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Date: August 25, 2015

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

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

Dear Ms. Brown:

Eli Lilly and Company ("Lilly") is pleased to submit these comments to the Public Company Accounting Oversight Board (PCAOB or Board) on the Staff Consultation Paper No. 2015-01 — The Auditor's Use of the Work of Specialists. We appreciate the PCAOB seeking input on this potential standard-setting initiative with a staff consultation paper. Lilly is a multinational pharmaceutical and animal health company with legal entities in over 50 jurisdictions.

Lilly supports the PCAOB's efforts to evaluate the effectiveness of the existing standards on the auditor's use of specialists and identify areas for improvement. We encourage standards that will do the following:

- Align the nature, timing and extent of audit procedures with the auditor's risk assessment.
- Retain the general objectives of PCAOB AU Sec. 336 (Using the work of a specialist) while providing better guidance for auditors.
- Allow companies to utilize specialists without essentially requiring duplication of effort on the part of the audit process.

Our views focus primarily on the third section, "Using the work of a company's specialist". As background for our response, when using specialists to develop estimates, we believe that it is important to keep in mind that there is no "right" answer. Different specialists will undoubtedly arrive at different estimates and it is likely that none of them will be precisely correct. Therefore, we believe that the emphasis should be on ensuring that the estimate determined by the specialist is reasonable. We do not see a lot of value in having multiple estimates prepared by multiple parties and attempting to reconcile the estimates as this presumes a precision in the estimate that does not exist.

The Board proposes to eliminate the language in AU Sec. 336 that states "the appropriateness and reasonableness of methods and assumptions used and their application are the responsibility of the specialist." We can support this proposal as the auditor needs to have the responsibility for evaluating the reasonableness of the estimate. We agree the auditor may need to hire their own specialist if the auditor does not possess the specialized knowledge or skill to audit the estimate. The focus should be on evaluating the reasonableness of the estimate developed by the specialist hired by the company. The nature and extent of the work performed by auditor should reflect the auditor's risk assessment. We agree the auditor's evaluation of the specialist may affect the auditor's assessment of risk of

material misstatement and the nature, timing and extent of the auditor's procedures related to the specialist's work.

Similarly, the Board proposes to eliminate the provisions that (i) "ordinarily the auditor would use the work of the specialist unless the auditor's procedures lead him or her to believe the findings are unreasonable in the circumstances" and (ii) "[i]f the auditor determines that the specialist's findings support the related assertions in the financial statements, he or she reasonably may conclude that sufficient appropriate evidential matter has been obtained." We have concerns about the elimination of these provisions. Our belief is that the objective of the audit work should be to determine that the financial statements are not materially misstated because of an error in the estimate and that to accomplish this, the auditor should evaluate whether or not the estimate developed by the company's specialist is reasonable. We believe both these provisions are consistent with this objective.

Following are the responses to certain of the questions addressed in the exposure draft.

Question 14

Is it appropriate for an auditor to consider the knowledge, skill, and objectivity of a company's specialist when evaluating the reliability of information provided by that specialist? If so, how might the company's use of the work of a competent and objective specialist under the potential alternatives affect the nature, timing, and extent of the auditor's procedures?

Yes, this is appropriate as it should impact the auditor's assessment of the risk of material misstatement. Where the risk is assessed as high, the auditor should apply more rigorous procedures. Where the risk is assessed as low, audit procedures should be reduced.

Question 16

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?

No, the work should not be treated the same way as other information provided by the company. The effort to review the work of a specialist should take less time than a review of information provided by the company. Additionally, models used by specialists are frequently proprietary which limits the auditor's access. Limited access to the work and increased audit rigor could lead unnecessarily to increased auditor development of independent estimates. As a result, the company pays for duplication of an estimate plus the reconciliation of multiple estimates. Standards based on risk would help.

Question 18

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?

We have concerns with this approach. We believe AU sec 336 provides a good model and modifications will provide a better solution than replacement. AU sec 336 is established with auditors and there is consistency in application. A new model will likely cause much more diversity in practice. It is unclear to us if auditors will be allowed to consider, as part of their risk assessment, that the company has utilized an experienced and skilled specialist in the development of their estimate. As a result, more work may be required of the auditors as if the company had done all the work themselves. We don't believe the cost of this extra work justifies the potential benefit.

We appreciate the opportunity to express our view and concerns regarding this staff consultation paper. If you have any questions regarding our response, or would like to discuss our comments further, please call me at (317) 651-2310.

Sincerely,

ELI LILLY AND COMPANY

/s/Donald Zakrowski
Vice President-Finance and
Chief Accounting Officer