



August 30, 2017

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

**Subject: PCAOB Rulemaking Docket Matter No. 44**

Submitted via [comments@pcaobus.org](mailto:comments@pcaobus.org)

Dear Board Members,

The Committee on Corporate Reporting (“CCR”) of Financial Executives International (“FEI”) appreciates the opportunity to comment on the PCAOB’s “Proposed Amendments to Auditing Standards for Auditor’s Use of the Work of Specialists”.

FEI is a leading international organization representing approximately 10,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives and other senior-level financial executives. CCR is a technical committee of FEI, and reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. CCR member companies represent approximately \$7.5 trillion in market capitalization and actively monitor the standard setting activities of the PCAOB.

This letter represents the views of CCR and not necessarily the views of FEI or its members individually.

#### **Executive Summary**

CCR is supportive of the efforts being made by the PCAOB to improve the guidance on the auditing standards for the auditor’s use of the work of specialists. However, we ask the Board to clarify language in the proposal that we believe is vague and may introduce inconsistencies in practice.

#### **Insufficiently Precise Language**

The proposed Appendix B, *Using the Work of a Company’s Specialist as Audit Evidence*, is designed to supplement the requirements in AS 1105, *Audit Evidence*, for circumstances in which the auditor uses the work of the company’s specialist as audit evidence in a few key areas. One area would require the

auditor to test data used by the company's specialist, and evaluate whether the data was "appropriately used" by the specialist. This evaluation leaves the auditor to interpret what would be considered *appropriate*. Preliminary discussions lead some to believe this means the auditor should recalculate or reperform the work of the specialist.

We believe the PCAOB should amend the guidance to clarify the intended requirements of the auditor in this area. In many cases, companies engage external specialists who use proprietary models not available to the auditor. Therefore, it will not be possible for the auditor to recalculate or reperform the work done by the specialist, and the preparer will be burdened with the responsibility of providing the necessary documentation to support the auditor's determination of "appropriately used."

### **Specialist vs. Regular Employee Differentiation**

Paragraph B8 of the proposal requires the auditor to evaluate whether the methods used by the company's specialist<sup>1</sup> are appropriate and the significant assumptions are reasonable. The note to this paragraph directs auditors to the requirements in paragraphs .09-.18 of Proposed Auditing Standard AS 2501, *Auditing Accounting Estimates, Including Fair Value Measurements*, when testing and evaluating data, methods, and significant assumptions made when the company's specialist assists the company in developing an accounting estimate. The requirements in paragraphs .09-.18 outline the testing of a company's process used to develop the accounting estimate, and how the auditor should evaluate the company's methods, test the data used, and identify and evaluate the reasonableness of significant assumptions. It should be noted, however, that these additional requirements apply to any estimate made by the company when such estimates are made without the assistance of a company specialist.

Effectively, the proposal directs auditors to apply the same procedures used to evaluate an estimate made internally by regular employee<sup>2</sup> of the company without the use of a specialist, as they apply to an estimate made by a company specialist (engaged or employed). However, CCR recommends permitting the auditor to place more reliance on the work performed by a company's specialist than an estimate generated without the assistance of a specialist (engaged or employed), given the nature of their education, training, and experience in the given field. Using the work of a company specialist (engaged or employed) should not be viewed as similar to a regular employee. Companies look to leverage the work of specialists (engaged or employed) with appropriate credentials and that should be acknowledged by the auditor when evaluating the estimate made. The proposal, as written, does not clearly acknowledge this important differentiation.

### **Professional Skepticism**

It is important that auditors maintain professional skepticism as a key tenant of auditor behavior. Some stakeholders have noted that the language in the proposal may suggest a higher degree of skepticism

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<sup>1</sup> "Company specialist" as outlined within the proposal may refer to either a specialist employed by the company or a specialist engaged by the company. In either case, the term specialist does not refer to a regular employee of the entity.

<sup>2</sup> While not defined, our reference to "regular employee" is intended to imply the use of the work of an employee that is not a specialist, as that term is defined within the standard.

than is currently required<sup>3</sup>, with some suggesting that the auditor is being instructed to be cynical in their approach to management assertions. These concerns are in reaction to the extensive use of the word “bias” throughout the proposal. We recommend clarification that the standards around professional skepticism and due professional care as outlined in existing PCAOB standards continue to apply and that this proposal is not intended to amend, revise, or expand those standards.

### **Legal Specialist**

The proposal also proposes to rescind AI 11: *Using the Work of a Specialist: Auditing Interpretations of AS 1210*, however, this guidance is particularly important when a sale is to be recognized for transfer arrangements, especially in those cases where the transferor has continuing involvement with the transferred financial assets. Often, legal opinions are required to support significant assertions about the transaction (i.e., attorney opinion is often required to support a conclusion that transferred financial assets are isolated from the transferor, any of its consolidated affiliates included in the financial statements being presented, and its creditors). The standards for use of a legal opinion as evidence to support the legal isolation criterion are contained in Auditing Interpretation 9336: *Using the Work of a Specialist: Auditing Interpretation of Section 336* (AU 9336). By rescinding this interpretation, companies may struggle to anchor their accounting conclusions to guidance. We recommend the PCAOB retain this portion of the existing guidance to avoid confusion and unnecessary work.

### **Conclusion**

Based on the foregoing, we recommend the Board amend the proposal to clarify the intention of the Board in the areas related to what is considered appropriate, clarify guidance to affirm that the auditor may rely more heavily on the work of company specialists, and clarify within the proposal the intention of the PCAOB as it related to the degree of professional skepticism required of the auditor. Furthermore, we ask the Board to consider retaining the principles found in AI 11.

Should you have any questions, we welcome the opportunity to discuss our comments further.

Sincerely,

*Mick Homan*

Mick Homan  
Chairman  
Committee on Corporate Reporting  
Financial Executives International

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<sup>3</sup> Refer to AS 1015: Due Professional Care in the Performance of Work