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At a glance

The staff of the PCAOB's Office of the Chief Auditor is considering ways to improve the existing PCAOB standards that apply to the auditor using the work of a specialist, including areas related to objectivity and oversight of specialists.

PCAOB issues staff consultation paper seeking comment on the auditor using the work of specialists

What happened?

On May 28, 2015, the Public Company Accounting Oversight Board ("PCAOB") issued for public comment a [staff consultation paper](#) on potential standard-setting activities related to the auditor using the work of specialists. The staff consultation paper discusses the increased use and importance of specialists in recent years due, in part, to the increasing complexity of business transactions reported in a company's financial statements. The staff consultation paper also raises questions about whether PCAOB standards adequately address the auditor's use of the work of an auditor's or a company's specialists, and whether more rigorous standards and specific procedures are needed in this regard to help the auditor respond to the risks of material misstatement in financial statements. The PCAOB staff is seeking feedback on: (i) additional information on current practice, (ii) the potential need for changes, (iii) possible alternatives to address the issues discussed in the staff consultation paper, and (iv) relevant economic data about potential economic impacts to inform the PCAOB's economic analysis associated with standard-setting in this area. The staff consultation paper builds on feedback received on an earlier [staff consultation paper](#) related to auditing accounting estimates and fair value measurements.

Overview of the approach being considered by the PCAOB staff

This staff consultation paper describes that the PCAOB staff is considering:

- Requirements to improve the auditor's oversight and review of the work of an auditor's specialist, whether employed or engaged by the auditor, by creating consistent requirements that would apply to any auditor's specialist.
- Requirements to improve the auditor's evaluation of the objectivity of an auditor's specialist, whether employed or engaged by the auditor. Those requirements are based on the independence requirements in Rule 2-01 of Regulation S-X of the Securities and Exchange Commission. An auditor's employed specialist is already required to follow the independence requirements.
- Alternatives that would improve the auditor's evaluation of the work of a company's employed or engaged specialist. The alternatives would require more rigorous procedures than those currently required by PCAOB AU 336, *Using the Work of a Specialist* ("PCAOB AU 336").

Auditor's employed or engaged specialist

Under existing PCAOB standards, an auditor's specialist is either an employee of the audit firm and supervised by the auditor under PCAOB Auditing Standard No. 10, *Supervision of the Audit Engagement*, ("AS No. 10"), or engaged by the audit firm and overseen by the auditor under PCAOB AU 336. Under the alternatives being explored by

the PCAOB staff, which include either developing a single standard for using the work of an auditor's specialist or extending the supervision requirements in AS No. 10 to an auditor's engaged specialist, the PCAOB staff would also consider including enhanced requirements for (i) evaluating the knowledge, skill, and objectivity of an auditor's specialist, (ii) informing an auditor's specialist of his or her responsibilities, including by reaching agreement in writing regarding certain matters such as nature, timing, and extent of the work that the auditor's specialist is to perform and the nature and extent of audit documentation the auditor's specialist will provide, and (iii) reviewing the auditor's specialist's work and conclusions including, if an auditor's specialist develops an independent estimate, determining whether the methods are appropriate and significant assumptions are reasonable.

The PCAOB staff is also considering revising requirements that apply to an auditor's determination of whether an auditor's specialist is capable of exercising objective and impartial judgment in his or her work. The alternatives being considered would require a more rigorous evaluation of the business, employment, and financial relationships that may impair the objectivity of an auditor's specialist, including obtaining written information of any relationships and the process used by the specialist to formulate the response.

Auditor's use of a company's specialist

Under existing PCAOB standards, auditors may use the work of a company's employed or engaged specialist to obtain audit evidence. The PCAOB staff is considering two alternatives, including (i) amending the current PCAOB standards, including removing certain provisions that may be considered to limit the extent of the auditor's testing of the specialist's work that is needed to obtain sufficient appropriate audit evidence, or (ii) rescinding the current PCAOB specialists standard. Under either alternative, the PCAOB staff is exploring whether the auditor would be required to evaluate the reasonableness of significant assumptions and appropriateness of methods used by a company's specialist in the same manner as the auditor evaluates information produced by others in the company.

Why is this important?

If the PCAOB staff alternatives are finalized in a PCAOB standard, the incremental effort may be significant for auditors, specialists, and company management, as auditors may need to use their own employed or engaged specialists and not directly use the work of a company specialist as can be done today. As a result, the staff consultation paper is seeking feedback on the likely benefits and costs of a potential new set of requirements.

What's next?

Comments on the staff consultation paper are due no later than July 31, 2015. Additionally, the PCAOB announced it will host a meeting of its Standing Advisory Group on June 18, 2015, in Washington, D.C., to discuss matters related to the auditor's use of the work of specialists. The agenda for this meeting can be found [here](#).

Questions?

PwC clients who have questions about this *In brief* should contact their engagement partner. Engagement teams who have questions should contact the National Professional Services Group (1-973-236-7800).

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