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Via E-mail: [comments@pcaobus.org](mailto:comments@pcaobus.org)

Office of the Secretary  
Public Company Accounting Oversight Board  
1666 K Street, NW  
Washington, DC 20006-2803

**Re: PCAOB Staff Consultation Paper: *The Auditor's Use of the Work of Specialists***

Dear Office of the Secretary:

BDO USA, LLP appreciates the opportunity to respond to the request for comments on the Public Company Accounting Oversight Board's (the PCAOB or the Board) *Staff Consultation Paper: The Auditor's Use of the Work of Specialists* (the Consultation Paper). We support the Board's consideration of amendments to extant PCAOB standards to clarify the way in which auditors use the work of specialists. This is of particular importance because of the increasing use of specialists in accounting for certain complex transactions that are difficult to measure and are frequently outside the field of expertise of auditors.

Our comments below align with the topical sections set out within the Consultation Paper, and as such, our responses to the specific questions posed are addressed, as applicable, within those sections.

**Current Requirements and Current Practice**

As noted in the Consultation Paper, the relevant PCAOB standards that apply when an auditor uses the work of a specialist in performing an audit include AU Section 336, *Using the Work of a Specialist (AU sec. 336)*, and Auditing Standard No. 10, *Supervision of the Audit Engagement (AS 10)*. However, the application of these standards varies, depending on whether a specialist is employed or engaged by the auditor or the specialist is a company specialist. Given the different ways in which a specialist may be used, practice among firms in the application of these standards may be inconsistent. For this reason, we support certain amendments to these standards to enhance consistent application with respect to supervision and the evaluation of audit evidence while providing flexibility for use by auditors of issuers of varying size and complexity. Our views on the Consultation Paper's specific proposals are set out below.

In our practice, we more often use the work of employed specialists rather than engaged specialists, although we do engage a limited number of preapproved specialists on a regular basis for the valuation of certain financial instruments. Such preapproved vendors are subject to extensive due diligence procedures annually and certain protocols have been established with such vendors to facilitate communication. Whether an auditor's specialist is employed or engaged, many of the same procedures are performed by the auditor to



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determine whether that work is adequate for the auditor's purposes. However, when an engaged specialist is used, additional or different procedures may be performed, in large part, because the engaged specialist is not subject to the firm's quality control policies and procedures.

The type of testing an auditor's specialist may perform varies based on the type of activity being audited (e.g., goodwill impairments, assets acquired and liabilities assumed in a business combination or complex financial instruments). For example, in a valuation report, the specialist will often review the process and model used by management to ensure that it is a valid approach. As it relates to financial instruments, where models may not necessarily be available to the auditor, the specialist may prepare a separate estimate and compare the results to that recorded by management.

When we use the work of an employed specialist, that specialist is considered part of the engagement team and, accordingly, supervision is conducted in accordance with AS 10. To facilitate communication between employed specialists and the rest of the engagement team, policies have been established that encourage open communication on a frequent basis. Established policies address assignment of responsibilities, the form of documentation, and the process for resolving issues in a timely manner, among others. Supervision occurs throughout the audit, starting in the planning phase where responsibilities are discussed and assigned, continuing through the performance of the audit, including review of working papers and the assessment of the adequacy of the work of the specialist.

### Potential Need for Improvement

#### *Oversight of an Auditor's Specialist*

We believe oversight of an auditor's employed specialist in accordance with AS 10 is appropriate, since they are considered a member of the engagement team. However, we do not believe it is appropriate or practical to extend the requirements of AS 10 to engaged specialists, because they are not subject to PCAOB rules and standards, in particular those relating to firm quality control standards. We believe a practical approach to ensuring the objective of AS 10 is met, such that the work performed by the engaged specialist is performed as directed and supports the conclusions reached, can be met in an equally effective way, by amending AU sec. 336 to incorporate the concepts from International Standards on Auditing (ISA) 620, *Using the Work of an Auditor's Expert (ISA 620)*. These concepts include procedures to obtain agreement with the auditor's specialist about (1) the nature, scope, and objectives of the work to be performed, (2) the respective roles and responsibilities including agreement about access to working papers, and (3) the nature, timing and extent of communication between the auditor and the specialist. Furthermore, additional procedures to evaluate the adequacy of the work of the employed specialist could include procedures such as making periodic inquiries of the specialist, reviewing working papers and reports on an interim basis, and observing the work of the specialist, among others.



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### *Objectivity of an Auditor's Engaged Specialist*

Objectivity is one of the more important factors that affects whether or not an auditor can use the work of an auditor's specialist. As explained in AU sec. 336, paragraph 10, objectivity may be impaired when the specialist has a relationship to the client, including situations in which the client has the ability - through employment, ownership, contractual right, family relationship, or otherwise - to directly or indirectly control or significantly influence the specialist. While employed auditor specialists are covered by a firm's independence rules, by virtue of the fact that they are an employee of an accounting firm, and therefore considered to be objective, we do not believe that an engaged specialist needs to be 'independent' in accordance with PCAOB rules in order for the auditor's engaged specialist to also be considered to be objective. For example, we believe that certain procedures, as set forth in ISA 620, relating to a threats and safeguards approach to assessing objectivity provides sufficient specificity to permit such an evaluation.

The Consultation Paper has suggested as part of its Enhanced Objectivity Approach that an auditor would be required to obtain information about the process the auditor's engaged specialist uses to formulate responses to the auditor's request for information regarding business, employment, and financial relationships between the auditor's engaged specialist and the company. We do not believe such a requirement is meaningful because processes among specialist firms could vary greatly due to differences in governance structure, size and complexity, among others, and be equally effective. Instead, we believe the guidance in paragraph A20 of ISA 620 may be helpful; this guidance explains that it may be relevant, in evaluating the objectivity of an auditor's engaged specialist, to inquire of the entity about any known interests or relationships that may affect the expert's objectivity and discuss with that expert any applicable safeguards, including any professional requirements that apply to that expert.

### Alternative Regulatory Approaches

The Consultation Paper describes various alternatives to standard setting relating to using the work of a specialist, one of which includes rescinding AU sec. 336. The proposed alternatives are in response to Board observations relating to the implementation of AU sec. 336 and AS 10 that, in their view, suggest the need for change. Overall, we believe that when implemented as intended, AU sec. 336 appropriately sets out the auditor's responsibilities to evaluate the competence, capabilities, and objectivity of specialists and to evaluate the adequacy of their work. Furthermore, we support retaining the premise that underlies AU sec. 336 - that the auditor is not expected to have the expertise of a person trained or qualified to engage in the practice of another profession or occupation. As a result, when an auditor encounters matters during the audit, outside the field of accounting or auditing, that require special skill or knowledge, the auditor may use the work of a specialist to obtain appropriate evidential matter.

Additionally, we note, as it relates to using the work of a company's specialist, one alternative in the Consultation Paper would require the auditor to look to other applicable PCAOB standards, whereby evidence provided by a company's specialist would be evaluated



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in a similar manner to any other evidence provided by the company. However, we believe such an approach is inconsistent with the basic premise of AU sec. 336, in that the auditor is not expected to have the expertise of another profession, and has the potential to increase costs without realizing a corresponding benefit. Rather, we suggest that the approach used in ISA 500, *Audit Evidence*, paragraph 8, including applicable application guidance, could provide an effective option that we believe would avoid some of the disadvantages highlighted in the Consultation Paper relating to this alternative, while still ensuring that the auditor designs procedures responsive to identified risks for the purpose of obtaining sufficient appropriate evidence. In particular, we believe the addition of the application guidance that explains how the auditor would evaluate the appropriateness of the company specialist's work as audit evidence for the relevant assertion would achieve the objectives of AU sec. 336.

## Potential Amendments

### *Definitions*

We support the definitions as proposed in the Consultation Paper for specialist, auditor's specialist, and company's specialist. Furthermore, we believe that income tax and information technology are specialized areas within the field of accounting and auditing, and are appropriately excluded from the definition of a specialist.

### *Evaluating the Knowledge and Skill of an Auditor's Specialist*

We agree with the position set out in the Consultation Paper that the objectives of an evaluation are the same whether a specialist is employed or engaged by the auditor, recognizing that differences exist in the manner in which the auditor obtains the information. When an auditor employs a specialist, the auditor is able to rely on the firm's system of quality control to assist in evaluating a specialist's skill and knowledge, whereas when an auditor engages a specialist other means of making this evaluation are necessary. We believe the potential requirements the staff is considering are appropriate, which include an evaluation of:

- Professional qualifications and whether the expert's work is subject to technical performance standards, including ethical standards and other membership requirements of a professional body
- Relevant experience, including any areas of specialty
- Reputation and standing in the view of peers and others familiar with the capability and performance of the specialist.

### *Informing an Auditor's Specialist of His or Her Responsibility*

We support the proposed requirement within the Consultation Paper for the auditor to reach an agreement with the auditor's specialist in writing. However, we believe the guidance in footnote 74 on page 38, which states 'evidence of the agreement between the auditor and the auditor's specialist might be in the planning memoranda, separate memoranda, audit



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programs, or other related work papers' should be included within the new guidance to clarify the form of the written agreement.

#### *Evaluating the Work of an Auditor's Specialist*

We believe that AU sec. 336 provides an appropriate approach to evaluating the work of an auditor's specialist, whether employed or engaged, such that the auditor evaluates whether the specialist's findings support the related assertions in the financial statements. It is unclear why the Consultation Paper proposes that an auditor would perform a different evaluation depending on whether the specialist develops an independent estimate or tests the methods and significant assumptions used by the company, since in both circumstances the auditor would have concluded that the specialist was competent, objective, and had an appropriate understanding of his or her responsibilities.<sup>1</sup> For this reason, we do not support requiring what on the surface seem to be two different types of evaluations requiring different levels of auditor effort.

Additionally, in evaluating the findings of the auditor's specialist, we believe the guidance in ISA 620, paragraph 13, would clarify the auditor's response when the work of the specialist is determined not to be adequate for the auditor's purposes. In this circumstance, paragraph 13 states that 'the auditor shall: (a) agree with that expert on the nature and extent of further work to be performed by that expert, or (b) perform additional audit procedures appropriate to the circumstances.'

#### *Evaluating the Objectivity of an Auditor's Specialist*

We recognize the importance of assessing the objectivity of an auditor's specialist, and support enhancing the guidance in AU sec. 336 relating to how an auditor evaluates the objectivity of a specialist and how that evaluation impacts the auditor's assessment of the reliability of the evidence obtained from the specialist. However, we do not believe it is necessary for a specialist to be independent of the company in order for that specialist to be objective. Rather, we believe that a threats and safeguards approach, as set out in ISA 620, paragraphs A18 to A20, is more appropriate. Similarly, we do not believe an engaged auditor's specialist should be required to comply with the requirements of Rule 2-01 of Regulation S-X adopted by the SEC (Rule 2-01). Under such an approach, we are concerned that there may be unintended consequences, the more significant of which is that engaged specialists would be unable or unwilling to comply with the level of quality control processes and procedures necessary for the monitoring and evaluation of relationships that might impair that specialist's independence.

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<sup>1</sup> The Consultation Paper explains that when an auditor's specialist develops an independent estimate they would be required to 'determine whether' the methods used by the specialist were appropriate and the significant assumptions reasonable, whereas when the auditor's specialist tests the methods and significant assumptions the auditor is required to 'evaluate the conclusions.' See page 40 of the Consultation Paper.



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We appreciate your consideration of our comments and suggestions and would be pleased to discuss them with you at your convenience. Please direct any questions to Chris Smith, National Accounting & Auditing Professional Practice Leader at 310-557-8549 ([chsmith@bdo.com](mailto:chsmith@bdo.com)) or Susan Lister, National Director of Auditing at 212-885-8375 ([slister@bdo.com](mailto:slister@bdo.com)).

Very truly yours,

/s/ BDO USA, LLP

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