

Using the Work of a Company's Specialist

Insights for Auditors

Overview

New requirements for when an auditor uses the work of company specialists as audit evidence will take effect for audits of financial statements for fiscal years ending on or after December 15, 2020. The new requirements, are included in [Appendix A to AS 1105, Audit Evidence](#) and supplement existing requirements in [AS 1105](#).

This publication highlights information for auditors as they begin to plan and perform work on audits to which the new requirements apply. It also illustrates relevant considerations for the auditor when evaluating the work of a company's specialist including certain information from the adopting release. Appendix 3 of the adopting release includes a detailed discussion of the new requirements, including differences from and similarities to current requirements. The information included in this publication is not a substitute for any rule or standard; only the rules and standards provide the auditor with the definitive requirements.

Staff guidance on new requirements for supervising the work of a specialist employed by the auditor's firm or using the work of a specialist engaged by the auditor's firm is also available. See [Staff Guidance: Supervising or Using the Work of an Auditor's Specialist](#). Guidance on auditing accounting estimates and on auditing the fair value of financial instruments is also available. (See [Staff Guidance: Auditing Accounting Estimates](#) and [Staff Guidance: Auditing the Fair Value of Financial Instruments](#)).

What is a Company's Specialist?

Under PCAOB standards, a company's specialist is a person (or firm), employed or engaged by the company, possessing special skill or knowledge in a particular field other than accounting or auditing. A person (or firm) with specialized skill or knowledge in information technology or income taxes is not a specialist, as information technology and income taxes are specialized areas of accounting and auditing. Auditors often use the work of a company's specialist as audit evidence.

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Specialists include a company's attorney when the attorney is providing, for example, a legal interpretation regarding a contractual provision or a legal opinion on the isolation of transferred financial assets and the interpretation or opinion is necessary to determine the appropriate accounting or disclosure under the applicable financial reporting framework. A company's attorney is not considered a specialist under PCAOB standards, however, when providing information used by the auditor concerning litigation, claims, or assessments pursuant to [AS 2505, *Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments*](#).

The examples below are some areas where an auditor might choose to use the work of a company's specialist as audit evidence to support the auditor's opinion.

Valuation

Assets acquired and liabilities assumed in business combinations

Environmental remediation contingencies

Goodwill impairments

Insurance reserves

Intangible assets

Pension and other post-employment obligations

Impairment of real estate or other long-term assets

Financial instruments

Legal interpretations

Legal title to property

Laws, regulations, or contracts

Evaluation of physical and other characteristics

Materials stored in stockpiles

Mineral reserves and condition

Oil and gas reserves

Property, plant, and equipment useful lives and salvage values

The Auditor's Responsibilities When Using the Work of a Company's Specialist

Under Appendix A of AS 1105, the auditor is required to take the following steps when using the work of a company's specialist as audit evidence:

- Understand the work of the company's specialist;
- Assess the knowledge, skill, and ability (KSA) of the company's specialist and the specialist's relationship to the company; and
- Evaluate the work of the specialist.

The auditor's responsibilities under the requirements are the same regardless of whether the specialist is employed or engaged by the company, although the specialist's relationship to the company is one of several factors that may affect the persuasiveness of the audit evidence required under the circumstances.

Understanding the work of the company's specialist

As part of the auditor's risk assessment procedures, an auditor should obtain an understanding of the work and report(s), or equivalent communication, of the company's specialist(s) and related company processes, which encompasses:

- The nature and purpose of the specialist's work;
- The sources of the data used by the specialist; and
- The company's processes and controls for using the work of the specialist.

This understanding helps the auditor appropriately identify and assess the risks of material misstatement.

Assessing the knowledge, skill, and ability of the company's specialist and the specialist's relationship to the company

The evidence necessary to assess the level of KSA and the specialist's relationship to the company 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.

Knowledge, skill, and ability

The auditor should obtain an understanding of the professional qualifications of the company's specialist in the particular field and the specialist's employer (if other than the company), and assess the level of the specialist's KSA in the particular field. Factors relevant to the assessment of the specialist's KSA include the following:

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

Examples of potential sources of information that, if available, could be relevant to the auditor's evaluation of the specialist's KSA include:

- Information contained within the audit firm related to the professional qualifications and reputation of the specialist or the specialist's employer (if other than the company) in the relevant field, as well as the audit firm's experience with previous work of the specialist;

- Professional or industry associations and organizations, which may provide information regarding: (1) qualification requirements, technical performance standards, and continuing professional education requirements that govern their members; (2) the specialist's education and experience, certification, and license to practice; and (3) recognition of, or disciplinary actions taken against, the specialist;
- Discussions with the specialist, through the company, about matters such as the specialist's understanding of the financial reporting framework, the specialist's experience in performing similar work, and the methods and assumptions used in the specialist's work the auditor plans to evaluate;
- Information obtained as part of audit planning when obtaining an understanding of the company's processes and identifying controls for testing;
- Information included in the specialist's report about the specialist's professional qualifications (such as, a biography or resume);
- The specialist's responses to questionnaires about the specialist's professional credentials;
- Published books or papers written by the specialist; and/or
- Requirements applicable to the specialist pursuant to legislation or regulation.

Some of the sources listed above may provide more persuasive evidence than others. For example, relevant information from a source not affiliated with the company or specialist, multiple sources, or the auditor's experience with previous work of the specialist generally would provide more persuasive evidence than the specialist's uncorroborated representations about his or her professional credentials.

The reliability and thus persuasiveness of information about the specialist's credentials and experience also increases when the company has effective controls over that information, such as controls over the selection of qualified specialists.

Relationship to the company

The auditor should assess the relationship to the company of the specialist and the specialist's employer (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.

Examples of the types of circumstances that might give the company the ability to affect the specialist's judgments include, but are not limited to:

- The reporting relationship of a company-employed specialist within the company;
- Compensation of a company's specialist based, in part, on the outcome of the work performed;
- Relationships of a company-engaged specialist with entities acting as an agent of the company;
- Personal relationships, including family relationships, between the company's specialist and others within company management;

- Financial interests, including stock holdings, of company specialists in the company; and
- Ownership, business relationships, or other financial interests of a company-engaged specialist's employer with respect to the company.

The appendix includes a nonexclusive list of examples of potential sources of information that could be relevant to the auditor's assessment of the relationship to the company of both the specialist and the specialist's employer (if other than the company), such as:

- 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.

Certain sources of information listed above may provide more persuasive evidence than others. When more persuasive evidence is needed, it may be necessary to perform procedures to obtain evidence from multiple sources.

In assessing whether the company has the ability to significantly affect the specialist's judgments related to the work performed, or the conclusions or findings reached, the auditor may evaluate the company's ability along a spectrum, rather than make a binary determination. The degree to which a company could affect a specialist's judgment can vary.

The auditor's assessment that the company has the ability to affect the specialist's judgment, however, does not prevent the auditor from using the work of a company's specialist, whether employed or engaged, as audit evidence. Rather, it is a factor in determining the necessary audit effort to evaluate that specialist's work. In general, the necessary audit effort increases as the company's ability to affect the specialist's judgments increases.

Evaluating the work of the specialist

Evaluating the work of a specialist includes evaluating whether the specialist's work provides sufficient appropriate evidence to support a conclusion regarding a relevant assertion of a significant account or disclosure. The auditor is not required to reperform the specialist's work or evaluate whether the work complies with all technical aspects in the specialist's field.

In general, the work of a company's specialist involves using data, assumptions, and methods. The auditor's specific responsibilities with respect to the data and significant assumptions, and methods used by the specialist depend on whether the data and assumptions are produced or developed by the company, sources external to the company, or the specialist. The auditor's

specific responsibilities with respect to the methods used by the specialist depend on whether the methods are appropriate under the circumstances, taking into account the requirements of the applicable financial reporting framework.

Testing and evaluating data

The auditor should test the accuracy and completeness of company-produced data used by the specialist, as well as evaluate whether the data is sufficiently precise and detailed for purposes of the audit.

If data from sources external to the company—including data produced or developed by the specialist—are used by the specialist, the auditor should evaluate the relevance and reliability of that data.

Evaluating significant assumptions

Evaluating the reasonableness of significant assumptions developed by the specialist involves comparing the assumptions to relevant information. Appendix A includes examples of information that, if relevant, the auditor should take into account when evaluating a specialist-developed assumption:

- Assumptions generally accepted within the specialist's field;
- Supporting information provided by the specialist;
- Industry, regulatory, and other external factors, including economic conditions;
- The company's objectives, strategies, and related business risks;
- Existing market information;
- Historical or recent experience, along with changes in conditions and events affecting the company; and
- Significant assumptions used in other estimates tested in the company's financial statements.

These examples reflect information that generally would be available to the auditor (for example, through other procedures performed on the audit or the auditor's knowledge of the company and its industry).

The auditor's responsibilities for evaluating company-provided assumptions used by specialists are the same as for assumptions used by the company in other accounting estimates, which are addressed in [AS 2501, Auditing Accounting Estimates, Including Fair Value Measurements](#).

Evaluating the specialist's methods

The auditor should evaluate whether the methods used by the specialist are appropriate under the circumstances, taking into account the requirements of the applicable financial reporting framework. If the applicable financial reporting framework allows more than one method, or if the appropriate method under the framework depends on the circumstances, evaluating conformity with the framework involves consideration of other relevant factors, such as the nature of the estimate and the auditor's understanding of the company and its environment.

The auditor's evaluation of the specialist's methods includes evaluating whether the data and significant assumptions are appropriately applied under the applicable financial reporting framework. Evaluating the application of

the data includes, for example, whether the data is selected and adjusted in conformity with the requirements of the applicable financial reporting framework. Similarly, evaluating the application of significant assumptions includes evaluating whether the assumptions were selected in conformity with the requirements of the applicable financial reporting framework.

Evaluating the specialist's work to obtain the necessary audit evidence

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

- The risk of material misstatement;
- The significance of the specialist's work to the auditor's conclusion;
- The specialist's level of KSA; and
- The ability of the company to significantly affect the specialist's judgments.

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.

The first two factors, in combination, relate to the persuasiveness of the evidence needed from the work of the company's specialist:

- **Risk of Material Misstatement.** As the risk of material misstatement for an assertion increases, more persuasive evidence is needed to support a conclusion about that assertion. Testing the design and operating effectiveness of selected controls for the relevant assertion is required if the risk of material misstatement is based on reliance on those controls, or when substantive procedures alone cannot provide sufficient appropriate audit evidence.
- **Significance of the Specialist's Work.** The significance of the specialist's work refers to the degree to which the auditor would use the work of the company's specialist to support the auditor's conclusions about the assertion. Generally, the greater the significance of the specialist's work to the auditor's conclusion regarding the relevant assertion, the more persuasive the evidence from the specialist's work needs to be.

The other two factors—the specialist's level of KSA and the ability of the company to significantly effect the specialist's judgments—relate to the degree of reliability of the specialist's work as audit evidence.

If the auditor has doubt about the specialist's KSA or about the company's effect on the specialist's judgments, the auditor will either perform additional procedures to evaluate the specialist's work or choose not to use the work of the specialist. The auditor is not precluded from pursuing alternatives other than using the specialist's work. Such alternatives might include developing an independent expectation of the related accounting estimate or seeking to use the work of another specialist.

Examples

The following examples illustrate various ways in which the four factors discussed above can affect the evidence necessary from the auditor's evaluation of the specialist's work to support a conclusion regarding a relevant assertion. The examples assume that the auditor will evaluate, as appropriate, the data, significant assumptions, and methods used by the specialist, and evaluate the relevance and reliability of the work of the company's specialist and its relationship to the relevant assertion. The examples are not intended to prescribe the specific procedures to be performed in evaluating the work of a company's specialist in any particular situation, which depend on the circumstances and should be determined in accordance with the new requirements.

Oil and gas production company example

An oil and gas production company employs an experienced petroleum reserve engineer to assist in developing the estimated proved oil and gas reserves that are used in multiple financial statement areas, including the company's impairment analysis; depreciation, depletion and amortization calculations; and related financial statement disclosures, such as reserve disclosures.

A substantial portion of the engineer's compensation is based on company earnings, and the engineer has a reporting line to the company's chief financial officer.

The auditor concludes that the risk of material misstatement of the valuation of oil and gas properties is high, and the reserve engineer's work is significant to the auditor's conclusion regarding the assertion. Thus, the auditor would need to obtain more persuasive audit evidence commensurate with the high risk of material misstatement, devoting more audit attention to the data, significant assumptions, and methods that are more important to the specialist's findings and more susceptible to error or significant management influence.

On the other hand, relatively less audit evidence might be needed for the work of an individual reserve engineer if the company has several properties of similar risk, and the reserve studies are performed by different qualified reserve engineers who are either (1) engaged by the company, having no significant ties that give the company significant influence over the specialists' judgments or (2) employed specialists for which the company has implemented compensation policies, reporting lines, and other measures to prevent company management from having significant influence over the specialists' judgments.

Financial services company example

A financial services company specializes in residential mortgage and commercial mortgage loans, which are either sold or held in its portfolio. During the financial statement audit, the auditor inspects appraisals prepared by the company's specialists for the real estate collateralizing loans for a variety of reasons, including in conjunction with testing the valuation of loans and the related allowance for loan losses.

Under these circumstances, the persuasiveness of the evidence needed from (and the necessary degree of audit attention devoted to evaluating the methods, significant assumptions, and data used in) an individual appraisal would depend on, among other things, the importance of the individual appraisal to the auditor's conclusion about the related financial statement assertion. In general, more audit attention would be needed for appraisals used in testing the valuation of individually large loans that are valued principally based on their collateral than for appraisals inspected in loan file reviews for a portfolio of smaller loans with a low risk of default and a low loan-to-value ratio.

Manufacturing company example

A manufacturing company engages an actuary to calculate the projected pension benefit obligation ("PBO") for its pension plan, which is used to determine the related accounts and disclosures in the financial statements.

The auditor has assessed the risk of material misstatement for the valuation of the PBO as high and concluded that the actuary's work is significant to the auditor's conclusion. The actuary has extensive experience and is employed by a highly regarded actuarial firm with many clients. The actuary and actuarial firm have no relationships with the company other than performing the actuarial pension plan calculations for the company's financial statements.

Under these circumstances, the necessary level of audit attention is less than it otherwise would be for a situation where a specialist has a lower level of KSA, or the company has the ability to significantly affect the specialist's judgments about the work performed, conclusions, or findings. When more audit attention is needed, the auditor would focus on those aspects of the specialist's work that could be affected by the issues related to the specialist's KSA or by the company's ability to significantly affect the specialist's judgments.

Evaluating the specialist's findings

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:

- The results of the auditor's procedures over data, significant assumptions, and methods;
- The nature of any restrictions, disclaimers, or limitations in the specialist's report or equivalent communication; and
- 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.

The auditor should perform additional procedures, as necessary, 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

appendix includes examples of situations in which additional procedures ordinarily are necessary:

- The specialist's findings and conclusions are inconsistent with (1) other information, if any, in the specialist's report, or equivalent communication, (2) other evidence obtained by the auditor, or (3) the auditor's understanding of the company and its environment;
- The specialist's report, or equivalent communication, contains restrictions, disclaimers, or limitations regarding the auditor's use of the report or communication;
- Exceptions were identified in performing the procedures related to data, significant assumptions, or methods;
- The auditor has doubt about the specialist's KSA, or about the company's effect on the specialist's judgments; or
- The specialist has a conflict of interest relevant to the specialist's work.

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