



# THE AUDITOR'S USE OF THE WORK OF SPECIALISTS

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## COMMON USES OF A COMPANY SPECIALIST

### *Most commonly noted in our practice:*

- Valuation of financial instruments (Level 2 and Level 3 assets/liabilities)
- Assets and liabilities acquired/assumed in a business combination
- Goodwill impairments
- Stock options (ASC Topic 718)
- Equity instruments provided to non-employees (ASC Topic 505)
- Real estate
- Post-employment obligations (defined benefit plan, deferred compensation, etc.)
- Contingent and environmental liabilities
- Insurance loss reserves
- Property, plant, and equipment (salvage value)
- Inventory stockpiles
- Valuation of precious metals, stones, etc.
- Art work
- Oil and gas reserves



## A U D I T M E T H O D O L O G Y - C O M P A N Y S P E C I A L I S T

- Perform risk assessment procedures along with appropriate response (AS Nos. 12 & 13)
  - recognize complexity and measurement uncertainty inherent in significant balances and transactions subject to valuation by specialists
- Gain an understanding of the nature of the work performed by the specialist (AU 336)
  - assess the relationship of the specialist to the client
  - evaluate the professional qualifications of the specialist
  - understand objectives and scope of the specialists work and the appropriateness and reasonableness of the methods and assumptions used
  - compare the methodology utilized to the prior year
  - test the source data used by the specialist (financial and non-financial)
- Consider whether auditor specialist is needed or other action is necessary to address risks identified
- Review the results of planned auditor work performed for relevance and reliability; consider whether any additional procedures may be necessary (e.g. due to the lack of expected competence or independence of the specialist or lack of agreement with or understanding of the assumptions or methods used) (AS No. 15)
- Perform additional procedures only if, in the professional judgment of the auditor, they are needed as a result of planning risk assessment or as a result of evaluation of audit evidence obtained in order to be able to conclude in the audit area



## SUGGESTIONS FOR IMPROVEMENT - COMPANY SPECIALIST

- Amend AU 336 performance requirements to more closely align with other standards in use by auditors at national and international firms (ASB and IAASB sections 500 and 620)
- Guidance in the form of a PCAOB *Staff Audit Practice Alert* or *Staff Questions and Answers* in the following areas could be issued to clarify requirements
  - challenges to specialists' qualifications including knowledge and objectivity
  - assumptions and methods used
  - testing of source data
  - reliance on industry data
  - examples of “red flags” that may trigger consideration of additional procedures (e.g. audit by re-computation)
- Revisions to the current risk assessment standards that may result from the current outreach project related to auditing of estimates and fair value measurements
- AU 336 revised and additional guidance should result in increased consistency in application without adding significant cost of implementation of meeting performance requirements