



# Overview of Comments Received on Recent Standard Setting Proposals

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# Disclaimer

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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.

# Recent Standard-Setting Proposals

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- ❑ Auditing Accounting Estimates, Including Fair Value Measurements
- ❑ Auditor's Use of the Work of Specialists
- ❑ Supervision of Audits Involving Other Auditors

## Auditing Accounting Estimates, Including Fair Value Measurement's and Auditor's Use of the Work of Specialists

- ❑ On June 1, 2017, the Board proposed to:
  - Update and strengthen the standards for auditing accounting estimates and fair value measurements; and
  - Strengthen and enhance PCAOB standards regarding the auditor's use of the work of specialists.
- ❑ The proposals were informed by a variety of outreach, including comments on the respective staff consultation papers.
- ❑ The comment period on both proposals closed on August 30, 2017.

# Auditing Accounting Estimates, Including Fair Value Measurements

- The proposal would:
  - Replace three existing, overlapping standards with a single standard that streamlines and strengthens the direction to auditors, including an emphasis on applying professional skepticism;
  - Build on the three existing approaches to auditing estimates that auditors are familiar with in AS 2501, AS 2502, and AS 2503;
  - Further integrate the risk assessment standards to focus auditors on estimates with greater risk of material misstatement; and
  - Update standards in light of developments in auditing practices for fair value of financial instruments

# Auditing Accounting Estimates, Including Fair Value Measurements

## □ 37 comment letters received:

▪ Accounting Firms and professional associations(of accountants)	18
▪ Trade Groups	7
▪ Pricing Services and Specialists	5
▪ Investor Groups	3
▪ Regulators and Standard Setters	2
▪ Academics	1
▪ Individual	<u>1</u>
total	37

# Auditing Accounting Estimates, Including Fair Value Measurements

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- High-level themes from Commenters:
  - General support for single standard
  - Support for retaining the three existing approaches
  - Support for the special topics appendix addressing financial instruments, including the use of pricing services
  - Suggested clarifications and refinements to specific requirements in the proposal

# Auditing Accounting Estimates, Including Fair Value Measurements

- Specific Aspects of the Proposal Receiving Comment:
  - Objective of the standard
  - Testing the company's process
    - Evaluating methods used by the company
    - Identifying significant assumptions used by the company
  - Developing an independent expectation as a range



# Auditing Accounting Estimates, Including Fair Value Measurements

- Specific Aspects of the Proposal Receiving Comment:
  - Appendix A to the proposed standard
  - Proposed Amendments to AS 1105, *Audit Evidence*
  - Proposed Amendment to AS 2401, *Consideration of Fraud in a Financial Statement Audit*, relating to the retrospective review

# Auditing Accounting Estimates, Including Fair Value Measurements

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- Other Areas of Comment:
  - Guidance
  - Effective Date
  - IAASB proposal, ED-540, *Auditing Accounting Estimates and Related Disclosures*

# Auditor's Use of the Work of Specialists

- The proposal would:
  - Establish a uniform risk-based approach to testing and evaluating the work of company specialists, in amendments to the standard on audit evidence; and
  - Establish a common supervisory approach for auditor specialists, whether employed or engaged, by amending AS 1201 and replacing AS 1210 with new requirements for using the work of auditor-engaged specialists

# Auditor's Use of the Work of Specialists

□ 34 comment letters received:	
■ Accounting firms and professional associations	19
■ Trade groups	5
■ Investor groups	2
■ Specialists and specialist groups	6
■ Regulators and standard setters	<u>2</u>
	34

# Auditor's Use of the Work of Specialists

- High-level themes from Commenters:
  - Support for separating the requirements for using the work of company's specialists and auditor's specialists
  - Support for retaining the existing meaning of the term "specialist"
  - Support for retaining AI 11, *Using the Work of a Specialist: Auditing Interpretation of AS 1210*
  - Economic impact on smaller accounting firms
  - Suggested clarifications and refinements to specific requirements in the proposal

# Auditor's Use of the Work of Specialists

- Specific Aspects of the Proposal Receiving Comment:
  - Testing and evaluating the work of the company's specialist
    - Understanding methods and significant assumptions used by the company's specialist
    - Evaluating whether data was used appropriately by the company's specialist
  - Assessing the relationship of the company's specialist to the company
  - Assessing the objectivity of an auditor-engaged specialist

# Auditor's Use of the Work of Specialists

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- Other Areas of Comment:
  - Guidance
  - Effective Date

# Supervision of Audits Involving Other Auditors

- ❑ 2016 Proposal (amendments and standard)
- ❑ 2017 Supplemental Request for Comment (SRC) with targeted revisions relating to, e.g.:
  - Serving as “lead auditor”
  - Considering other auditors’ qualifications, including their independence, and knowledge, skill, and ability
  - Supervision, including supervision in multi-tiered audits
  - Divided-responsibility audits
- ❑ Comments on the SRC were due November 15



# Supervision of Audits Involving Other Auditors

## □ 21 comment letters received on SRC:

- Accounting firms and associations of accountants 75%
- Academics 5%
- Investors 5%
- Trade groups 5%
- Other 10%

# Supervision of Audits Involving Other Auditors

- High-level themes in comment letters on SRC:
  - Continued support for:
    - Enhancing the standards governing the use of other auditors, and
    - Risk-based approach to the supervision of other auditors
  - Acknowledgement that certain revisions are responsive to comments on 2016 Proposal
  - Questions raised and suggestions provided regarding certain other revisions

# Supervision of Audits Involving Other Auditors

- Specific aspects of SRC that received comments:
  - Criteria for serving as “lead auditor”:
    - “Importance” threshold
    - 50% threshold for divided-responsibility audits
  - Lead auditor’s responsibilities for considering other auditor’s qualifications:
    - Compliance with SEC independence, and PCAOB independence and ethics requirements
    - Other auditors’ knowledge, skill, and ability

# Supervision of Audits Involving Other Auditors

- Specific aspects of SRC that received comments (cont'd):
  - Aspects of supervision:
    - Instructing other auditors
    - Reviewing other auditors' work
  - Supervision in multi-tiered audits

# Supervision of Audits Involving Other Auditors

- Other areas of comment on SRC:
  - Divided-responsibility audits:
    - Different GAAP used by company and subsidiary
    - Lead auditor's interaction with other auditors
  - Economic impact
  - Effective date