

July 31, 2015

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

Via e-mail: comments@pcaobus.org

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

Dear Office of the Secretary:

We appreciate the opportunity to share our views on Staff Consultation Paper No. 2015-01, *The Auditor's Use of the Work of Specialists* (the "Paper"), developed by the staff of the Office of the Chief Auditor (the "Staff") of the Public Company Accounting Oversight Board (the "PCAOB").

**Moss Adams LLP** is one of the 15 largest accounting and consulting firms in the United States. Our staff of more than 2,000 includes approximately 260 partners. Founded in 1913, Moss Adams LLP serves as the independent registered public accounting firm for approximately 90 public companies in a variety of industries.

We are supportive of the Staff's objective of obtaining stakeholder feedback in their review of the auditing standards surrounding the use of specialists in an audit. When taken together with the Staff's previous Consultation Paper *Auditing Accounting Estimates and Fair Value Measurements*, these standards are highly impactful to auditing public companies. We agree with the Staff's observations that the use of specialists has increased since the standards were originally issued, driven by the increased use of fair value in financial reporting and an increasingly complex business environment. We also agree that the auditing profession may benefit from enhancements to certain elements of the extant auditing standards subject to the Staff's consultation papers. However, in undertaking any potential standard-setting, we urge the Staff and the Board to appropriately consider the scalability of any proposed guidance to smaller firms, which we believe includes:

- Retaining the model in AU 336 *Using the Work of a Specialist* ("AU 336"); and
- Proposing supervision standards (or specified procedures) for engaged specialists that are operational.

We consider these items to be critical to our firm's ability to continue to perform public company audits. As further discussed below, a number of the potential alternatives discussed in the Paper may have the unintended consequence of curtailing the types of public companies for which we could perform an audit in accordance with PCAOB standards. Our understanding is that many firms other than the largest national firms would be in a similar position. We believe that potential proposed standards that would diminish smaller firms' ability to audit public companies is a consequence with negative public policy implications that should be avoided.

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Our more detailed comments on these points are as follows:

### **Scalability**

The Staff observes in the Paper that smaller firms predominantly engage a specialist when an auditor's specialist is required, whereas the auditors' specialists used by the largest accounting firms are substantially all employed by the firm. Our firm employs a number of specialists, primarily related to the field of business valuation; however, we also engage specialists as needed. We also apply extant AU 336 to a variety of company-engaged specialists, including actuaries, appraisers, and attorneys, among others, and rely on the audit evidence obtained. Rarely does our firm rely on the work of a company-employed specialist as audit evidence because small and middle market public companies typically do not employ specialists.

As further discussed below, we believe that retaining the AU 336 model is an important step in maintaining an appropriate level of scalability. It is not economically feasible for our firm to employ all of the specialists that may be necessary to conduct public company audits in any given year, and we rely on the work of engaged specialists to provide sufficient appropriate audit evidence. Given the integral nature of an engaged specialist's work as audit evidence, the supervision standards that apply to auditor- and company- engaged specialists must be operational. Our observations on an operable supervision standard are also included below.

### **Retention of the AU 336 Model**

Retaining the core principles of the extant AU 336 standard, which acknowledges that an auditor may use the work of individuals outside the engagement team with specialized knowledge, is important to scalability. As noted above, it is not practicable for our firm to employ all of the specialists that may be necessary. Further, appropriate application of the procedures in extant AU 336 to the work of company-engaged specialists frequently provides sufficient appropriate audit evidence. Elimination of the ability to use a company-engaged specialist's work as audit evidence would require the use of an auditor's specialist, which will frequently be an auditor-engaged specialist for firms other than the largest national firms. We do not believe that the incremental audit costs associated with using an auditor's specialist would outweigh the benefits to audit quality, as the additional cost would be significant in many circumstances.

We are supportive of considering both the results of a risk assessment performed in accordance with Auditing Standard No. 12 *Identifying and Assessing Risks of Material Misstatement* ("AS 12") and the procedures in AU 336 in considering the use of the work of a company-engaged specialist. As a result of these procedures, we believe an auditor should apply judgment to conclude whether the company-engaged specialist's work alone will provide sufficient audit evidence. Such an approach, which holistically considers both the overall audit risk assessment and specific procedures under extant AU 336, would form an appropriate basis for a proposed future standard. We observe that the Paper's proposed alternatives would eliminate such an approach.

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For company-employed specialists, we acknowledge that clarifying, and potentially amending, the auditor's procedures and perceived responsibility may be appropriate. However, both of the alternatives proposed in the Paper (amending or rescinding AU 336) do not differentiate between a company-engaged and a company-employed specialist. Particularly with respect to company-engaged specialists, both of the Paper's alternatives would result in significant additional audit work to use an auditor's specialist to evaluate the information provided by the specialist, without, in our view, a correspondent increase in audit quality. We believe that an auditor should, after considering the results of their risk assessment procedures and the procedures in extant AU 336, be able to apply judgment in considering whether:

- A company-engaged specialist's work provides sufficient audit evidence;
- The use of an auditor's specialist is necessary;
- Additional procedures are necessary to obtain sufficient appropriate audit evidence.

### Supervision

The Paper identifies two potential alternatives with respect to supervising an auditor's specialist, one of which is to extend the supervision requirements in Auditing Standard No. 10 *Supervision of the Audit Engagement* ("AS 10") to an auditor's engaged specialist. We do not believe this would be sufficiently scalable or operational for smaller firms engaging an auditor's specialist. In addition to the concerns noted in the Paper (which we agree are valid concerns), our experience is that an auditor's engaged specialist is unwilling to provide the same level of access to proprietary models or assumptions as would be available to an auditor's employed specialist. While the Paper states that a benefit of this alternative would "... result in the same requirements for evaluating the work of employed and engaged specialists..." we do not believe that an auditor would have the level of access necessary to an engaged specialist's model and assumptions to meet a comparable standard between employed and engaged specialist. This is similar to our concern in the previous section with respect to company-engaged specialists.

In addition, the Paper considers the expansion of the AS 10 supervision requirements to an auditor-engaged specialist and further amendments to paragraph 5.c to provide specific requirements for the engagement partner's supervision of all auditors' specialists. The proposed alternatives outlined in the Paper would require the auditor to apply a more rigorous "evaluate" standard to the work and conclusions of specialists, and the potential amendments to paragraph 5.c would provide specific procedures on completing the evaluation. We are concerned that, notwithstanding the definition of a specialist, the PCAOB expects the engagement partner to have a de facto knowledge of the specialist subject matter that is similar to the knowledge of the specialist themselves. For example, the proposed paragraph 5.c. amendments would require the engagement partner to consider whether the specialist used appropriate methods and reasonable assumptions. If the engagement partner had sufficient knowledge of the specialized subject matter to perform these procedures, the use of an auditor's specialist would have been unnecessary to begin with. Accordingly, we believe these provisions are not operable, and would result in needing to have two specialists involved and/or for the engagement partner to undertake additional specialized training in any area where an auditor's specialist is used.

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Finally, the Paper considers whether the independence requirements of the Securities and Exchange Commission's Rule 2-01 of Regulation S-X should be applied to an auditor's engaged specialist and the specialist's firm, if applicable. We do not believe that an auditor-engaged specialist firm would have the quality control infrastructure in place to comply with Rule 2-01 in the same manner as an auditing firm. Further, these specialists' primary business is practicing in their line of specialty, which is generally not being an auditor's specialist, and may result in a reluctance to develop the necessary quality control infrastructure to comply with Rule 2-01. Therefore, we do not believe such a standard would be operable, and may have the consequence of limiting the population of specialists an auditor could engage or requiring an audit firm to employ all of the necessary specialists.

The alternative identified in the Paper is to apply an enhanced objectivity framework. While we are supportive of enhancing an auditor's consideration of the objectivity of engaged specialists, the framework proposed in the Paper is unclear as to how the procedures performed by the auditor link to the conclusions reached, and whether the analysis is a "principles-based" or "rules-based" analysis and the intended application of any principles. For example, the Paper proposes that the objectivity of the specialist is impaired if the company can influence the specialist, but it is unclear how the auditor would conclude as to whether such influence exists, and if the existence of any influence would impair the specialist's objectivity, or if judgment could be applied in assessing the level of potential impairment of objectivity in assessing whether the auditor could use the engaged specialist's work. We believe any enhancements to the extant objectivity assessment in AU 336 should provide auditors with a clear understanding of the procedures to be performed and what constitutes an impairment of a specialist's objectivity.

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We appreciate the effort and time the Staff has devoted to the Paper and we appreciate the opportunity to comment on the Paper. Please direct any questions to Fred Frank or John Donohue in our Professional Practice Group at 206-302-6800.

Very truly yours,

Moss Adams LLP