PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

Request for Comment

Post-Implementation Review Interim Analysis of Estimates and Specialists Audit Requirements

April 12, 2022

I. INTRODUCTION

The Public Company Accounting Oversight Board (PCAOB) is committed to robust economic analysis, including post-implementation reviews on the overall effect of new auditing requirements. As part of that commitment, the staff of the PCAOB's Office of Economic and Risk Analysis is conducting an interim analysis to evaluate the initial impact of new requirements for auditing accounting estimates and using the work of specialists. The PCAOB will carefully evaluate evidence obtained from the analysis and consider whether additional guidance or other steps may be appropriate.

To inform the interim analysis, PCAOB staff is (1) analyzing PCAOB inspections and third-party financial data and (2) conducting surveys and targeted interviews of auditors, preparers, and audit committee members. This request for comment supplements those activities and provides a mechanism for all interested stakeholders, including investors, to provide comment and information on the initial impact of the auditing requirements for accounting estimates and the use of the work of specialists as audit evidence. The PCAOB expects to produce a report in the fourth quarter of 2022 to communicate findings and provide stakeholders with early insights into the initial impact of the requirements.

Because some of the effects of the new requirements may take several years to fully manifest or stabilize, after a reasonable period of time, the PCAOB will conduct a full post-implementation review. The staff will evaluate the benefits and costs of the new requirements, including any unintended consequences, to understand the overall impact on auditors, public companies, and users of financial statements. The post-implementation review will also be made available to the public. Further information on post-implementation reviews is available on the PCAOB website.

The PCAOB staff encourages all interested parties to comment. Comments should be submitted through one of the following methods:

By email

comments@pcaobus.org

By postal mail

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

All comments should refer to Interim Analysis No. 2022-001, Estimates and Specialists Audit Requirements, on the subject or reference line and should be submitted no later than **June 10, 2022**. All comments received in response to this request for comment will be made available to the public and posted on the PCAOB website. You are encouraged, but not required, to provide your name and professional affiliation. You are also encouraged to state whether you are commenting from the perspective of a preparer, audit committee member, auditor, investor, or other type of stakeholder. In general, the PCAOB will post comments as they are received.

Questions regarding this request for comment should be directed to:

Carrie von Bose, Senior Financial Economist, Office of Economic and Risk Analysis (202-591-4732, **vonbosec@pcaobus.org**).

II. BACKGROUND INFORMATION

In 2018, the Board adopted and, in 2019, the SEC approved amendments to its standards for auditing accounting estimates and fair value measurements, under which three existing standards were replaced with a single, updated auditing standard. The new standard sets forth a uniform, risk-based approach to auditing accounting estimates and strengthens requirements under the three existing substantive testing approaches. It emphasizes the application of professional skepticism, including addressing potential management bias in accounting estimates. The new standard also provides more direction on addressing certain aspects unique to auditing fair values of financial instruments, including the use of pricing information from third parties such as pricing services and brokers or dealers.

At the same time, the Board also adopted and the SEC approved amendments to its auditing standards for using the work of specialists (i.e., a person or firm possessing special skill or knowledge in a particular field other than accounting or auditing), including amendments to two existing auditing standards and the retitling and replacement of a third standard with an updated standard. The amendments strengthen requirements for evaluating the work of a company's specialist, whether employed or engaged by the company, and apply a risk-based supervisory approach to both auditor-employed and auditor-engaged specialists. The specialists amendments are risk-based, so that the auditor's work effort to evaluate a specialist's work is commensurate with (1) the significance of the specialist's work to the auditor's conclusion regarding the relevant assertion; (2) the risk of material misstatement of the relevant assertion; and (3) the knowledge, skill, and ability of the specialist.

The new requirements for auditing accounting estimates and using the work of specialists became effective for audits of fiscal years ending on or after December 15, 2020. Further information on the new requirements is available on the PCAOB's implementation resources webpage.

III. REQUEST FOR COMMENT

The PCAOB staff is seeking comment on initial experiences with, and the initial impact of, the amended auditing requirements for accounting estimates and the use of the work of specialists as audit evidence. You are encouraged to respond to any or all of the following questions. In all cases, the staff encourages commenters to provide data, evidence, and/or specific examples in support of comments. Since different stakeholders are impacted by the new requirements in different ways, commenters may find certain questions more relevant to their experiences.

Auditing Accounting Estimates, Including Fair Value Measurements

Questions for investors:

1. Do investors believe that the new requirements for auditing accounting estimates, including fair value measurements, contribute to an increase in audit quality? Why or why not?

2. Have the new requirements improved investor confidence in financial statements? Have the new requirements reduced investor uncertainty about audit quality and potential risks associated with accounting estimates?

3. What other benefits, if any, have investors experienced as a result of the new requirements? Do investors believe that the overall benefits of the new requirements outweigh their costs?

Questions for auditors, audit committee members, and financial statement preparers:

1. How did audit firms approach implementation of the new requirements for auditing accounting estimates, including fair value measurements? What were the most significant activities that firms undertook to support and monitor implementation of the new requirements by individual audit engagement teams?

2. To what extent did the new requirements lead to changes in auditing practice? How did the impact of the new requirements vary across audit firms and audit engagements? Please describe any changes to auditing practice and provide perspectives on the associated implications for audit and financial reporting quality.

3. To what extent did the new requirements have implications for communication and dialog between auditors, audit committees, and preparers? Please describe any changes and associated implications for audit and financial reporting quality.

4. What costs did audit firms incur to implement the new requirements? Did the new requirements generate any efficiencies? Please describe and estimate costs/efficiencies directly related to implementation of the new requirements, distinguishing between one-time and recurring costs/efficiencies. For recurring costs/efficiencies, please state whether you believe the costs/efficiencies will increase, decrease, or not change in future years.

5. Did audit fees change because of the new requirements? To what extent were any additional fees due to the new requirements versus other contemporaneous environmental factors (e.g., new accounting requirements or the COVID-19 pandemic) that may have influenced audit effort? What other costs, if any, did companies experience directly related to the new requirements?

6. Did audit firms encounter any significant challenges in implementing the new requirements? If so, please describe and, if applicable, please reference the specific requirements that caused the challenges.

7. Did the new requirements give rise to any unintended consequences? Please describe any unintended consequences and, if applicable, reference the specific requirements that caused them.

Auditor’s Use of the Work of Specialists

Questions for investors:

1. Do investors believe that the new requirements for the auditor’s use of the work of specialists improve audit quality? Why or why not?

2. Have the new requirements improved investor confidence in financial statements? Have the new requirements reduced investor uncertainty about audit quality and potential risks associated with the auditor’s use of the work of specialists?

3. What other benefits, if any, have investors experienced as a result of the new requirements? Do investors believe that the overall benefits of the new requirements outweigh their costs?

Questions for auditors, audit committee members, financial statement preparers, and other stakeholders:

1. How did audit firms approach implementation of the new requirements for the auditor's use of the work of specialists? What were the most significant activities that firms undertook to support and monitor implementation of the new requirements by individual audit engagement teams?

2. To what extent did the new requirements lead to changes in auditing practice? How did the impact of the new requirements vary across audit firms and audit engagements? Please describe any changes to auditing practice and provide perspectives on the associated implications for audit and financial reporting quality.

3. To what extent did the new requirements have implications for communication and dialog between auditors, specialists, audit committees, and preparers? Please describe any changes and associated implications for audit and financial reporting quality.

4. What costs did audit firms incur to implement the new requirements? Did the new requirements generate any efficiencies? Please describe and estimate costs/efficiencies directly related to implementation of the new requirements, distinguishing between one-time and recurring costs/efficiencies. For recurring costs/efficiencies, please state whether you believe the costs/efficiencies will increase, decrease, or not change in future years.

5. Did audit fees change because of the new requirements? To what extent were any additional fees due to the new requirements versus other contemporaneous environmental factors (e.g., new accounting requirements or the COVID-19 pandemic) that may have influenced audit effort or use of the work of specialists? What other costs, if any, did companies experience directly related to the new requirements?

6. Did audit firms encounter any significant challenges in implementing the new requirements? If so, please describe and, if applicable, please reference the specific requirements that caused the challenges.

7. Did the new requirements give rise to any unintended consequences? For example, have the new requirements limited the ability of smaller firms to compete in the audit services market and, if so, why? Do the new requirements divert auditor attention from other important audit tasks that warrant greater attention? Have the new requirements affected how companies use specialists in preparing the financial statements? Please describe any unintended consequences and, if applicable, reference the specific requirements that caused them.

8. Have audit firms or preparers encountered any shortages or strains on the pool of qualified specialists? If so, what factors have contributed to such shortages or strains?

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