



Tel: 312-856-9100  
Fax: 312-856-1379  
www.bdo.com

330 North Wabash, Suite 3200  
Chicago, IL 60611

August 30, 2017

Via E-mail: comments@pcaobus.org

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

Re: PCAOB Rulemaking Docket Matter No. 044: *Proposed Amendments to Auditing Standards for 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) *Proposed Amendments to Auditing Standards for Auditor's Use of the Work of Specialists* (the Proposal). Consistent with the views expressed in our letter dated July 31, 2015 on the PCAOB Staff Consultation Paper, *The Auditor's Use of the Work of Specialists*, we are supportive of strengthening the requirements for evaluating the work of a company's employed or engaged specialist, including the application of a risk based supervisory approach to the use of specialists. As the use of the work of specialists has grown, in large part due to the increase in the use of fair value measurements in financial reporting frameworks, the importance of assessing the work of specialists has become an essential component in many audits.

Our comments focus on the following more significant topics within the Proposal as follows:

1. Amendments to AS 1105, *Audit Evidence*
2. Supervision of the Work of Auditor-Employed Specialists - Amendments to AS 1201, *Supervision of the Audit Engagement*
3. Using the Work of an Auditor-Engaged Specialist - Replacement of Extant AS 1210, *Using the Work of a Specialist*
4. Other Matters

#### 1. Amendments to AS 1105, *Audit Evidence*

We note that the proposed amendment to AS 1105, *Audit Evidence* (AS 1105), would supplement the requirements in AS 1105 to address circumstances where the auditor uses the work of the company's specialist as audit evidence. We support the inclusion of a separate section within AS 1105 to address the audit considerations in such circumstances; however, we have provided suggestions below that we believe will enhance auditor performance and improve audit quality.



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

Paragraph .B4 of the Proposed Appendix to AS 1105 states:

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 judgment about the work performed, conclusions, or findings (e.g., through employment, financial, ownership, or other business relationships, contractual rights, family relationships, or otherwise).

We note that the proposed paragraph uses the phrase 'relationship to the company' rather than the term 'objectivity' in describing the auditor's responsibility to assess whether the company has the ability to significantly affect the specialist's judgment. We are concerned that the phrase 'relationship to the company' may be narrowly focused on the relationship between the specialist and the company and not focused more broadly on the 'possible effects that bias, conflict of interest or the influence of others, including the company, may have on the professional or business judgment of management's expert.'<sup>1</sup> For this reason we suggest replacing the phrase 'relationship to the company' with the term 'objectivity.'

Furthermore, we believe that the following factors may be helpful to auditors in assessing the objectivity of the specialist and therefore suggest including these within the Proposal:

- The nature, scope, and objectives of the work of the company's specialist
- The extent to which management can exercise control or influence the work of the company's specialist
- Whether the company's specialist is subject to professional ethical or independence standards
- Threats to the specialist's objectivity from both within and outside the company

***The Work of the Company's Specialist***

**Management Use of an External Specialist**

Paragraph .B1 of proposed Appendix B to AS 1105 explains that this appendix applies with respect to both the work of an employed or engaged specialist. However, we are concerned that this approach may result in duplication of work by the auditor's specialist in circumstances where the company engages their own external specialist with appropriate knowledge, skills, and objectivity, without a corresponding increase in audit quality. In such a situation, the company would incur not only the costs of engaging a specialist to develop the accounting estimate but the auditor's costs to engage or employ a separate specialist to develop an independent estimate as well. Accordingly, we suggest that the nature and extent of

---

<sup>1</sup> ISA 500, *Audit Evidence*, paragraph A37.



procedures to obtain sufficient appropriate evidence when the company engages its own external specialists should differ from when an external specialist is not employed by the company.

#### Use of Restrictions, Disclaimers, and Limitations

The use of restrictions, disclaimers, and limitations in specialist's reports results in challenges for the auditor in considering the results of the work of the specialist as part of audit evidence. Accordingly, we support the addition of guidance in paragraph .B9 of the proposed Appendix B to AS 1105 that explains the factors that affect the relevance and reliability of the company's specialist's work, which include the nature of restrictions, disclaimers, or limitations in the specialist's report since it is not infrequent that these reports include such language. Moreover, in practice, the use of restrictions, disclaimers, and limitations is not solely an issue relating to the work of company specialists and, therefore, we suggest including similar guidance relating to the auditor's engaged specialist's report.

#### **2. Supervision of the Work of Auditor-Employed Specialists - Amendments to AS 1201, *Supervision of the Audit Engagement***

We support the addition of an appendix to AS 1201, *Supervision of the Audit Engagement* (AS 1201), to specifically address the application of a risk based supervisory approach in the circumstance when an auditor employs a specialist. Moreover, we agree that the extent of supervision should be based on the significance of the specialist's work to the auditor's conclusion on the relevant assertion, the risk of material misstatement, and the knowledge, skill, and ability of the specialist.

#### ***A Firm's System of Quality Control***

QC Section 20, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice* (QC 20), provides guidance regarding quality control procedures to ensure that a firm's services are competently delivered and adequately supervised. This includes personnel management policies which encompasses hiring, assigning personnel, professional development, and advancement activities, among other matters. While paragraph .C3 of Proposed Appendix C to AS 1201 states that 'The requirements in PCAOB auditing standards for assigning personnel based on their knowledge, skill, and ability are applicable to assigning auditor-employed specialists, we believe QC 20 more fully encompasses the considerations relating to the appropriate assignment of personnel and therefore suggest reference to QC 20 within AS 1201.

Furthermore, with respect to the requirement in paragraph .C4 relating to PCAOB independence and ethics requirements, similar to our comment above, we believe reference to QC 20 more fully describes the independence, integrity, and objectivity requirements. For example, paragraph .09 of QC 20 explains that policies and procedures should be established to provide the firm with reasonable assurance that personnel maintain independence (in fact and in appearance) in all required circumstances, perform all professional responsibilities with integrity, and maintain objectivity in discharging professional responsibilities.



### 3. Using the Work of an Auditor-Engaged Specialist - Replacement of Extant AS 1210, *Using the Work of a Specialist*

Paragraph .05 of proposed AS 1210 states 'The engagement partner and, as applicable, other engagement team members performing supervisory activities should not use a specialist who does not have a sufficient level of knowledge, skill, and ability or lacks the necessary objectivity.' While we agree with this statement, we believe additional explanation is needed to promote consistent application across firms and engagement teams. For example, as described previously on page 2, we believe inclusion of the following factors would be helpful in assessing objectivity.

- The nature, scope and objectives of the work of the specialist
- The extent to which management can exercise control or influence the work of the specialist
- Whether the specialist is subject to professional ethical or independence standards
- Threats to the specialist's objectivity from both within and outside the company

Moreover, the degree of objectivity should not be characterized as an 'on - off' switch; either the specialist is objective or not. Rather, we believe auditors should consider objectivity as a continuum such that the less objective the auditor's engaged specialist, the greater the safeguards needed to address any threats. Additionally, we suggest that the auditor would perform further procedures in focused areas of higher assessed risk. However, if the auditor determined that the objectivity of the auditor's engaged specialist is impaired, the auditor would not use the work of that auditor's engaged specialist.

### 4. Other Matters

#### *Applicability*

We support application of the proposed amendments to emerging growth companies (EGCs) and brokers and dealers that are required to be conducted in accordance with PCAOB standards, since we believe the proposed guidance would benefit users of financial information of these entities.

#### *Effective Date*

To ensure audit firms have the necessary time to update firm methodologies, develop and implement training, and ensure effective quality control process to support implementation, similar to our suggestion within our comment letter relating to Rulemaking Docket Matter No. 043, we suggest providing for an effective date for audits of fiscal years beginning two years after the Securities and Exchange Commission approves the final standard.

\* \* \* \*



Office of the Secretary  
Public Company Accounting Oversight Board  
Page 5 of 5

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 Christopher Tower, National Managing Partner - Audit Quality and Professional Practice at 714-668-7320 ([ctower@bdo.com](mailto:ctower@bdo.com)), Phillip Austin, National Managing Partner - Auditing at 317-730-1273 ([paustin@bdo.com](mailto:paustin@bdo.com)), or Patricia Bottomly, Partner - National Assurance at 310-557-8538 ([pbottomly@bdo.com](mailto:pbottomly@bdo.com)).

Very truly yours,

/s/ BDO USA, LLP

BDO USA, LLP