

August 30, 2017

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

RE: PCAOB Rulemaking Docket Matter No. 044, Proposed Amendments to Auditing Standards for Auditor's Use of the Work of Specialists, PCAOB Release No. 2017-003

Office of the Secretary:

Crowe Horwath LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB") proposed amendments to auditing standards for the auditor's use of the work of specialists ("proposed amendments"). We support the Board's efforts to improve audit quality by enhancing existing auditing standards and are pleased to provide our observations regarding the proposed amendments below.

### **AS 1105, Audit Evidence**

*Risk Assessment* - The proposed amendments incorporate risk assessment procedures into AS 1105, Appendix B – *Using the Work of a Company's Specialist as Audit Evidence*. While we agree with adding specificity to the auditor's risk assessment procedures when utilizing the work of company specialists, we believe these risk assessment considerations should be incorporated into AS 2110: *Identifying and Assessing Risks of Material Misstatement*. Paragraph .B1 indicates obtaining an understanding of the company's information system relevant to financial reporting is an objective of Appendix B. This is the exact same objective of paragraphs .28 - .32 of AS 2110.

Further, paragraphs .B2 - .B5 add specificity surrounding the auditor's understanding of the company's specialist and how that understanding will impact the nature, timing and extent of the auditor's procedures. Those procedures include testing and evaluating the work of the company's specialists. In general, these paragraphs require the auditor to:

- Understand the company's information system relevant to financial reporting
- Understand the work and report(s) of the company's specialist(s) and related process and controls
- Understand the professional qualifications of the company's specialists
- Assess the level of knowledge, skill and ability of the specialist
- Assess the relationship to the company of the specialists the entity that employs the specialists

Introducing risk assessments procedures into a standard other than AS 2110 may result in auditors only considering the factors in the proposed amendments of AS 1105 without appropriately considering all factors in the relevant paragraphs of AS 2110 when understanding and assessing a company specialist. We recommend incorporating the risk assessment procedures introduced in the proposed amendments to AS 2110.

*Testing and Evaluating the Work of the Company Specialist* – We believe paragraph .B8 results in unnecessary procedures with respect to utilizing a company specialist for estimates. Specifically, the note to paragraph .B8 indicates that in addition to evaluating the company specialist under AS 1105, the auditor performs procedures in Proposed Auditing Standard AS 2501, *Auditing Accounting Estimates, including Fair Value Measurements*. As a result, the auditor is required to evaluate the company specialist as management, in which case, there would be no need to evaluate the company specialist under AS 1105 but rather evaluate the specialist as management under AS 2110. For example, evaluating a company engaged specialist's objectivity would appear unnecessary as this process does not appear to impact the audit effort performed under paragraphs .09-.18 of Proposed Auditing Standard 2501. We recommend clarifying how the use of a company engaged specialist impacts the auditor's effort when the company specialist is utilized to assist in the preparation of management's estimate.

### ***AS 1210, Using the Work of an Auditor-Engaged Specialist***

*Objectivity* – Paragraph .04 of AS 1210 indicates the auditor "...should assess whether the specialist and the entity that employs the specialist has the necessary objectivity to exercise impartial judgment on all issues encompassed by the specialists' work related to the audit. This include evaluating whether the specialist or the entity that employs the specialist has a relationship to the company (e.g., through employment, financial, ownership or other business relationships, contractual rights, family relationships, or otherwise), or any other conflicts of interest relevant to the work to be performed."

We find the examples provided to assist auditor's in the identification of a specialist's relationship to be helpful, however, these examples are not sufficiently clear to indicate if any relationship between the company and the specialist would impair the objectivity of the specialist and thus require the auditor not to use the specialist based on paragraph .05. For instance, the example of "ownership" is not clear as it does not have any defined threshold level nor does the standard provide for the vehicle of ownership (e.g. a mutual fund). We believe objectivity should be viewed on a spectrum as opposed to a binary conclusion. In situations where the specialist has a relationship with the company; we believe the auditor should be able to evaluate that relationship to determine the impact on the nature, timing and extent of the use of the auditor-engaged specialist.

### ***Effective date***

The time and effort necessary to incorporate the proposed amendments into audit methodologies, guidance and audit programs, and to train staff, is anticipated to be significant and is directly impacted by PCAOB exposure draft on estimates. We recommend the proposed amendments be effective two years after the SEC approves the final standard.

Crowe Horwath LLP appreciates the efforts the PCAOB has undertaken to improve the audit quality associated with auditing estimates. We would be pleased to respond to any questions regarding our comments. Should you have any questions please contact James A. Dolinar at (630) 574-1649 or Michael G. Yates at (574) 236-7644.

Cordially,



Crowe Horwath LLP