in the proposed amendments. We believe that such changes would significantly improve the PCAOB standards.

The PCAOB staff consultation paper seeks comment on 43 specific questions. We have provided comment on most of those questions in an enclosure to this letter.

We thank you for considering our comments on these important issues as the PCAOB continues its effort to enhance its auditing standards.

A handwritten signature in black ink, appearing to read 'James R. Dalkin'.

James R. Dalkin  
Director  
Financial Management and Assurance

Enclosure

## Enclosure

### **Comments on PCAOB Release No. 2017-003, *Proposed Amendments to Auditing Standards for Auditor's Use of the Work of Specialists***

The following are our responses to the questions included in this release.

**1. Does the description of existing audit practice accurately depict the state of practice? Does the discussion of the reasons to improve auditing standards sufficiently describe the nature of concerns arising from the use of the work of specialists that the Board should address? Are there additional concerns that the Board should seek to address?**

GAO audits are conducted in accordance with generally accepted government auditing standards (GAGAS). GAGAS incorporates by reference the American Institute of Certified Public Accountants' Statements on Auditing Standards. Accordingly, Public Company Accounting Oversight Board (PCAOB) standards do not apply to GAO. Nevertheless, the information presented in this release appears to reasonably characterize our understanding of current practice. Further, the discussion of the reasons to improve auditing standards sufficiently describes the nature of concerns arising from the use of the work of specialists.

**2. Do these proposed amendments to existing standards appropriately address the reasons to improve standards discussed above? Are the reasons for having separate standards for using the work of a company's specialist, an auditor-employed specialist, and an auditor-engaged specialist clear?**

The proposed amendments appropriately address the reasons to improve standards. The reasons for having separate standards for using the work of the various types of specialists are clear.

**3. Are there any other areas of improvement in existing standards relating to audits that involve specialists that the Board should address? Are there related areas of practice for which additional or more specific requirements may be needed?**

We are not aware of other areas that need to be addressed.

**4. The Board requests comment generally on the baseline for evaluating the potential economic impacts of the proposal. Are there additional academic studies or data the Board should consider? The Board is particularly interested in studies or data that could be used to assess potential benefits and costs.**

We do not offer a response to this question.

**5. The Board requests comment generally on the analysis of the need for the proposal. Are there additional academic studies or data the Board should consider? The Board is interested in any alternative economic approaches to analyzing the issues presented in this release, including references to relevant data, studies, or academic literature.**

We do not offer a response to this question.

**6. The Board requests comment generally on the potential benefits to investors, auditors, and other capital market participants. Are there additional benefits the Board should consider?**

We do not offer a response to this question.

**7. The Board requests comment generally on the potential costs to auditors and the companies they audit. Are there additional costs the Board should consider?**

We do not offer a response to this question.

**8. The Board requests comment generally on the potential unintended consequences of the proposal. Are the responses to the potential unintended consequences discussed in the release appropriate? Are there additional potential unintended consequences that the Board should consider? If so, what responses should be considered?**

We do not offer a response to this question.

**9. The Board also requests comment on the potential unintended consequences of the proposal on competition in the market for audit services. How and to what extent could competition be affected by the proposal? Would audit fees be meaningfully affected by the proposal? Would the availability of qualified auditors in the market be meaningfully affected by the proposal?**

We do not offer a response to this question.

**10. The Board requests comment generally on the alternative approaches described in this release that the Board considered, but is not proposing. Are any of these approaches, or any other approaches, preferable to the approaches the Board is proposing? What reasons support those approaches over the approaches the Board is proposing?**

We do not believe alternative approaches are preferable to the proposed approach.

**11. Are there additional economic considerations associated with this proposal that the Board should consider? If so, what are those considerations?**

We do not offer a response to this question.

**12. The Board requests comment generally on the analysis of the impacts of the proposal on EGCs. Are there reasons why the proposal should not apply to audits of EGCs? If so, what changes should be made so that the proposal would be appropriate for audits of EGCs? What impact would the proposal likely have on EGCs, and how would this affect efficiency, competition, and capital formation?**

We do not offer a response to this question.

**13. Are there any factors specifically related to audits of brokers and dealers that may affect the application of the proposal to those audits?**

We do not offer a response to this question.

**14. How much time following SEC approval would audit firms need to implement the proposed requirements?**

We do not offer a response to this question.

**15. Would requiring compliance for fiscal years beginning after the year of SEC approval provide challenges for auditors? If so, what are those challenges, and how should they be addressed?**

We do not offer a response to this question.

**16. Is it appropriate to retain the existing meaning of the term “specialist” in current auditing standards? Do auditors understand the existing meaning of the term and when a person (or firm) is a specialist? If not, what changes are necessary?**

We believe the existing meaning of “specialist” is generally understood within the auditing community. Accordingly, we do not offer suggested changes.

**17. Are the other terms used in the proposal—“company’s specialist,” “auditor-employed specialist,” and “auditor-engaged specialist”—clear and appropriate for purposes of the Board’s proposal? Do these terms align with the role of each of these specialists in the audit?**

In general, “company’s specialist,” “auditor-employed specialist,” and “auditor-engaged specialist” are clear, appropriate, and align with the roles of these specialists in the audit. However, we suggest that the PCAOB consider replacing “company’s specialist” with “management’s specialist” to reflect the full range of organizations that use the work of specialists to prepare entity financial statements. The “management’s specialist” is also consistent with terminology in AU-C section 620.

**18. Does the proposed approach pose any particular challenges to auditors, such as for particular industries? If so, what are those challenges, and how could the proposed approach be modified to better take them into consideration?**

We do not offer a response to this question.

**19. Are the proposed requirements scalable as described? If the requirements are not scalable, what changes to the proposals would make them adequately scalable?**

We do not envision any reason that the proposed approach cannot be reasonably scaled to address audits of varying size and complexity.

**20. How would the proposed requirements for using the work of a company’s specialist as audit evidence impact current practice? Describe any changes to current practice you foresee based on the proposed requirements.**

Consistent with AU-C section 500, *Audit Evidence*, we consider the work of a company’s specialist as audit evidence provided by management. We believe that the work of the company’s specialist should be subject to audit procedures similar those for other audit evidence obtained from the company, and we conduct our procedures accordingly at GAO. We do not foresee any changes to current practice based on the proposed requirements.

**21. Are the proposed requirements related to obtaining an understanding of the work and report(s) of the company’s specialist(s) and related company processes and controls, in conjunction with obtaining an understanding of the company’s information system relevant to financial reporting, clear and appropriate? Do such requirements belong in proposed Appendix B? If not, where should such requirements be included?**

In general, the proposed requirements related to obtaining an understanding of the work and report of the company's specialist and related company processes and controls, in conjunction with obtaining an understanding of the company's information system relevant to financial reporting, are clear and appropriate. However, we are unclear about how the requirements in AS 1105, *Audit Evidence*, paragraph .B3, would relate to "the entity that employs the specialist." Specifically, the considerations for assessing the specialist's knowledge, skill, and ability in bullets a., b., and c. of this paragraph are suitable for assessing an individual specialist's qualifications, but do not seem to be readily applicable to an entity. Further, we note that while the lead paragraph in .B2 refers to "related company processes and controls," bullet c. of this paragraph only refers to "the company's process" without further reference to "related controls."

We believe proposed appendix B is a reasonable location for these requirements.

**22. Are the proposed requirements for obtaining an understanding of and assessing the company specialist's knowledge, skill, and ability, and relationship to the company, clear and appropriate? Do these proposed requirements represent a change from current practice? If yes, how so?**

In general, the proposed requirements for obtaining an understanding of and assessing the company's specialist's knowledge, skill, and ability, and relationship to the company, are clear and appropriate.

**23. The release provides examples of varying the nature, timing, and extent of audit procedures based on the factors described in the proposed requirements. Are the examples provided in the release clear and helpful? Are there additional examples from practice that the Board should consider?**

In general, the examples provided in the release are clear and helpful. However, we note that there is some redundancy in the language of paragraphs .B6, .B8, and .B9. The PCAOB could consider adding references in paragraph .B6 to the paragraphs where the related requirements are included.

**24. Are the proposed requirements to evaluate the relevance and reliability of the company specialist's work clear and appropriate? Do the proposed requirements complement the requirements to evaluate the relevance and reliability of other audit evidence?**

In general, the proposed requirements to evaluate the relevance and reliability of the company's specialist's work are clear, appropriate, and complementary to the requirements to evaluate the relevance and reliability of other audit evidence.

**25. Does the proposed approach pose any particular challenges to auditors? If so, what are those challenges and how could the proposed approach be modified to better take them into consideration?**

We are not aware of particular challenges the proposed approach poses to auditors.

**26. Are the proposed factors to consider when determining the necessary extent of supervision clear? Are there other factors that the auditor should be required to consider when making this determination? If so, what are those factors and how should they be considered?**

In general, the proposed factors related to determining the necessary extent of supervision are clear. However, we note that there is some redundancy in the language of paragraphs .06 and .C2 of AS 1201, *Supervision of the Audit Engagement*. Paragraph .C1 states that the appendix supplements the requirements in paragraphs .05 through .06; however, it is unclear whether the auditor would apply the requirements in paragraph .C2 instead of or in addition to the requirements in paragraph .06 for auditor-employed specialist.

**27. Is the extent of supervision in the proposed approach appropriately scalable to the size and complexity of the audit? If not, how can this be made more scalable?**

We do not envision any reason that the proposed approach cannot be reasonably scaled to address audits of varying size and complexity.

**28. Are the proposed requirements for establishing and documenting the understanding with the specialist sufficiently clear and appropriate? Would they foster effective two-way communication between the auditor and the specialist? If not, how could they be changed?**

In general, the proposed requirements for establishing and documenting the understanding with the specialist are clear, are appropriate, and would foster effective communication between the parties.

**29. To what extent would the proposed requirement for establishing and documenting the understanding with the specialist represent a change in current practice? If so, what is that change?**

We do not foresee any changes to current practice based on the proposed requirements.

**30. Are the proposed requirements for evaluating the work, including any report, of the auditor-employed specialist appropriate and clear? Is the link between the establishment and documentation of the understanding with the specialist and evaluating the specialist's work or report clear?**

In general, the proposed requirements for evaluating the work of the auditor-employed specialist are appropriate and clear. Further, the link between establishment and documentation of the understanding with the specialist and evaluating the specialist's work is clear.

**31. What, if any, additional guidance is needed for auditors to effectively implement and apply the proposed requirements for using the work of auditor-employed specialists in audits? Should this guidance, if any, be part of the Board's rules or issued separately in the form of staff guidance? Describe specifically what areas need guidance.**

Revisions to PCAOB standards appear to be the most appropriate way to assist audit organizations in implementing and applying the proposed requirements. In addition, the PCAOB's concurrent efforts relating to auditing accounting estimates and fair value measurements, as discussed in its Release No. 2017-002, *Proposed Auditing Standard – Auditing Accounting Estimates, Including Fair Value Measurements and Proposed Amendments to PCAOB Auditing Standards*, should help address some of the issues discussed in the release.

**32. Does the proposed approach pose any particular challenges to auditors?**

**If so, what are those challenges and how could the proposed approach be modified to better take them into consideration?**

We do not envision any significant challenges.

**33. Does the proposed approach appropriately reflect the relationship between the auditor and an auditor-engaged specialist as compared to the auditor and an auditor-employed specialist? If not, how should the requirements be tailored to reflect that relationship? Are there any additional requirements needed when an auditor engages a specialist that are not contemplated in the proposed approach? Describe specifically any such requirements.**

In general, the proposed approach appropriately reflects (1) the relationship between the auditor and an auditor-engaged specialist and (2) the relationship between the auditor and an auditor-employed specialist.

**34. Is it clear how the proposed requirement for assessing the knowledge, skill, ability, and objectivity of an auditor-engaged specialist differs from the requirements for assessing the knowledge, skill, and ability of the company's specialist and the relationship of the company's specialist to the company? If not, how can the proposed requirements be changed to improve their clarity?**

In general, the proposed requirements for assessing the knowledge, skill, ability, and objectivity, as applicable for each type of specialist, are clear. However, we are unclear about how the requirements in AS 1210, *Using the Work of an Auditor-Engaged Specialist*, paragraph .03, would relate to "the entity that employs the specialist." Specifically, the considerations for assessing the specialist's knowledge, skill, and ability in bullets a., b., and c. of this paragraph are suitable for assessing an individual specialist's qualifications, but it is unclear how these considerations could be applied to an entity.

**35. Does the proposed requirement to assess the objectivity of the auditor engaged specialist present any challenges to the auditor? If so, what are those challenges and how could they be addressed?**

We do not envision any significant challenges.

**36. Are the proposed requirements for establishing and documenting the understanding with the auditor-engaged specialist sufficiently clear and appropriate? Would they foster effective two-way communication between the auditor and the auditor-engaged specialist? If not, how could they be changed?**

Please see the answer to question 28. Further, we suggest that the PCAOB consider adding to AS 1210, *Using the Work of an Auditor-Engaged Specialist*, paragraph .07, a requirement that the engagement partner and other supervisory engagement team members inform the auditor-engaged specialist of the need to apply professional skepticism. This addition is consistent with paragraph .C6 of AS 1201, *Supervision of the Audit Engagement*.

**37. To what extent does the proposed requirement for establishing and documenting the understanding with the auditor-engaged specialist represent a change in current practice? What is that change, if any?**

Please see the answer to question 29.

**38. Are the proposed requirements for evaluating the work, including any report, of the auditor-engaged specialist appropriate and clear? Is the link between the establishment and documentation of the understanding with the specialist and evaluating the specialist's work or report clear?**

We agree that the requirements are clear.

**39. What, if any, additional guidance is needed for auditors to effectively implement and apply the proposed requirements for using the work of auditor-engaged specialists in audits? Should this guidance, if any, be part of the Board's rules or issued separately in the form of staff guidance? Describe specifically what areas need guidance.**

Please see the answer to question 31.

**40. Is rescinding AI 11 appropriate, or does the interpretation contain specific guidance necessary to apply PCAOB standards? If so, what is that specific guidance?**

Rescinding AI 11 is appropriate.

**41. Is rescinding AI 28 appropriate, or does the interpretation contain specific guidance necessary to apply PCAOB standards? If so, what is that specific guidance?**

Rescinding AI 28 is appropriate.

**42. Are the proposed conforming amendments in Appendix 2 appropriate and clear? Why or why not? What changes to the amendments are necessary?**

The proposed conforming amendments are appropriate and clear.

**43. In addition to the proposed conforming amendments in Appendix 2, are other conforming amendments necessary in connection with the proposed changes to AS 1105, AS 1201, and AS 1210?**

We are not aware of other conforming amendments that are necessary.