



July 31, 2015

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: Staff Consultation Paper 2015-01

Eide Bailly LLP welcomes the opportunity to comment on the PCAOB's *Staff Consultation Paper 2015-01 – The Auditor's Use of the Work of Specialists* (the Consultation Paper). Eide Bailly is a registered public accounting firm serving mid-sized and smaller issuers and broker-dealers. We have provided general comments, followed by more specific comments on certain topics raised in the Consultation Paper.

General Comments

We concur with the Staff's observations regarding the increasing complexity of business transactions, and thus the increased challenges in auditing those transactions. Accordingly, we support the Staff's consideration of amendments to existing auditing standards, and where appropriate, additional guidance related to those standards. We believe that any such amendments to existing standards regarding the auditor's use of a specialist be appropriately aligned with the Board's existing risk assessment standards, allow for appropriate use of auditor judgment, and be scalable to auditors of issuers of varying size and complexity.

We have concerns that certain of the approaches under consideration will have a disproportionate effect on smaller firms. As noted in the Consultation Paper, smaller firms tend to use auditor-engaged specialists, rather than auditor-employed specialists, to appropriately address certain risks of material misstatement. Accordingly, we encourage the Staff to carefully consider the impact that proposed amendments may have on the ability of smaller firms to continue to engage specialists when appropriate and necessary.

We also encourage the Board and Staff to consider whether the objectives of the Consultation Paper can be achieved through clarification of the extant standards, rather than the development of new standards, by providing additional guidance in the form of a Staff Practice Alert or other similar resources. We believe that the past use of Staff Practice Alerts have provided effective guidance in areas offering auditing challenges and encourage the Board to continue to provide this type of guidance.

We support the proposed definitions of *specialist*, *auditor's specialist*, and *company's specialist* that are included in the Consultation Paper. We support the inclusion of income tax as a specialized area of accounting and auditing, and thus the exclusion of this area within the definition of a specialist. We also support the inclusion of information technology as a specialized area of audit and accounting under certain circumstances; i.e. for information technology applications similar to the example in the Consultation Paper; however also acknowledge that certain information technology considerations in an audit engagement may extend beyond the skills of the typical engagement team member; and accordingly suggest that the Staff further consider this particular area.

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Using the Work of an Auditor's Specialist

The Consultation Paper offers two potential standard-setting alternatives related to the use of an auditor's specialist; (1) development of a separate standard for using the work of an auditor's specialist; and (2) extending the supervision requirements of Auditing Standard No. 10 to an auditor's engaged specialist.

Should the Board conclude that its objective to improve audit quality in this area cannot be achieved by providing guidance to support existing standards, we believe this objective will then be most effectively accomplished by the development of a separate standard related to the use of an auditor's specialist. If the Board proceeds with such an approach, we encourage the consideration of convergence, to the extent possible, with the standards adopted by the IAASB (ISA 620) and AICPA (AU-C 620). We believe that this approach would effectively accomplish the objectives of the Board, while also aligning the Board's standards with those of other standard setters.

As an alternative to the development of a separate standard, we also believe that the Board's objectives would be accomplished by targeted enhancements to extant AU 336, *Using the Work of a Specialist* (AU 336). While the Consultation Paper referred to evidence of deficiencies identified in the inspection process related to auditors use of specialists, as well as referring to auditors use of specialists potentially contributing to material misstatements, there does not appear to be compelling evidence to suggest that these results were the result of a flawed auditing standard, rather the improper application by auditors of the existing standard. Accordingly, we would be supportive of an approach to enhance and clarify extant AU 336 where necessary.

We do not support the approach of extending the supervision requirements of Auditing Standard No. 10 to an auditor's engaged specialist. In addition to the supervision and review requirements of AS No. 10, such an extension would also require compliance with existing PCAOB standards related to Quality Control, Independence and Ethics, which we believe would be difficult, if not impossible, in certain circumstances to comply with as they relate to an auditor's engaged specialist. We do not suggest that the auditor should not apply appropriate quality control considerations to an auditor-engaged specialist; however believe that the extending the requirements designed for engagement team members that are employees of a registered public accounting firm to non-employees could result in unrealistic expectations of the auditor. As the use of auditor-engaged specialists is predominant in smaller firms, such a requirement would result in a disproportionate effect on those firms, including the possibility that certain specialists may decide to not offer services to public company auditors, thus potentially resulting in an overall negative impact on audit quality.

We are supportive of the recommendations in Consultation Paper with respect to the engagement team's consideration of the knowledge and skill of an auditor's specialist. The auditor's evaluation of a specialist's qualifications and experience should always be considered in the auditor's determination of the use of the specialist, as well as to what extent the evidence provided by the specialist may be relied upon and/or what additional auditing procedures may need to be performed.

We are also supportive of the potential requirement in the Consultation Paper for the auditor to reach an agreement with the specialist of his or her responsibilities "in writing". However, we question whether the intention of this potential requirement was to have the agreement documented in a formal engagement letter or whether the agreement could be documented less formally in the audit documentation; i.e., as stated in the Consultation Paper as "evidence of the agreement between the auditor and the auditor's specialist might be in the planning memorandum, separate memorandum, audit programs or other related workpapers." We believe that the latter would provide sufficient evidence of an agreement; however in either case, suggest that such a requirement be made clear in a proposed standard.

Evaluating the Objectivity of an Auditor's Engaged Specialist

The Consultation Paper offers two potential standard-setting alternatives related to the evaluation of the objectivity of an auditor's engaged specialist; (1) application of the requirements of Rule 2-01 of SEC Regulation S-X (Rule 2-01); and (2) the application of an "enhanced objectivity approach".

The requirements of Rule 2-01 were written for accounting firms, and therefore were never intended to be implemented by other professional services firms. As such, even if the principles of Rule 2-01 could be effectively applied to an entity employing specialists, the necessary quality control and monitoring systems do not likely exist in those entities. To the extent that such entities may be unwilling to adopt such quality control and monitoring systems, such a requirement may result in the unintended consequence of these entities choosing to discontinue providing services to auditors of issuers. Consistent with our comments above related to extending the requirements of Auditing Standard No. 10 to auditor-engaged specialists, we believe that this proposed requirement would also result in a disproportionate effect on smaller firms, as they are more dependent upon the use of an auditor-engaged specialist.

While we support the general principles of the Enhanced Objectivity Approach, we believe that the proposed requirements are too restrictive; i.e., to "obtain information about the process used by the auditor's engaged specialist to formulate responses to the auditor's request for information." Similarly, we do not agree that an auditor should be automatically prohibited from using the work of a specialist if that specialist's objectivity is determined to be impaired in some manner. We agree that considerations such as these and others must be evaluated by the auditor, but that they be done so within the context of a principles-based approach that takes into account the auditor's overall risk assessment and consideration of the risk of material misstatement specific to the audit area for which the specialist is being utilized.

Using the Work of a Company's Specialist

Consistent with our comments regarding proposed changes to standards regarding the use of an auditor's specialist, we believe the Board's objectives with regard to auditor's use of a company's specialist can be accomplished by enhancing the extant standard with additional clarifying requirements and application material. Specifically, we encourage the Board to consider the standards adopted by the IAASB (ISA 500) and AICPA (AU-C 500). Similar to our comments above, we believe that such an approach would effectively accomplish the objectives of the Board, while also aligning the Board's standards with those of other standard setters. We also believe that certain existing requirements in extant AU 336 are also applicable to the use of a company's specialist and recommend that the requirements for use of an auditor's specialist and a company's specialist be consistent to the extent possible.

Eide Bailly commends the Board's ongoing commitment to the improvement of audit quality and we appreciate the opportunity to comment on this Consultation Paper. We would be pleased to discuss our comments with the Board or its staff. Please direct any questions on our comments to Brian Bluhm, Partner, National Assurance Office, at 612.253.6590 or by email at bbluhm@eidebailly.com.

Sincerely,



Eide Bailly LLP