

Amendments to Auditing Standards for Auditor's Use of the Work of Specialists

Amendments to PCAOB Auditing Standards: Comparison to Existing Standards (PCAOB Release No. 2018-006, Appendices 1 and 2)

On December 20, 2018, the Public Company Accounting Oversight Board adopted amendments to its standards, as reflected in "Amendments to Auditing Standards for Auditor's Use of the Work of Specialists," PCAOB Release No. 2018-006. The amendments are not yet effective, pending approval by the Securities and Exchange Commission.

This comparison document was prepared by staff of the Office of the Chief Auditor as a reference tool for the amendments presented in Appendices 1 and 2 of the PCAOB release. It shows changes from the existing standards, with added text underscored and deleted text ~~stricken through~~.

APPENDIX 1

Amendments Relating to the Auditor's Use of the Work of Specialists

- I. AS 1105 is amended by adding a note after the first bullet of paragraph .08:

Note: See Appendix A of this standard for requirements related to the evaluation of evidence from a company's specialist.

- II. AS 1105 is amended by revising footnote 3 to paragraph .10 to read as follows:

³ When using the work of a company's specialist~~engaged or employed by management~~, see AS 1210, Using the Work Appendix A of a Specialist~~this standard~~. When using information produced by a service organization or a service auditor's report as audit evidence, see AS 2601, *Consideration of an Entity's Use of a Service Organization*, and for integrated audits, see AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*.

III. AS 1105 is amended by adding a new Appendix A:

Appendix A – Using the Work of a Company's Specialist as Audit Evidence

.A1 This appendix describes the auditor's responsibilities with respect to using the work of a specialist, employed or engaged by the company ("company's specialist"), as audit evidence to support a conclusion regarding a relevant assertion of a significant account or disclosure. The requirements in this appendix supplement the requirements of this standard.

Note: For purposes of this standard, a specialist is a person (or firm) possessing special skill or knowledge in a particular field other than accounting or auditing. This appendix does not apply when the auditor uses the work of a person with specialized skill or knowledge in income taxes¹ or information technology as audit evidence.²

Note: This appendix does not apply to information provided by a company's attorney concerning litigation, claims, or assessments that is used by the auditor pursuant to AS 2505, *Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments*. This appendix applies when an auditor uses the work of a company's attorney as audit evidence in other matters relating to legal expertise, such as when a legal interpretation of a contractual provision or a legal opinion regarding isolation of transferred financial assets is necessary to determine appropriate accounting or disclosure under the applicable financial reporting framework.

¹ A note to AS 2505.08 describes the auditor's responsibility regarding the use of written advice or opinion of a company's tax advisor or a company's tax legal counsel as audit evidence.

² This is consistent with the treatment of persons with specialized skill or knowledge in income taxes and information technology who are employed or engaged by auditors. See Appendix C of AS 1201, *Supervision of the Audit Engagement*, and AS 1210, *Using the Work of an Auditor-Engaged Specialist*.

.A2 The requirements in AS 2110, *Identifying and Assessing Risks of Material Misstatement*, for obtaining an understanding of the company's information system relevant to financial reporting include obtaining an understanding of the work and report(s), or equivalent communication, of the company's specialist(s) and related company processes and controls.³

³ See AS 2110.28A.

Assessing the Knowledge, Skill, and Ability of the Company's Specialist and the Specialist's Relationship to the Company

.A3 The auditor should obtain an understanding of the professional qualifications of the company's specialist in the particular field, and the entity that employs the specialist (if other than the company), and assess the level of knowledge, skill, and ability of the specialist in the particular field. Factors that are relevant to the assessment of the specialist's knowledge, skill, and ability include the following:

- a. The professional certification, license, or professional accreditation of the specialist in the particular field;
- b. The specialist's experience in the type of work performed, including applicable areas of specialty within the specialist's field; and
- c. The reputation and standing of the specialist in the particular field.

.A4 The auditor should assess the relationship to the company of the specialist and the entity that employs the specialist (if other than the company)—specifically, whether circumstances exist that give the company the ability to significantly affect the specialist's judgments about the work performed, conclusions, or findings (e.g., through employment, financial, ownership, or other business relationships, contractual rights, family relationships, or otherwise).

Note: Examples of potential sources of information that could be relevant to the auditor's assessment include, but are not limited to:

- Information obtained by the auditor from procedures performed pursuant to AS 2410, *Related Parties*;
- Engagement contracts between the company and the specialist, or the specialist's employer;
- Responses to questionnaires provided to the specialist regarding relationships between the specialist, or the specialist's employer, and the company;
- Information provided by the employer of a specialist regarding relationships with the company; and
- Disclosures about relationships with the company in the specialist's report, or equivalent communication, pursuant to requirements promulgated by the specialist's profession or by legislation or regulation governing the specialist.

.A5 The necessary evidence to assess the level of knowledge, skill, and ability of the company's specialist and the specialist's relationship to the company in paragraphs .A3–.A4 depends on (1) the significance of the specialist's work to the auditor's conclusion regarding the relevant assertion and (2) the risk of material misstatement of

the relevant assertion. As the significance of the specialist's work and risk of material misstatement increases, the persuasiveness of the evidence the auditor should obtain for those assessments also increases.

Evaluating the Work of the Company's Specialist

.A6 Evaluating the work of a company's specialist involves evaluating:

- a. The data, significant assumptions, and methods used by the specialist; and
- b. The relevance and reliability of the specialist's work and its relationship to the relevant assertion.

Note: Paragraphs .16–.17 of AS 2101, *Audit Planning*, describe the auditor's responsibilities for determining whether specialized knowledge or skill is needed. This includes determining whether an auditor's specialist is needed to evaluate the work of a company's specialist.

.A7 The necessary evidence from the auditor's evaluation of the specialist's work to support a conclusion regarding a relevant assertion depends on:

- a. The significance of the specialist's work to the auditor's conclusion regarding the relevant assertion;
- b. The risk of material misstatement of the relevant assertion;
- c. The level of knowledge, skill, and ability of the specialist; and
- d. The ability of the company to significantly affect the specialist's judgments about the work performed, conclusions, or findings.

Note: When evaluating the specialist's work, the auditor should obtain more persuasive evidence as the significance of the specialist's work, the risk of material misstatement, or the ability of the company to affect the specialist's judgments increases, or as the level of knowledge, skill, and ability possessed by the specialist in the particular field decreases.

.A8 The auditor should:

- a. Test the accuracy and completeness of company-produced data used by the specialist,⁴ and evaluate the relevance and reliability⁵ of data from sources external to the company that are used by the specialist;
- b. Evaluate whether the significant assumptions⁶ used by the specialist are reasonable as follows:

- (1) For significant assumptions developed by the specialist, the auditor should take into account the consistency of those assumptions with relevant information.

Note: Examples of information that, if relevant, should be taken into account include: (1) assumptions generally accepted within the specialist's field; (2) supporting information provided by the specialist; (3) industry, regulatory, and other external factors, including economic conditions; (4) the company's objectives, strategies, and related business risks; (5) existing market information; (6) historical or recent experience, along with changes in conditions and events affecting the company; and (7) significant assumptions used in other estimates tested in the company's financial statements.

(2) For significant assumptions provided by company management and used by the specialist, the auditor should look to the requirements set forth in paragraphs .16–.18 of AS 2501, *Auditing Accounting Estimates, Including Fair Value Measurements*.

(3) If a significant assumption is based on the company's intent and ability to carry out a particular course of action, the auditor should look to the requirements set forth in AS 2501.17; and

c. Evaluate whether the methods used by the specialist are appropriate under the circumstances, taking into account the requirements of the applicable financial reporting framework.

Note: Evaluating whether the methods are appropriate includes evaluating whether the data (paragraph .A8a) and significant assumptions (paragraph .A8b) are appropriately applied under the applicable financial reporting framework.

⁴ See paragraph .10 of this standard.

⁵ See paragraphs .07 and .08 of this standard.

⁶ See AS 2501.15 for procedures to perform when identifying significant assumptions. For purposes of identifying significant assumptions, the company's assumptions include assumptions developed by a company's specialist.

.A9 The auditor should evaluate the relevance and reliability of the specialist's work and whether the specialist's findings support or contradict the relevant assertion. Factors that affect the relevance and reliability of the specialist's work include:

a. The results of the auditor's procedures over data, significant assumptions, and methods performed pursuant to paragraph .A8;

b. The nature of any restrictions, disclaimers, or limitations in the specialist's report or equivalent communication; and

- c. The consistency of the specialist's work with other evidence obtained by the auditor and the auditor's understanding of the company and its environment.

.A10 If the specialist's findings or conclusions appear to contradict the relevant assertion or the specialist's work does not provide sufficient appropriate evidence, the auditor should perform additional procedures, as necessary, to address the matter.

Note: Examples of situations in which additional procedures ordinarily are necessary include: (1) the specialist's findings and conclusions are inconsistent with (i) other information, if any, in the specialist's report, or equivalent communication, (ii) other evidence obtained by the auditor, or (iii) the auditor's understanding of the company and its environment; (2) the specialist's report, or equivalent communication, contains restrictions, disclaimers, or limitations regarding the auditor's use of the report or communication; (3) exceptions were identified in performing the procedures described in paragraph .A8 above related to data, significant assumptions, or methods; (4) the auditor has doubt about the specialist's knowledge, skill, and ability, or about the company's effect on the specialist's judgments; or (5) the specialist has a conflict of interest relevant to the specialist's work.

- IV. AS 1201 is amended by revising footnote 2 to paragraph .03 to read as follows:

² AS 1210, *Using the Work of a Specialist*. Appendix C describes further procedures to be performed with respect to the supervision of the work of auditor-employed specialists in conjunction with the required supervisory activities set forth below. AS 1210, *Using the Work of an Auditor-Engaged Specialist*, and Appendix A of AS 1105, *Audit Evidence*, establish requirements for an auditor using the work of an auditor-engaged specialist and a company's specialist, respectively, in performing an audit of financial statements.

- V. AS 1201 is amended by adding a new Appendix C:

Appendix C – Supervision of the Work of Auditor-Employed Specialists

.C1 For engagements in which a specialist employed by the auditor's firm ("auditor-employed specialist") assists the auditor in obtaining or evaluating audit evidence with respect to a relevant assertion of a significant account or disclosure, this appendix describes supervisory activities to be performed in conjunction with supervising the work of an auditor-employed specialist in an audit. The requirements in this appendix supplement the requirements in paragraphs .05–.06 of this standard.

Note: For purposes of this standard, a specialist is a person possessing special skill or knowledge in a particular field other than accounting or auditing. Because income taxes and information technology are specialized areas of accounting and auditing, this appendix does not apply to situations in which a person with specialized skill or knowledge in income taxes or information technology participates in the audit. Paragraphs .03–.06 of this standard apply in those situations.

.C2 The necessary extent of supervision of an auditor-employed specialist depends on: (1) the significance of the specialist's work to the auditor's conclusion regarding the relevant assertion; (2) the risk of material misstatement of the relevant assertion; and (3) the knowledge, skill, and ability of the specialist.

Informing the Auditor-Employed Specialist of Work to be Performed

.C3 The engagement partner and, as applicable, other engagement team members performing supervisory activities should inform the specialist of the work to be performed, which includes establishing and documenting an understanding with the specialist regarding the following:

- a. The responsibilities of the specialist, including the objectives of the work to be performed;
- b. The nature of the work that the specialist is to perform or assist in performing (for example, testing the company's process used to develop an accounting estimate, including when a company's specialist is involved in developing the estimate, or developing an independent expectation of an estimate);
- c. The degree of responsibility of the specialist for:
 - (1) Testing data produced by the company, or evaluating the relevance and reliability of data from sources external to the company;
 - (2) Evaluating the significant assumptions used by the company or the company's specialist, or developing his or her own assumptions; and
 - (3) Evaluating the methods used by the company or the company's specialist, or using his or her own methods; and
- d. The responsibility of the specialist to provide a report, or equivalent documentation, to the engagement partner and, as applicable, other engagement team members performing supervisory activities that describes the work performed, the results of the work, and the findings or conclusions reached by the specialist.

.C4 Pursuant to paragraph .05a(3) of this standard, the engagement partner and, as applicable, other engagement team members performing supervisory activities should inform the specialist about matters that could affect the specialist's work. This includes, as applicable, information about the company and its environment, the company's processes for developing the related accounting estimate, the company's use of specialists in developing the estimate, relevant requirements of the applicable financial reporting framework, possible accounting and auditing issues, and the need to apply professional skepticism.¹

¹ See AS 1015.07–.09.

.C5 The engagement partner and, as applicable, other engagement team members performing supervisory activities should implement measures to determine that there is a proper coordination of the work of the specialist with the work of other relevant engagement team members to achieve a proper evaluation of the evidence obtained in reaching a conclusion about the relevant assertion. This includes:

- a. If an auditor's specialist is used to develop (or assist in developing) an independent expectation of an accounting estimate, measures to comply with paragraphs .21–.26 of AS 2501, *Auditing Accounting Estimates, Including Fair Value Measurements*;
- b. If an auditor's specialist is used to test (or assist in testing) the company's process to develop an accounting estimate, measures to comply with AS 2501.09–.18; or
- c. If an auditor's specialist is used to evaluate the work of a company's specialist, measures to comply with Appendix A to AS 1105, *Audit Evidence*, and, for accounting estimates, AS 2501.19.

Evaluating the Work of the Auditor-Employed Specialist

.C6 The engagement partner and, as applicable, other engagement team members performing supervisory activities should review the report, or equivalent documentation, provided by the specialist pursuant to paragraph .C3d above and evaluate whether the specialist's work provides sufficient appropriate evidence, specifically whether:

- a. The specialist's work and report, or equivalent documentation, are in accordance with the auditor's understanding with the specialist; and
- b. The specialist's findings and conclusions are consistent with results of the work performed by the specialist, other evidence obtained by the auditor, and the auditor's understanding of the company and its environment.

.C7 If the specialist's findings or conclusions appear to contradict the relevant assertion or the specialist's work does not provide sufficient appropriate evidence, the engagement partner and, as applicable, other engagement team members performing supervisory activities should perform additional procedures, or request the specialist to perform additional procedures, as necessary to address the issue.

Note: Examples of situations in which additional procedures ordinarily are necessary include: (1) the specialist's work was not performed in accordance with the auditor's instructions; (2) the specialist's report, or equivalent documentation, contains restrictions, disclaimers, or limitations that affect the auditor's use of the report or work; (3) the specialist's findings and conclusions are inconsistent with (i) the results of the work performed by the specialist, (ii) other evidence obtained by the auditor, or (iii) the auditor's understanding of the company and its environment; (4) the specialist lacks a reasonable basis for data or significant assumptions the specialist used; or (5) the methods used by the specialist were not appropriate.

VI. AS 1210 is retitled and amended in its entirety to read as follows:

AS 1210: Using the Work of an Auditor-Engaged Specialist

Introduction ~~and Applicability~~

~~.01 The purpose of this section is to provide guidance to~~ This standard establishes requirements regarding the auditor who uses the work ~~use~~ of a specialist engaged by the auditor's firm ("auditor-engaged specialist") to assist the auditor in performing an obtaining or evaluating audit in accordance ~~evidence~~ with the standards of the PCAOB. ~~respect to a relevant assertion of a significant account or disclosure.~~

Note: For purposes of this ~~section~~ standard, a specialist is a person (or firm) possessing special skill or knowledge in a particular field other than accounting or auditing. ⁴

~~1~~ ⁴ ~~Because income taxes and information technology are specialized areas of accounting and auditing, this~~ section standard ~~does not apply to situations in which~~ an ~~a person with specialized skill or knowledge in~~ income tax ~~specialist~~ taxes ~~or information technology specialist participates in the audit. AS 1201, Supervision of the Audit Engagement, applies in those situations.~~

~~.02 Specialists to which this section applies include, but are not limited to, actuaries, appraisers, engineers, environmental consultants, and geologists. This section also applies to attorneys engaged as specialists in situations other than to provide services to a client concerning litigation, claims, or assessments to which AS 2505, Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments, applies. For example, attorneys may be engaged by a client or by the auditor as specialists in a variety of other circumstances, including interpreting the provisions of a contractual agreement.~~

~~.03 The guidance in this section is applicable when~~

- ~~a. Management engages or employs a specialist and the auditor uses that specialist's work as evidential matter in performing substantive tests to evaluate material financial statement assertions.~~
- ~~b. Management engages a specialist employed by the auditor's firm to provide advisory services² and the auditor uses that specialist's work as evidential matter in performing substantive tests to evaluate material financial statement assertions.~~
- ~~c. The auditor engages a specialist and uses that specialist's work as evidential matter in performing substantive tests to evaluate material financial statement assertions.~~

~~————²———— The auditor should consider the effect, if any, that using the work of a specialist employed by the auditor's firm has on independence.~~

~~.04 The guidance provided in this section applies to audits of financial statements prepared in conformity with generally accepted accounting principles (GAAP)³ and to engagements performed under AS 3305, *Special Reports*, including a comprehensive basis of accounting other than GAAP.~~

~~————³———— References in this section to "financial statements" and to "generally accepted accounting principles" include special reports covered under AS 3305.~~

~~.05 This section does not apply to situations in which a specialist employed by the auditor's firm participates in the audit. AS 1201 applies in those situations.~~

Decision to Use the Work of a Specialist

~~.06 The auditor's education and experience enable him or her to be knowledgeable about business matters in general, but the auditor is not expected to have the expertise of a person trained for or qualified to engage in the practice of another profession or occupation. During the audit, however, an auditor may encounter complex or subjective matters potentially material to the financial statements. Such matters may require special skill or knowledge and in the auditor's judgment require using the work of a specialist to obtain appropriate evidential matter.~~

~~.07 Examples of the types of matters that the auditor may decide require him or her to consider using the work of a specialist include, but are not limited to, the following:~~

- ~~a. Valuation (for example, special-purpose inventories, high-technology materials or equipment, pharmaceutical products, complex financial instruments, real estate, restricted securities, works of art, and environmental contingencies)~~
- ~~b. Determination of physical characteristics relating to quantity on hand or condition (for example, quantity or condition of minerals, mineral reserves, or materials stored in stockpiles)~~

- ~~c. Determination of amounts derived by using specialized techniques or methods (for example, actuarial determinations for employee benefits obligations and disclosures, and determinations for insurance loss reserves⁴)~~
- ~~d. Interpretation of technical requirements, regulations, or agreements (for example, the potential significance of contracts or other legal documents or legal title to property)~~

~~—————⁴————— In the specific situation involving the audit of an insurance entity's loss reserves, an outside loss reserve specialist—that is, one who is not an employee or officer of the insurance entity—should be used. When the auditor has the requisite knowledge and experience, the auditor may serve as the loss reserve specialist.~~

~~Qualifications and Work of a Specialist~~

~~.08 The auditor should consider the following to evaluate the professional qualifications of the specialist in determining that the specialist possesses the necessary skill or knowledge in the particular field:~~

- ~~a. The professional certification, license, or other recognition of the competence of the specialist in his or her field, as appropriate~~
- ~~b. The reputation and standing of the specialist in the views of peers and others familiar with the specialist's capability or performance~~
- ~~c. The specialist's experience in the type of work under consideration~~

~~.09 The auditor should obtain an understanding of the nature of the work performed or to be performed by the specialist. This understanding should cover the following:~~

- ~~a. The objectives and scope of the specialist's work~~
- ~~b. The specialist's relationship to the client (see paragraphs .10 and .11)~~
- ~~c. The methods or assumptions used~~
- ~~d. A comparison of the methods or assumptions used with those used in the preceding period~~
- ~~e. The appropriateness of using the specialist's work for the intended purpose⁵~~
- ~~f. The form and content of the specialist's findings that will enable the auditor to make the evaluation described in paragraph .12~~

~~—————⁵————— In some cases, the auditor may decide it is necessary to contact the specialist to determine that the specialist is aware that his or her work will be used for evaluating the assertions in the financial statements.~~

Relationship of the Specialist to the Client

~~.10—The auditor should evaluate the relationship⁶ of the specialist to the client, including circumstances that might impair the specialist's objectivity. Such circumstances include 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.~~

~~——⁶——The term *relationship* includes, but is not limited to, those situations meeting the definition of "related parties" contained in the financial reporting framework applicable to the company under audit.~~

~~.11—When a specialist does not have a relationship with the client, the specialist's work usually will provide the auditor with greater assurance of reliability. However, the work of a specialist who has a relationship with the client may be acceptable under certain circumstances. If the specialist has a relationship with the client, the auditor should assess the risk that the specialist's objectivity might be impaired. If the auditor believes the relationship might impair the specialist's objectivity, the auditor should perform additional procedures with respect to some or all of the specialist's assumptions, methods, or findings to determine that the findings are not unreasonable or should engage another specialist for that purpose.~~

Using the Findings of the Specialist

~~.12—The appropriateness and reasonableness of methods and assumptions used and their application are the responsibility of the specialist. The auditor should (a) obtain an understanding of the methods and assumptions used by the specialist, (b) make appropriate tests of data provided to the specialist, taking into account the auditor's assessment of control risk, and (c) evaluate whether the specialist's findings support the related assertions in the financial statements. 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. If the auditor believes the findings are unreasonable, he or she should apply additional procedures, which may include obtaining the opinion of another specialist.~~

Effect of the Specialist's Work on the Auditor's Report

~~.13—If 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. If there is a material difference between the specialist's findings and the assertions in the financial statements, he or she should apply additional procedures. If after applying any additional procedures that might be appropriate the auditor is unable to resolve the matter, the auditor should obtain the opinion of another specialist, unless it appears to the auditor that the matter cannot be resolved. A matter that has not been resolved ordinarily will cause the auditor to conclude that he or she should qualify the opinion or disclaim an opinion because the inability to obtain sufficient appropriate evidential matter as to an assertion of material significance in the financial statements constitutes a scope limitation. (See paragraphs~~

~~.05 and .06 of AS 3105, *Departures from Unqualified Opinions and Other Reporting Circumstances.*~~

~~.14—The auditor may conclude after performing additional procedures, including possibly obtaining the opinion of another specialist, that the assertions in the financial statements are not in conformity with GAAP. In that event, the auditor should express a qualified or adverse opinion. (See AS 3105.18, .19, and .24.)~~

~~Reference to the Specialist in the Auditor's Report~~

~~.15—Reference to the use of a specialist may be made in the auditor's report in the following situations:~~

- ~~a. *Critical Audit Matters*—If such a reference will facilitate an understanding of the matter, the principal considerations that led the auditor to determine that the matter was a critical audit matter, or how the critical audit matter was addressed in the audit;⁷ or~~
- ~~b. *Explanatory language or departure from an unqualified opinion*—If such a reference will facilitate an understanding of the reason for the explanatory paragraph or departure from an unqualified opinion.~~

~~—Otherwise the auditor should not refer to the work or findings of the specialist in the auditor's report.~~

~~—⁷—Critical audit matters are described in AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion.*~~

~~[.16] [Paragraph deleted.]~~

~~Effective Date~~

~~.17—This section is effective for audits of periods ending on or after December 15, 1994. Early application of the provisions of this section is encouraged.~~

~~Objective~~

~~.02 The objective of the auditor is to determine whether the work of the auditor-engaged specialist is suitable for the auditor's purposes and supports the auditor's conclusion regarding the relevant assertion.~~

~~Assessing the Knowledge, Skill, Ability, and Objectivity of the Auditor-Engaged Specialist~~

~~.03 The engagement partner and, as applicable, other engagement team members performing supervisory activities¹ should assess the specialist's knowledge, skill, and ability in the particular field for the type of work under consideration. This includes obtaining an understanding of the following with respect to the specialist and the entity that employs the specialist:~~

- a. The professional certification, license, or professional accreditation of the specialist in the particular field;
- b. The specialist's experience in the type of work under consideration, including applicable areas of specialty within the specialist's field; and
- c. The reputation and standing of the specialist in the particular field.

Note: The auditor's assessment of the specialist's knowledge, skill, and ability affects the auditor's determination of: (1) whether the specialist possesses a sufficient level of knowledge, skill, and ability to perform the type of work under consideration (paragraph .04); and (2) the necessary extent of the review and evaluation of the specialist's work (paragraph .10).

¹ See AS 1201.04.

.04 The engagement partner and, as applicable, other engagement team members performing supervisory activities should not use the work of a specialist who does not have a sufficient level of knowledge, skill, and ability.

.05 The engagement partner and, as applicable, other engagement team members performing supervisory activities should assess whether the specialist has the necessary degree of objectivity to exercise impartial judgment on all issues encompassed by the specialist's work related to the audit. This includes evaluating whether the specialist or the entity that employs the specialist has a relationship to the company (e.g., through employment, financial, ownership, or other business relationships, contractual rights, family relationships, or otherwise), or other conflicts of interest relevant to the work to be performed.

Note: The auditor's assessment of the specialist's objectivity affects the nature and extent of the auditor's procedures to evaluate the data, significant assumptions, and methods that the specialist is responsible for testing, evaluating, or developing.²

Note: The evidence necessary to assess the specialist's objectivity depends on the significance of the specialist's work and the related risk of material misstatement. Examples of potential sources of information that could be relevant to the auditor's assessment include, but are not limited to:

- Information obtained by the auditor from procedures performed pursuant to AS 2410, *Related Parties*;
- Engagement contracts between the company and the specialist, or the specialist's employer;

- Responses to questionnaires provided to the specialist regarding relationships between the specialist, or the specialist's employer, and the company;
- Written representations or other information provided by the specialist concerning relationships with the company; and
- Disclosures about relationships with the company in the specialist's report, or equivalent documentation, pursuant to requirements promulgated by the specialist's profession or by legislation or regulation governing the specialist.

² Paragraph .06 of this standard requires the auditor to establish and document an understanding with the specialist, including with respect to the data, significant assumptions, and methods the specialist is responsible for testing, evaluating, or developing. Paragraph .11 of this standard addresses how the specialist's objectivity affects the nature and extent of the auditor's procedures.

Informing the Auditor-Engaged Specialist of the Work to be Performed

.06 The engagement partner and, as applicable, other engagement team members performing supervisory activities should inform the specialist of the work to be performed, which includes establishing and documenting an understanding with the specialist regarding the following:

- a. The responsibilities of the specialist, including the objectives of the work to be performed;
- b. The nature of the work that the specialist is to perform or assist in performing (for example, testing the company's process used to develop an accounting estimate, including when a company's specialist is involved in developing the estimate, or developing an independent expectation of an estimate);
- c. The degree of responsibility of the specialist for:
 - (1) Testing data produced by the company, or evaluating the relevance and reliability of data from sources external to the company;
 - (2) Evaluating the significant assumptions used by the company or the company's specialist, or developing his or her own assumptions; and
 - (3) Evaluating the methods used by the company or the company's specialist, or using his or her own methods; and
- d. The responsibility of the specialist to provide a report, or equivalent documentation, to the engagement partner and, as applicable, other

engagement team members performing supervisory activities that describes the work performed, the results of the work, and the findings or conclusions reached by the specialist.

.07 The engagement partner and, as applicable, other engagement team members performing supervisory activities should inform the specialist about matters that could affect the specialist's work. This includes, as applicable, information about the company and its environment, the company's processes for developing the related accounting estimate, the company's use of specialists in developing the estimate, relevant requirements of the applicable financial reporting framework, and possible accounting and auditing issues.

.08 The engagement partner and, as applicable, other engagement team members performing supervisory activities should implement measures to determine that there is a proper coordination of the work of the specialist with the work of relevant engagement team members to achieve a proper evaluation of the evidence obtained in reaching a conclusion about the relevant assertion. This includes:

- a. If an auditor's specialist is used to develop (or assist in developing) an independent expectation of an accounting estimate, measures to comply with paragraphs .21–.26 of AS 2501, *Auditing Accounting Estimates, Including Fair Value Measurements*;
- b. If an auditor's specialist is used to test (or assist in testing) the company's process to develop an accounting estimate, measures to comply with AS 2501.09–.18; or
- c. If an auditor's specialist is used to evaluate the work of a company's specialist, measures to comply with Appendix A to AS 1105, *Audit Evidence*, and, for accounting estimates, AS 2501.19.

Evaluating the Work of the Auditor-Engaged Specialist

.09 The engagement partner and, as applicable, other engagement team members performing supervisory activities should review the report, or equivalent documentation, provided by the specialist pursuant to paragraph .06d above and evaluate whether the specialist's work provides sufficient appropriate evidence, specifically whether:

- a. The specialist's work and report, or equivalent documentation, are in accordance with the auditor's understanding with the specialist; and
- b. The specialist's findings and conclusions are consistent with results of the work performed by the specialist, other evidence obtained by the auditor, and the auditor's understanding of the company and its environment.

.10 The necessary extent of the review depends on: (1) the significance of the specialist's work to the auditor's conclusion regarding the relevant assertion, (2) the risk of material misstatement of the relevant assertion, and (3) the knowledge, skill, and ability of the specialist.

.11 If the specialist or the entity that employs the specialist has a relationship with the company that affects the specialist's objectivity, the auditor should perform additional procedures to evaluate the data, significant assumptions, and methods that the specialist is responsible for testing, evaluating, or developing, pursuant to the engagement team's understanding with the specialist (paragraph .06), or should engage another specialist. The necessary nature and extent of the additional procedures depend on the degree of objectivity of the specialist. As the degree of objectivity increases, the evidence needed from additional procedures decreases. If the specialist has a low degree of objectivity, the auditor should apply the procedures for evaluating the work of a company's specialist.³

³ See AS 1105.A6–.A10.

.12 If the specialist's findings or conclusions appear to contradict the relevant assertion or the specialist's work does not provide sufficient appropriate evidence, the engagement partner and, as applicable, other engagement team members performing supervisory activities should perform additional procedures, or request the specialist to perform additional procedures, as necessary to address the issue.

Note: Examples of situations in which additional procedures ordinarily are necessary include: (1) the specialist's work was not performed in accordance with the auditor's instructions; (2) the specialist's report, or equivalent documentation, contains restrictions, disclaimers, or limitations that affect the auditor's use of the report or work; (3) the specialist's findings and conclusions are inconsistent with (i) the results of the work performed by the specialist, (ii) other evidence obtained by the auditor, or (iii) the auditor's understanding of the company and its environment; (4) the specialist lacks a reasonable basis for data or significant assumptions the specialist used; or (5) the methods used by the specialist were not appropriate.

VII. AS 2101 is amended by adding footnote 3A to paragraph .06, such that revised AS 2101.06 reads as follows:

.06 The auditor should perform the following activities at the beginning of the audit:

- a. Perform procedures regarding the continuance of the client relationship and the specific audit engagement,³
- b. Determine compliance with ~~independence~~independence^{3A} and ethics requirements, and

Note: The determination of compliance with independence and ethics requirements is not limited to preliminary engagement activities and should be reevaluated with changes in circumstances.

- c. Establish an understanding of the terms of the audit engagement with the audit committee in accordance with AS 1301, *Communications with Audit Committees*.

³ Paragraphs .14–.16 of QC sec. 20, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*. AS 1110, *Relationship of Auditing Standards to Quality Control Standards*, explains how the quality control standards relate to the conduct of audits.

^{3A} Under PCAOB Rule 3520, *Auditor Independence*, a registered public accounting firm or associated person's independence obligation with respect to an audit client encompasses not only an obligation to satisfy the independence criteria applicable to the engagement set out in the rules and standards of the PCAOB, but also an obligation to satisfy all other independence criteria applicable to the engagement, including the independence criteria set out in the rules and regulations of the Securities and Exchange Commission under the federal securities laws.

VIII. AS 2110 is amended by adding new paragraph .28A after paragraph .28:

.28A When a company uses the work of a company's specialist, the auditor should obtain an understanding of the work and report(s), or equivalent communication, of the company's specialist(s) and the related company processes, including:

- a. The nature and purpose of the specialist's work;
- b. Whether the specialist's work is based on data produced by the company, data obtained from sources external to the company, or both; and
- c. The company's processes and controls^{16A} for using the work of specialists.

^{16A} See paragraph .34 of this standard.

IX. AS 2505 is amended by adding a note at the end of paragraph .08:

Note: The opinion of legal counsel on specific tax issues that he or she is asked to address and to which he or she has devoted substantive attention, as contemplated by this standard, is sometimes necessary evidence to support the auditor's conclusions on significant income tax accounts and disclosures. However, the audit of income tax accounts and disclosures requires a combination of tax expertise and knowledge about the client's business that is accumulated during all aspects of an audit. Therefore, it is not appropriate for the auditor to rely solely on such legal opinion with respect to those tax issues without performing his or her own

evaluation of matters related to the significant tax accounts and disclosures in the financial statements, taking into account the relevant tax and accounting requirements, his or her understanding of the company and its environment, and other relevant evidence obtained during the audit.^{5A}

Appendix A to AS 1105, *Audit Evidence*, applies when an auditor uses the work of a company's attorney as audit evidence in matters relating to legal expertise other than litigation, claims, and assessments (which are covered under this standard) and income taxes. For example, Appendix A to AS 1105 applies when a legal interpretation of a contractual provision or a legal opinion regarding isolation of transferred financial assets is necessary to determine appropriate accounting or disclosure under the applicable financial reporting framework.

^{5A} Similarly, the written advice of a company's tax advisor on material matters affecting the tax accrual is sometimes necessary evidence to support the auditor's conclusions on the significant accounts and disclosures related to income taxes. As with legal opinions on tax matters, the auditor cannot rely solely on that written advice from tax advisors without performing his or her own evaluation of matters related to the significant tax accounts and disclosures in the financial statements.

APPENDIX 2

Other Related Amendments to PCAOB Auditing Standards

- I. AS 1015 is amended by revising paragraph .06 to read as follows:

.06 AuditorsEngagement team members should be assigned to tasks and supervised commensurate with their level of knowledge, skill, and ability so that they can evaluate the audit evidence they are examining. The engagement partner should know, at a minimum, the relevant professional accounting and auditing standards and should be knowledgeable about the client. The engagement partner is responsible for the assignment of tasks to, and supervision of, the members of the engagement team.⁴

- ⁴ See AS 1201, *Supervision of the Audit Engagement*.

- II. AS 2301 is amended by adding footnote 5A to paragraph .07, such that revised AS 2301.07 reads as follows:

.07 Due professional care requires the auditor to exercise professional skepticism.⁴ Professional skepticism is an attitude that includes a questioning mind and a critical assessment of the appropriateness and sufficiency of audit evidence. The auditor's responses to the assessed risks of material misstatement, particularly fraud risks, should involve the application of professional skepticism in gathering and evaluating audit evidence.⁵ Examples of the application of professional skepticism in response to the assessed fraud risks are (a) modifying the planned audit procedures to obtain more reliable evidence regarding relevant assertions and (b) obtaining sufficient appropriate evidence to corroborate management's explanations or representations concerning important matters, such as through third-party confirmation, use of a specialist engaged or employed by the auditor,^{5A} or examination of documentation from independent sources.

- ⁴ AS 1015.07–.09.

- ⁵ AS 2401.13.

^{5A} Refer to AS 1210, *Using the Work of an Auditor-Engaged Specialist*, and Appendix C of AS 1201, which establish requirements for an auditor using the work of an auditor-engaged specialist and an auditor-employed specialist, respectively, in performing an audit of the financial statements.

III. AS 2310 is amended by revising paragraph .03 to read as follows:

.03 In addition, this section does not address matters described in AS ~~1210, Using the Work of a Specialist, or in AS~~ 2505, *Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments*.

IV. AS 2401 is amended by revising the second sentence of the second paragraph of the third bullet of paragraph .54 to read as follows:

In certain circumstances (for example, evaluating the reasonableness of management's estimate of the fair value of ~~a derivative~~ an intangible asset), it may be appropriate to ~~engage~~ use the work of an auditor-employed specialist or an auditor-engaged specialist or develop an independent estimate for comparison to management's estimate.

V. AS 2401 is amended by revising footnote 22 to paragraph .54 to read as follows:

²² Appendix C of AS 1201, Supervision of the Audit Engagement, and AS 1210, Using the Work of an Auditor-Engaged Specialist, establishes ~~establish~~ requirements for an auditor ~~who uses~~ using the work of an auditor-employed specialist and an auditor-engaged specialist, respectively, in performing an audit of financial statements.

VI. AS 2610 is amended by revising paragraph .16 to read as follows:

.16 The successor auditor should plan and perform the reaudit in accordance with the standards of the PCAOB. The successor auditor should not assume responsibility for the predecessor auditor's work or issue a report that reflects divided responsibility as described in AS 1205. Furthermore, the predecessor auditor is not ~~a specialist as defined in AS 1210, Using the Work of an Auditor's~~ an auditor's specialist, nor does the predecessor auditor's work constitute the work of others as described in AS 2605, *Consideration of the Internal Audit Function*, or paragraphs .16-~~19~~ 19 of AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*.

VII. AT 601 is amended by revising paragraph .43 to read as follows:

.43 In some compliance engagements, the nature of the specified compliance requirements may require specialized skill or knowledge in a particular field other than accounting or auditing. In such cases, the practitioner may use the work of a specialist and should follow comply with the relevant performance and reporting guidance in AS 1210, Using the Work of a Specialist requirements for using the work of specialists as set forth in PCAOB auditing standards.

VIII. AT 701 is amended by revising paragraph .47 to read as follows:

.47 In some engagements to examine MD&A, the nature of complex or subjective matters potentially material to the MD&A presentation may require specialized skill or knowledge in a particular field other than accounting or auditing. For example, the entity may include information concerning plant production capacity, which would ordinarily be determined by an engineer. In such cases, the practitioner may use the work of a specialist and should consider the relevant guidance in AS 1210, Using the Work of a Specialist. AS 1201, Supervision of the Audit Engagement, provides relevant guidance for situations in which a specialist employed by the practitioner's firm participates in the examination. comply with the requirements for using the work of specialists as set forth in PCAOB auditing standards.

IX. AI 11, *Using the Work of a Specialist: Auditing Interpretations of AS 1210*, is amended by revising the title to read: AI 11, *Using the Work of a Specialist: Auditing Interpretations*.

X. AI 11 is amended by revising paragraph .04 to read as follows:

.04 *Interpretation*—Paragraph .06 of AS 1210, Using the Work of a Specialist, states that "During the audit—, an auditor may encounter complex or subjective matters potentially material to the financial statements. Such matters may require special skill or knowledge and in the auditor's judgment require using the work of a specialist to obtain appropriate evidential matter—"

XI. AI 11 is amended by revising paragraph .11 to read as follows:

.11 The auditor also should consider the form and content of the documentation that the legal specialist provides and evaluate whether the legal specialist's findings support management's assertions with respect to the isolation criterion. AS 1210.13 states that "if 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.~~" FASB Statement No. 140's requirement regarding reasonable assurance that the transferred assets would be isolated provides the basis for what auditors should consider in evaluating the work of a legal specialist.

XII. AI 11 is amended by revising paragraph .17 to read as follows:

.17 *Interpretation*—No. ~~Footnote 5 to AS 1210.09 states:~~ "In some cases, the auditor may decide it is necessary to contact the specialist to determine that the specialist is aware that his or her work will be used for evaluating the assertions in the financial statements." Given the importance of the legal opinion to the assertion in this case, and the precision that legal specialists use in drafting such opinions, an auditor should not use as evidence a legal opinion that he or she deems otherwise adequate if the letter restricts use of the findings expressed therein to the client or to third parties other than the auditor. In that event, the auditor should request that the client obtain the legal specialist's written permission for the auditor to use the opinion for the purpose of evaluating management's assertion that a transfer of financial assets meets the isolation criterion of FASB Statement No. 140.

XIII. AI 11 is amended by deleting footnote 14 to paragraph .21.

XIV. AI 28 is amended by revising paragraph .16 to read as follows:

.16 In such circumstances, rather than inspecting and obtaining documentary evidence of the client's tax liability contingency analysis and making inquiries of the client, may the auditor consider the counsel as a specialist ~~within the meaning of AS 1210, Using the Work of a Specialist,~~ and rely solely on counsel's opinion as an appropriate procedure for obtaining evidential matter to support his or her opinion on the financial statements?

XV. AI 28 is amended by revising paragraph .18 to read as follows:

.18 ~~AS 1210.01 defines a specialist as "a person (or firm) possessing special skill or knowledge in a particular field other than accounting or auditing." It is intended to apply to situations requiring special knowledge of matters about which the auditor does not have adequate technical training and proficiency. The auditor's education, training, and experience, on the other hand, do~~The auditor's education, training, and experience enable him or her to be knowledgeable concerning income tax matters and competent to assess their presentation in the financial statements.