

Using the Work of Specialists

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Disclaimer

- The views expressed by each of the presenters are their own personal views and not necessarily those of the PCAOB, members of the Board, or the PCAOB staff.

The Auditor's Use of the Work of Specialists

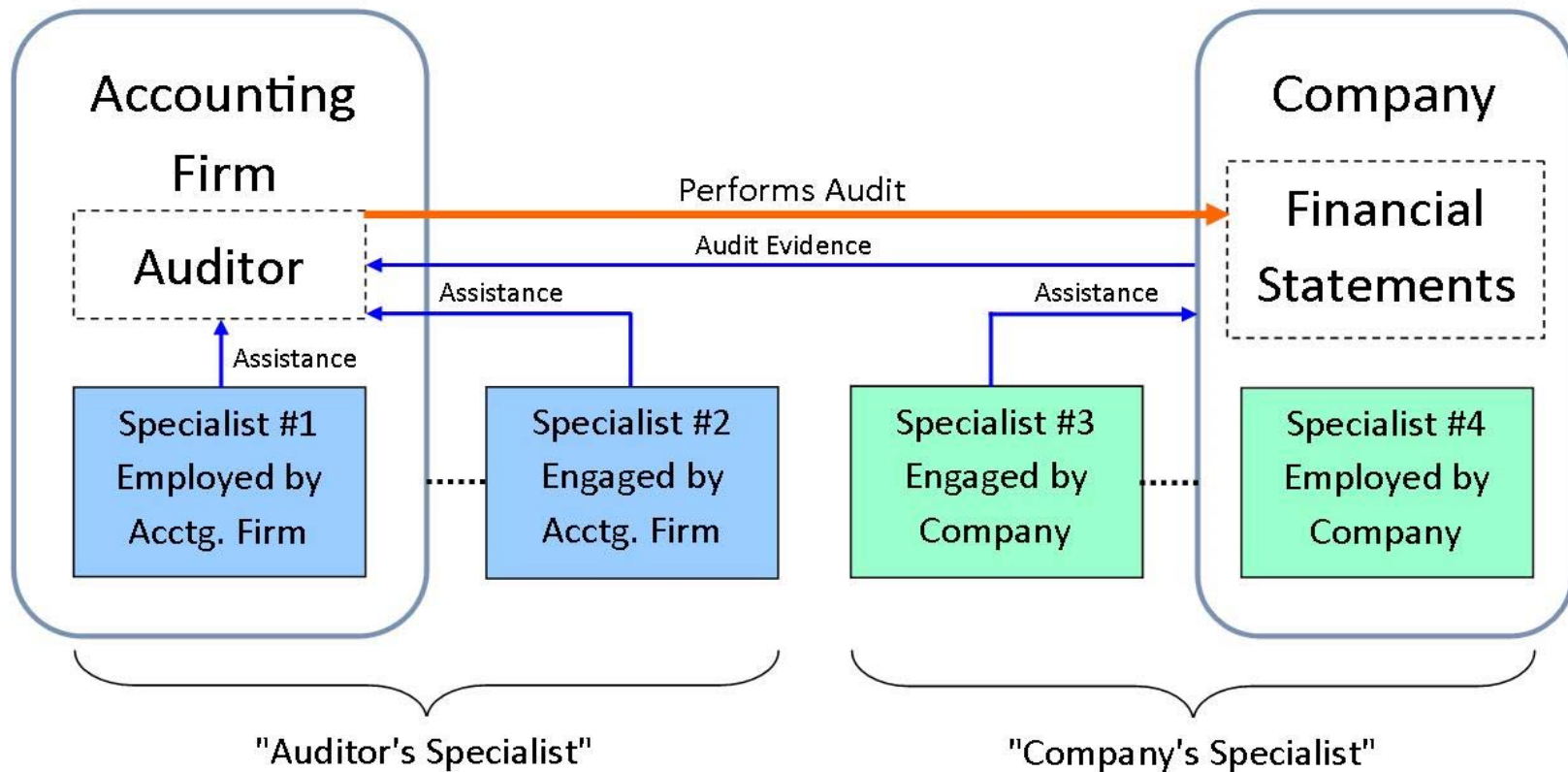
- ❑ Project timeline
- ❑ Overview
- ❑ Current standards
- ❑ Potential need for improvement
- ❑ Standard-setting alternatives

Project Timeline

| Date | Action |
|---------------|--|
| May 28, 2015 | Issued Staff Consultation Paper ("SCP"), <i>The Auditor's Use of the Work of Specialists</i> |
| June 18, 2015 | SAG meeting discussion |
| July 31, 2015 | Comments on paper are due |
| Next Steps | Consider SAG discussion and comments on SCP for potential rule making |

Overview

Relationships of Specialists with an Auditor



Overview (cont'd)

PCAOB Standards That Govern the Use of the Work of Specialists

| | # | Nature of Specialist's Involvement | Current Audit Requirements |
|----------------------|---|------------------------------------|--|
| Auditor's Specialist | 1 | Specialist employed by the auditor | <i>Supervision:</i> Auditor supervises the specialist under Auditing Standard No. 10. Specialist must be independent. |
| | 2 | Specialist engaged by the auditor | <i>Specified procedures:</i> Auditor performs the procedures required by AU sec. 336 and evaluates objectivity of the specialist |
| Company's Specialist | 3 | Specialist engaged by the company | <i>Specified procedures:</i> Auditor performs the procedures required by AU sec. 336 and evaluates objectivity of the specialist |
| | 4 | Specialist employed by the company | <i>Specified procedures:</i> Auditor performs the procedures required by AU sec. 336 and evaluates objectivity of the specialist |

Note: The same standard, AU sec. 336, applies to specialists 2, 3, and 4

Current Standards – AS No. 10

The auditor is required to

- ❑ Inform engagement team members of their responsibilities
- ❑ Direct engagement team members to bring significant accounting and auditing issues to the attention of the engagement partner
- ❑ Review the work of engagement team members

Current Standards – AU sec. 336

The auditor is required to evaluate the

- ❑ Qualifications of the specialist
- ❑ Relationship of the specialist to the client

The auditor also is required to

- ❑ Obtain an understanding of the specialist's methods and assumptions
- ❑ Make appropriate tests of data provided to the specialist
- ❑ Evaluate whether the specialist's findings support the financial statement assertions

Potential Need for Improvement

- PCAOB standards have not been updated to respond to changes in the use of the work of specialists
- The standard that applies to the auditor's oversight of an auditor's employed specialist is different from the standard that applies to an auditor's engaged specialist
- The same standard applies to an auditor's use of the work of
 - An auditor's engaged specialist
 - A company's specialist

Potential Need for Improvement (cont'd)

- Independence requirements for the auditor's employed specialist vs. objectivity assessment for the auditor's engaged specialist
- AU sec. 336 permits the auditor to use the work of a company's specialist after performing specified procedures
 - PCAOB standards require more rigorous procedures when the information is provided by others in the company in areas where there may be a risk of material misstatement
- AS No. 10 does not provide specific requirements for supervising the work of an auditor's employed specialist

Potential Need for Improvement (cont'd)

Inspections Findings

- Inspections findings, including the following, have informed the staff's views about the potential need for improvement
 - “Hand-off issues” with an auditor's employed specialist include instances when auditors did not
 - Reach an understanding regarding the responsibilities of the auditor and the specialist
 - Adequately evaluate the specialist's basis for determining the reasonableness of significant assumptions
 - Consider contradictory evidence or resolve discrepancies the specialist identified

Company's Specialist

Standard-Setting Alternatives

1. Amend AU sec. 336
 - Remove the provisions that may be considered to limit the auditor's responsibilities and make certain other improvements
 - For example, clarify “obtain an understanding” and consider requiring auditors to evaluate the reasonableness of assumptions and appropriateness of methods used by a company's specialist
2. Rescind AU sec. 336
 - Require the auditor to evaluate evidence provided by a company's specialist like evidence provided by others in the company

Auditor's Specialist – Oversight

Standard-Setting Alternatives

1. Develop a separate standard that would apply to the work of both employed and engaged specialists
2. Extend supervision requirements in AS No. 10 to the work of engaged specialists

Potential new requirements, intended to improve the auditor's oversight, would apply under either alternative

Auditor's Engaged Specialist – Independence and Objectivity

Standard-Setting Alternatives

1. Independence – Auditor would apply requirements similar to those in the SEC independence rules
 - Applies to the auditor's employed specialist
2. “Enhanced objectivity approach” – Auditor would evaluate whether the specialist's objectivity is impaired
 - Potential new requirements, based on SEC independence rules, are intended to improve the auditor's determination of whether the objectivity of the engaged specialist is impaired

Agenda

- Company's specialist (before lunch)
 - Panelist remarks
 - SAG discussion – alternatives
- Auditor's specialist (after lunch)
 - Panelist remarks
 - SAG discussion – alternatives

Company's Specialist

- Current use of specialists
 - How the company uses the work of a specialist
 - How the specialist performs work for the company
 - How the auditor
 - Evaluates the knowledge, skill, and objectivity of a company's specialist
 - Uses the findings of the specialist

Company's Specialist – Panelists

- Loretta V. Cangialosi, Pfizer, Inc.
Company
- Jouky Chang, Duff & Phelps
Valuation specialist
- Ken Lining, Aon Hewitt
Actuary
- Wendy B. Stevens, WeiserMazars LLP
Smaller accounting firm

SAG Discussion – Company’s Specialist Alternatives

Company's Specialist

Standard-Setting Alternatives

1. Amend AU sec. 336
 - Remove the provisions that may be considered to limit the auditor's responsibilities and make certain other improvements
 - For example, clarify “obtain an understanding” and consider requiring auditors to evaluate the reasonableness of assumptions and appropriateness of methods used by a company's specialist
2. Rescind AU sec. 336
 - Require the auditor to evaluate evidence provided by a company's specialist like evidence provided by others in the company

SAG Discussion – Company’s Specialist

***SAG Member Questions,
Observations, and Views***

SAG Discussion – Questions

1. Should the work of a company's specialist be treated as audit evidence the same way as other information provided by the company? Are there concerns associated with more rigorous testing of the work of a company's specialist that may result from this approach? For example, would auditors increasingly need to employ or engage specialists to perform work to assist the auditor with such testing?

[SCP Question 16]

SAG Discussion – Questions

2. Are there other alternatives that would be a more appropriate response to the risks of material misstatement in areas where companies use the work of specialists? If so, what are those alternatives?

[SCP Question 17]

SAG Discussion – Questions

3. Are there any practical concerns with rescinding AU sec. 336? The staff is especially interested in the views of auditors, companies that typically use the work of specialists, and specialists, including those in specialized industries (such as oil and gas and environmental engineering). Are there other challenges associated with testing the work of a company's specialist?

[SCP Question 18]

Auditor's Specialist

- Current use of specialists
 - How an auditor's specialist performs work for the auditor
 - How an auditor
 - Evaluates the specialist's knowledge, skill, and objectivity (engaged)
 - Oversees the work of the specialist including reviewing the specialist's work and conclusions (employed and engaged)

Auditor's Specialist – Panelists

- ❑ Andreas Ohl, PricewaterhouseCoopers LLP
Valuation specialist (employed)
- ❑ Susan DuRoss, Harvest Investments Ltd.
Valuation specialist (engaged)
- ❑ Daniel R. Olds, Ryder Scott Company, L.P.
Petroleum engineer (engaged)
- ❑ David A. Kane, Ernst & Young LLP
Larger accounting firm
- ❑ J. Efrim Boritz, University of Waterloo
Academic

SAG Discussion
Auditor's Specialist
Alternatives for Oversight

Auditor's Specialist – Oversight

Standard-Setting Alternatives

1. Develop a separate standard that would apply to the work of both employed and engaged specialists
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SAG Discussion Auditor's Specialist *Oversight*

***SAG Member Questions,
Observations, and Views***

SAG Discussion – Questions

1. Should the auditor perform the same procedures when using the work of an auditor's engaged specialist as those required for an auditor's employed specialist?

[SCP Question 10]

2. Are there other considerations related to the alternatives presented that the staff should be aware of?

[SCP Question 11]

SAG Discussion – Questions

3. Are there other alternatives related to the auditor's use of the work of an auditor's specialist that would result in the consistent treatment of the work of an auditor's employed and engaged specialist? If so, explain the other alternatives.

[SCP Question 12]

4. Are there any limitations on an auditor's ability to treat the work of an engaged specialist the same way as that of an employed specialist?

[SCP Question 13]

SAG Discussion – Questions

5. Are the potential requirements for using the work of an auditor's specialist appropriate, including

(i) Evaluating the knowledge and skill of the specialist?

[SCP Question 22]

(ii) Informing the specialist of his or her responsibilities?

[SCP Questions 23 – 26]

(iii) Evaluating the work of the specialist?

[SCP Questions 27 – 31]

**SAG Discussion
Auditor's Engaged
Specialist
*Alternatives for
Independence and
Objectivity***

Auditor's Engaged Specialist – Independence and Objectivity

Standard-Setting Alternatives

1. Independence – Auditor would apply requirements similar to those in the SEC independence rules
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**SAG Discussion
Auditor's Engaged
Specialist
*Independence and
Objectivity***

***SAG Member Questions,
Observations, and Views***

SAG Discussion – Questions

1. How does the auditor evaluate relationships between an auditor's engaged specialist and a company under AU sec. 336?

[SCP Question 32]

2. Should the auditor's engaged specialist (and his or her employer) be required to meet the independence criteria of Rule 2-01? Are there certain types of specialists that would not be able to satisfy these criteria? Could these criteria affect the availability of specialists?

[SCP Question 34]

SAG Discussion – Questions

3. How should the requirements for evaluating the objectivity of an auditor's engaged specialist be amended?

[SCP Questions 33, 35 – 39]