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August 30, 2017

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, DC 20006-2803

Reference: ***PCAOB Rulemaking Docket Matter No. 044 (PCAOB Release No. 2017-003)***

Dear Board and Staff:

We are pleased to respond to the *Proposed Amendments to Auditing Standards for Auditor's Use of the Work of Specialists* (the "Specialists Proposal"). As the leading provider of qualified, experienced and credentialed third-party valuation support to public registrants and investment company managers, we have unique insight and experience with respect to the current rigor preparers of financial statements utilize in estimating fair value, and the scrutiny auditors apply in auditing fair value measurements.

Our role in the financial statement preparation process is distinctive. We support management in enhancing its internal control process with respect to estimating fair value, and our fair value analyses serve as an input for consideration by management in preparing its financial statements. We believe that our consultative advisory process results in more relevant and reliable fair value estimates. As such, our role is that of company-engaged third party specialists, as described in the Specialists Proposal.

Our comments are founded on years of experience assisting management with its valuation estimates. In 2016 alone we performed more than 12,000 engagements for 5,000 clients, including nearly half of the S&P 500, over 70% of top tier private equity firms and 64% of Fortune 100 companies. Our professionals are deeply involved in industry efforts to enhance valuation consistency and transparency, including participation on various task forces and working groups of the AICPA and The Appraisal Foundation; on boards, such as the International Private Equity and Venture Capital Valuation Board, and the International Valuation Standards Council; and in the Fair Value Quality Initiative.

We have previously responded to PCAOB's Staff Consultation Paper on *Auditing Accounting Estimates and Fair Value Measurements* (2014) and the PCAOB Staff

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Consultation Paper on *The Auditor's Use of the Work of Specialists* (2015). We have also participated in the SAG meetings on this topic. Presently, we are also separately responding to PCAOB's Proposal on *Auditing Accounting Estimates, Including Fair Value* Measurements (*PCAOB Rulemaking Docket Matter No. 043/ PCAOB Release No. 2017-002*) (the "Estimates Proposal").

Our goal in responding to the Specialists Proposal is to provide our expertise as experienced third-party valuation specialists as the PCAOB considers changes to audit standards which, in turn, will guide the accountability of auditors in exercising their role in capital markets - ensuring that financial information meets the needs of investors and is provided on a reliable, high-quality, consistent, transparent and cost-effective basis.

Key Observations

We understand that the Specialists Proposal addresses the work of various types of specialists. Given the prominence of fair value in financial reporting and our specific expertise in assessing fair value, our comments and observations are directed specifically to auditing the work of valuation specialists assisting management with its fair value assertions, and are written from the perspective of **experienced, credentialed, company-engaged third-party specialists**.

PCAOB's Auditor Guidance Must Reflect Important Recent Developments Affecting Valuations for Financial Reporting

We applaud the Board's focus on reorganizing, streamlining and improving the auditing standards for use of the work of specialists. The Specialists Proposal, however, does not consider recent key developments affecting valuations for financial reporting purposes, which we believe will have a direct impact on advancing the quality of documentation and support provided by company-engaged specialists. The Specialists Proposal should be enhanced by incorporating reference to and giving effect to the impact to these developments. These events include the establishment of the "Fair Value Quality Initiative", tasked with the creation of a valuation professional infrastructure, the subsequent launch of the CEIV (Certified in Entity and Intangible Valuations) credential, and the pending launch of the CVFI (Certified in Valuations of Financial Instruments) credential.

The Fair Value Quality Initiative was undertaken in response to statements made by regulators (SEC) calling for increased quality and accountability of valuation specialists performing valuations for financial reporting purposes. The resulting CEIV credential (launched in January 2017) is designed for both management (company-employed) and third-party (company-engaged) valuation specialists who perform fair value measurements for financial statement reporting purposes. To obtain and maintain the credential, the valuation professional: (1) must meet rigorous qualification, as well as ongoing education and experience requirements; (2) must adhere to the requirements of a Mandatory Performance

Framework (MPF)[1], which governs the scope of work and level of documentation; and (3) agrees to be subjected to a periodic independent Quality Control review.

Adherence to the MPF is mandatory for CEIV credential holders, and is considered best practice for non-CEIV valuation specialists; the same holds for CVFI credential holders who would have to comply with an equivalent to the MPF Disclosure Framework (DF). We believe that both the CEIV and CVFI credentials and related MPF and DF will further enhance the robustness and quality of company-employed and company-engaged valuation specialists' work, and will have a direct impact on the quality of documentation and support for fair value estimates. The MPF lays out detailed requirements and procedures addressing the depth of analysis and documentation necessary to prepare a professional work product that will be used by management for financial reporting purposes. This includes a critical assessment by the valuation specialist of data and projections provided by management, significant assumptions used, and other inputs to the valuation analysis, and a thorough documentation thereof. This will further enhance the relevance and reliability of management's fair value assertions and thereby will make the audit more efficient, and more cost-effective, to the benefit of all parties involved.

However, notwithstanding the new valuation infrastructure in place, the new MPF/DF requirements, and the expectation that a CEIV's/CVFI's work is subject to an independent Quality Control review, we did not clearly discern that the Specialists Proposal would supportively guide auditors to adjust their procedures, and re-define the scope of various audit efforts - including testing, reperformance and analytical procedures, or development of independent estimates – in a way that takes into account MPF/DF-compliant specialist work and documentation. For example, in the context of company specialists, there is only one passing mention of performance standards in the Specialists Proposal, and this does not even occur in the text of the actual amendments for company specialists (Appendix B).

We believe that the Board should consider the results of the Fair Value Quality Initiative which was undertaken at the behest of the SEC.

Risk of Unnecessarily Expanding Audit Procedures

While the Specialists Proposal embraces a "risk-based" approach to auditing, we found that the guidance provided could be subject to broad interpretation which may result in even greater incremental, and at times duplicative, auditor effort when auditing the work of company specialists. Although the document acknowledges that some of the proposed requirements may already have been incorporated in audit firms' audit methodologies or applied in practice by individual teams, in its current iteration, the Specialists Proposal's net

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[1] The *Mandatory Performance Framework* document, and its companion document, the *Application of the Mandatory Performance Framework, collectively referred to as "MPF" for the purpose of this letter*, can be located here: https://ceiv-credential.org/mandatory-performance-framework-and-application/

result would likely be an increase in audit time and effort incurred in evaluating the work of company specialists, notwithstanding the recent infrastructure developments in the valuation profession, and other existing safeguards of valuation quality.

Auditors can and should test the company's process - which may utilize engaged specialists, as applicable - to develop fair value estimates. However, when such testing by the auditor demonstrates that management's fair value assertions are reasonable and credentialed company specialists were part of the process, providing consultative support, the auditor should not feel compelled to unnecessarily extend testing. The Specialists Proposal (in conjunction with the companion Estimates Proposal) may inadvertently encourage auditors to unnecessarily expand the audit approaches utilized. Instead, by referencing the MPF/DF process and applicable certifications, the PCAOB standards could provide better guidance and confidence to auditors in making their risk-based judgments, and thereby establishing the extent of testing required.

The increase in costs in the system may be pervasive and far-reaching, as there may be a spillover effect on private company audits as well. It would be difficult to conceive that an auditor would behave differently and exercise a different level of skepticism and professional care in a public vs. a private company audit, even though separate audit methodologies may be maintained.

Risk of a Decrease in the Overall Quality of Financial Reporting

The audit guidance in the Specialists Proposal should communicate a clearer recognition of the beneficial, value-adding, time- and cost-saving impact on the audit process of a qualified and credentialed company specialist, who complies with performance standards, and is subject to independent Quality Control and a code of professional conduct and ethics.

We believe that the Board's intent is to improve audit quality in a cost-effective manner, so as to benefit investors and promote investor protection. However, if the auditor is generally encouraged, expected, or feels obliged to perform more procedures and incur more effort, regardless of the involvement of a qualified company specialist, this could shift the balance between the work of the company specialist and the auditor specialist (as acknowledged in the Specialists Proposal) with negative effects, including degradation of the output of the internal control environment, and potential impairment of auditor independence.

We recognize that management earnestly exercises its responsibility to prepare GAAP-compliant financial statements providing users with relevant and reliable financial information. However, if faced with the prospect of increasing audit scope and costs, situations may arise where management may feel compelled to invest less time, cost and effort in supporting certain assertions in the financial statements by not engaging a specialist when one would otherwise be called for - especially given the expectation that the auditor's specialist would perform extensive testing and calculations as part of the audit.

This outcome could decrease the quality of financial reporting and may also create situations in which auditor independence could be deemed impaired because the auditor's specialist is de facto providing management with estimates, which the auditor must review and audit.

Overall, these factors pose a risk of creating an environment that not only does not meet the PCAOB's objectives in the rewriting of this standard, but also fails to foster the best outcome for investors.

Credentialed Company Specialist MPF/DF Compliance Should Enable Auditors to Appropriately Adjust their Scope of Work

Auditors' risk assessment should consider management's and its specialists' compliance with the MPF/DF, and auditors should be able to tailor their procedures accordingly. While the amendments in the Specialists Proposal address key considerations such as the specialist's knowledge, skill and ability, there is no direct reference to performance standards that govern the specialist's work, meaning the *actual application* of the specialist's knowledge, skill and ability to a specific valuation, rather than the skill and ability merely as a professional attribute.

MPF/DF compliance directly impacts the specialists' *scope of work, depth of analysis and documentation* as it relates to fair value measurements, and a CEIV/CVFI credential further signals that the specialist's work may be subject to an independent Quality Control review by the organization issuing the specialist's credential. These are key safeguards of valuation quality that should be made explicit in the Specialists Proposal - and should be considered as significant factors in the auditors' risk assessment and resultant scope of work.

Company Specialists - and Particularly Company-Engaged Specialists - are an Enhancement to Management's Internal Control Process

Management is responsible for the assertions contained in the financial statements and cannot relinquish this role to a third party. However, management can enhance its process by obtaining consultative advice from experienced valuation specialists.

Typically, management has sought assistance from third party valuation specialists in complying with financial reporting requirements related to business combinations, impairment testing, and share-based compensation, among others. Additionally, it has become best practice of the largest private equity and hedge fund investment managers to validate fair value estimates using a qualified, experienced third party valuation specialist. Investors have come to rely on enhanced internal control systems which appropriately include specialized valuation expertise. In these situations, the valuation specialist is engaged to assist management, by providing consultative advice, in fulfilling management's responsibility of supporting the assertions included in the financial statements.

As such, management should not be put at a disadvantage for using qualified and credentialed company-engaged or company-employed specialists. The prospect of a broadly increased audit mandate (issues previously discussed) despite the use of qualified company specialists seems to be at odds with such an internal control enhancement that management has traditionally utilized.

Presumption of Bias

We think that the presumption of bias is over-emphasized in the Specialists and Estimates Proposals, collectively. When a professional (in this case, an auditor) has a questioning mind and applies a healthy degree of professional skepticism in performing his/her job, it does not imply that the subject or party to the inquiry (management) is inherently biased.

Professional skepticism (which includes evidential skepticism and self-skepticism) is an attitude, rather than a verdict on the character or actions of those to which the inquiry is addressed. Overemphasizing the potential for any bias, against the backdrop of an already robust PCAOB inspection process, and existing robust review procedures of the work of company specialists, could lead to behavior that is reactionary and results in unnecessarily expanding audit procedures with arguably little incremental benefit. Management has a duty of care; engaged specialists abide by duty of care and ethics standards, as do auditors. The current tone may inadvertently promote a negative perception that management and its employed or engaged specialists will always be biased against exercising proper care. Such a premise is without general merit.

The benefit of professional skepticism and the instruction to rely on persuasive evidence can be highlighted without casting management, specialists, or auditors in a negative light. Professional skepticism is also consistent with the approach taken by the MPF/DF and reflected in the work performed by the CEIV- (or CVFI-) credentialed, company-employed or company-engaged specialist.

Conclusion

We appreciate the opportunity to comment on the Specialists Proposal. We fully support the Board’s efforts to set standards that result in high quality audits.

We believe that without appropriate amendments, in the current regulatory and financial reporting environment, the proposed guidance in the Specialists Proposal (and the companion Estimates Proposal) will likely lead to auditors significantly and unnecessarily expanding procedures, with arguably little incremental benefit. Thus, we urge the PCAOB to reconsider certain aspects of the guidance, and the overall tone and direction of the Specialists and Estimates Proposals, collectively.

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Subject to our foregoing comments, in *Appendix 1 below,* we have provided comments, by paragraph, on the proposed amendments in Appendix B to AS 1105 of the Specialists Proposal. In *Appendix 2 below*, we have also provided responses to certain specific questions posed in the Specialists Proposal.

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We would be pleased to further discuss our comments with the PCAOB staff. Please direct any questions to any of us via the contact information set forth below.

Sincerely,

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Appendix 1

Specific Comments on Proposed Appendix B to AS 1105, *Audit Evidence*

B3.

We think that the proposed wording should be more robust in describing the factors for assessing the specialist's knowledge, skill and ability. Considerations such as qualification requirements, professional accreditation, performance standards, continuing professional education requirements and standards need to be specifically identified in Appendix B.

Above all, specialist performance standards - and particularly compliance with mandatory performance standards as part of a specialist certification designed specifically for financial reporting purposes - should be given prominence.

B4.

While we agree that the auditor should assess the relationship between the company and the specialist, there should be no presumption for bias, which is what one might take away from reading this paragraph (as well as other parts of the Specialists Proposal). The current guidance overlooks the fact that a credentialed company specialist subject to performance and ethical standards, and a work file independent Quality Control review has a significant professional and ethical incentive to remain objective and unbiased, notwithstanding a relationship of any kind with the company. This is particularly true of third-party company specialists that are CEIV/CVFI credentialed.

Furthermore, the MPF (and DF) requires the valuation specialist to exercise professional skepticism – both evidential skepticism (i.e., exercise due professional care by regularly questioning and critiquing all information and data with the appropriate level of skepticism), and self-skepticism (i.e., monitoring his/her own client-based presuppositions that could detract from evidencing skepticism as a result of comfort level or familiarity with the client, industry, or both.) (MPF, par. 2.17).

Also, consider the following MPF guidance:

> "When evaluating management-generated and management-provided information, the valuation professional must consider the experience of management and the sufficiency of the documentation and analyses provided by management throughout the valuation engagement. The valuation professional should not presume management is biased; however, the valuation professional should not accept and rely on less-than-persuasive evidence because the valuation professional believes management is unbiased. This requirement extends to third-party specialists retained by management, their competence, and the sufficiency of their work product."

And,

> "Each valuation professional must implement a degree of professional skepticism with the expectation that the conclusions reached in the report will be subjected to review (for example, by the client, external auditors, regulators)."

The above is an illustration of the performance and ethical standards that valuation specialists with the CEIV (and CVFI) designation are subject to, and we believe that these standards are meaningful and consequential in practice.

B5.

We think that the fact the specialist complies with performance standards would impact (increase) the quality of the evidence, and should be considered in the balance of evidence evaluated. Also, please see our comments to B3.

B6. and B7.

It should be made clear that the auditor's risk-assessment, scope of testing, and necessary evidence sought is a function of whether such performance standards were adhered to by the company specialist, especially when it comes to audit procedures such as recalculation, reperformance, and analytical procedures, as well as the development of an independent estimate.

For example, note that the MPF also calls for testing the data by the valuation specialist (*Application of the Mandatory Performance Framework*, par. A1.4):

> "The valuation professional is responsible for evaluating whether the prospective financial information (PFI) provided by management is representative of expected value and properly supported… Valuation professionals who obtain management's PFI for use in their valuation procedures must review the PFI with the appropriate level of professional skepticism… Part of the valuation professional's responsibility is to evaluate the PFI provided by management for reasonableness in general, as well as in specific areas."
>
> The MPF also states that factors and common procedures to consider when performing this assessment may include, but are not limited to:
>
> - Comparison of PFI for an underlying asset of the subject entity to expected values of the entity cash flows.
> - Frequency of preparation.
> - Comparison of prior forecasts with actual results.
> - Mathematical and logic check.
> - Comparison of entity PFI to historical trends.
> - Comparison to industry expectations.
> - Check for internal consistency.

Given the discussion in the preceding few paragraphs, what we think is missing from B7 is the explicit recognition and emphasis on any performance standards that the company specialist is subject to. Currently, B7c. only implicitly addresses the technical skill of the specialist, but does not directly address the performance standards that govern the specialist's work, meaning the *actual application* of the specialist's knowledge, skill and ability to a specific valuation, rather than the skill and ability merely as a professional attribute.

MPF/DF compliance directly impacts the specialists' *scope of work, depth of analysis and documentation*, and a CEIV/CVFI credential further signals that the specialist's work may be subject to an independent Quality Control review by the organization issuing the specialist's credential. These are key safeguards of valuation quality that should be made explicit in the PCAOB proposal - and should be considered as significant factors in the auditors' risk assessment.

What we think is missing from B7d., or perhaps a separate point is warranted, is whether the company specialist is subject to a professional code of conduct and ethics requirements and sanctions for any violations by his/her accrediting organization, as well as the company specialist's employer. Without giving recognition to these factors, only one side of the issue would be examined (e.g., a threat to a specialist's objectivity), without giving due consideration to any safeguards in place.

B8.

Here too, there may be a potential for an unnecessarily increased audit scope when in fact a qualified, credentialed company specialist is involved, who complies with the MPF/DF.

Although the document acknowledges that some of the proposed requirements may already have been incorporated in audit firms' audit methodologies or applied in practice by individual teams, we think that given the current regulatory environment, this might encourage a more reactionary behavior than anticipated. Even if the auditor is already performing many of these procedures, behaviorally, the response might be to further reconsider or augment the existing audit procedures rather than accept the status quo as adequate, and "do nothing" in response to new PCAOB auditing standards.

Also, see our comments to B6 and B7.

B9 and B10.

Considering the guidance in these paragraphs, and particularly items B10 (1) i. and ii, we would like to highlight the concept of *contrary evidence* in a valuation analysis. Per the MPF (and DF), source documents that are relevant to the analysis and indicate contrary evidence to the conclusion of value, along with the valuation professional's explanation of how this information was considered, must be identified and discussed in the company specialist's report.

The requirement to disclose and discuss contrary evidence *in the report* is a new development in practice, although it is difficult to predict how often this will occur. Prior to the MPF/DF, the valuation specialist may have undertaken the same thought process of addressing, reconciling, and rationalizing contrary evidence, but this may not have been previously documented in the report.

Based on the guidance in B9 and B10, contrary evidence might be misconstrued if considered at face value, without giving due consideration to the company specialist's explanation. We recommend that the principles laid out in Appendix B be further clarified to first focus the auditor's attention on the reason for such exceptions and/or how the specialist has addressed the issue, if applicable, prior to the auditor preforming additional procedures or assuming that the specialist report cannot meet the auditor's objectives.

Appendix 2

Responses to Certain Specific Questions

Questions:

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?**

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?**

Response

In general, we agree with distinguishing between auditor and company specialists; however, we believe that a more explicit distinction could be made between company-employed and company-engaged specialists in the risk assessment process, as there is a meaningful difference between the two. In addition to the engaged specialist being a third party, which would presumably affect the reliability of management's assertions supported by such specialist's work from an audit perspective – a company-engaged specialist is specialized and occupied full-time in valuation.

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?**

Response

Investors will benefit if the audit standards appropriately recognize the safeguards of valuation quality (e.g., credentials specifically for financial reporting, valuation performance standards), to give auditors confidence in their risk assessment and enable them to adjust their audit scope, where appropriate.

As discussed earlier, we believe that a qualified company specialist, and especially a credentialed third-party specialist, is an enhancement to management's internal control process in supporting management's assertions in the financial statements. Accordingly, we believe that the audit guidance in the Specialists Proposal should communicate a clearer recognition of the beneficial, value-adding, time- and cost-saving impact on the audit process of a qualified management specialist, who complies with performance standards, and is subject to independent Quality Control and a code of professional conduct and ethics.

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?**

Response

As the Specialists Proposal has acknowledged, because of the proposed amendments, there is a likelihood for an increase in audit costs and fees, and the additional need for management and company specialists to devote more time and resources to respond to auditor's requests and inquiries.

However, the use of qualified third-party company specialists can in fact *reduce costs* in the system by enabling auditors to appropriately define their scope of work. Auditors can and should test the company's process (which may utilize engaged specialists, as applicable) to develop fair value estimates. However, when such testing by the auditor demonstrates that management's fair value assertions are reasonable, the auditor should not feel compelled to extend testing.

The Specialists Proposal (in conjunction with the Estimates Proposal) may inadvertently encourage auditors to unnecessarily expand the audit approaches utilized. Instead, by referencing the MPF/DF process and applicable certifications, the PCAOB standards could provide better guidance to auditors in making their risk-based judgments, and thereby the extent of testing required.

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?**

Response

We think that as currently laid out and worded, the Specialists Proposal (and the related Estimates Proposal) can have several unintended consequences:

- *Risk of unnecessarily expanding audit procedures and increasing costs in the system*. Against the backdrop of the already robust PCAOB inspection process, a possible consequence is for auditors to perform additional audit procedures, where the cost of these procedures out-weigh their benefit.

- *Risk of a decline in the quality of financial reporting*. If the auditor is generally encouraged, expected or feels obliged to perform more procedures and incur more effort, regardless of the involvement of a qualified company specialist, this could shift the balance between the work of the company specialist and the auditor specialist (as acknowledged in the Specialists Proposal), with negative effects. If management invests less time, cost and effort in supporting certain assertions in the financial statements with the expectation that they will be tested and recalculated by the auditor's specialist as part of the audit, this could degrade the output of the internal control process and reduce the quality of financial reporting.

- *Risk of impairing auditor independence*. A threat to auditor independence could arise in situations in which the auditor's specialist performs independent calculations as part of the audit, and management ends up using these estimates, notwithstanding the use of a company specialist. In this case, auditor independence could be deemed impaired because the auditor's specialist is de facto providing management with estimates, which the auditor must review and audit. This poses a risk of creating an environment that not only does not meet the Board's objectives in the rewriting of this standard, but also fails to foster the best outcome for investors. Please also see our comments in the Key Observation section of this letter.

- *Risk of private companies being indirectly affected by a change in auditor behavior, and increased costs.* Even though the PCAOB standards pertain to the audits of public companies, to the extent the Specialists Proposal and Estimates Proposal drive a change in auditor behavior, this may also affect private company audits. It would be difficult to rationalize that an auditor would behave differently and exercise a different level of skepticism and professional care in a public vs. a private company audit, even though separate audit methodologies may be maintained.

We think that it is counter-intuitive to arrive at such results. If company-employed and company-engaged specialists can enhance management's ability to support an assertion, one should not face such unintended consequences.

Separately, in regards to third-party specialists, we do not agree that "companies control the work of a company's specialist over information to be used in the financial statements". Any "control" over the work of a specialist is incongruent with the concept of third-party specialists, especially when they are required to adhere to a professional code of conduct and ethical standards.

Questions:

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?

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

Response

With regards to company specialists, we do not believe that the alternatives the Board had considered, but is not proposing, are preferable to the main provisions of the current Specialists Proposal. The main reason for this is that a company specialist has a specific and valuable role in the financial reporting process, possessing specialized skill and knowledge, and proving support for management's assertions in the financial statements through consultative advice and enhancements to a company's internal control process.

However, we think that the Board could make a more explicit distinction between company-employed and company-engaged specialists, for reasons discussed earlier in this letter, in terms of the auditor's risk assessment. We suggest that the Board consider how it may convey in the new standard that the involvement of a company specialist, and particularly a qualified, credentialed third-party specialist is an enhancement to the quality of financial reporting that should be considered in the audit process.

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?

Response

In general, we think that the proposed requirements are scalable (if our observations are considered) and are described as principles. However, we recommend that the principles be augmented further to more fully consider the involvement of qualified, credentialed company specialists complying with performance standards for valuations for financial reporting purposes.

Also, please see our response to Question 23.

Question:

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.

Response

We think that overall, auditors are likely to incur greater time and effort auditing the work of company specialists. While we support improving audit quality, we think that as currently proposed, the guidance may have certain unintended consequences as discussed in the answer to Question 8, and in the Key Observations section earlier in this letter.

Question:

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?

Response

We think that the proposed requirements are clear, subject to our other comments and suggestions elsewhere in this letter.

Question:

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?

Response

Please see our comments (located in Appendix 1) on par. B3, B4 and B5 of proposed Appendix B, in addition to our comments made earlier under *Key Observations*.

Question:

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?

Response

We believe that to be useful, the examples provided need to address all factors that determine the necessary audit effort for testing and evaluating the work of a company specialist, and explain how each factor was considered in arriving at an audit scope.

Specifically, footnote 17 to Example 1 (page A3-19) could be misinterpreted as encouraging the development of an independent expectation by auditors as a readily available fallback, after assessing the aforementioned factors, which may lead to unnecessarily extending audit procedures.

As to the examples in the text on restrictions, limitations and disclaimers in the specialist’s report (page A3-23), we think that in practice the situations encountered would be much more nuanced than the examples provided. Furthermore, the auditor needs to obtain an understanding of the reason for any limitations and disclaimers.

Finally, as discussed earlier in our comments to B9. And B10, the concept of *contrary evidence* to the conclusion of value in the specialists' report may present a similar issue. Contrary evidence might be misconstrued if considered at face value, without giving due consideration to the company specialist's explanation of how this evidence was addressed and reconciled.

Question:

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?

Response

Please see our comments (located in Appendix 1) on par. B9 and B10 of proposed Appendix B, in addition to our comments made earlier in the *Key Observations* section of this letter.