

Office of the Secretary
PCAOB

Sent by email:
comments@pcaobus.org

Brussels, 23 August 2017

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

Dear Sir or Madam,

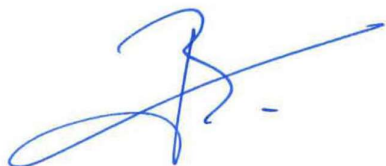
- (1) Accountancy Europe (previously known as FEE, the Federation of European Accountants) welcomes the opportunity to comment on the PCAOB Proposed Amendments to Auditing Standards for Auditor's Use of the Work of Specialists. Our main comments are summarised hereafter.

GENERAL COMMENTS

- (2) Given the increasing complexity of business processes and transactions, and the heightened risk of material misstatements in financial statements, the use of specialists has become imperative both for auditors and their respective clients. We welcome the PCAOB's initiative to address the need for improvements in this area and have provided answers to the questions included in the proposal in an Appendix to this letter.
- (3) We think it is instrumental that the revised PCAOB standard remains on the same line as the IAASB standard ISA 620, Using the Work of an Auditor's Experts. In general, we need to find the right balance between applying principles and requiring auditors to undertake certain detailed procedures. The priority should be that both standards remain consistent with each other. We advocate for the alignment of auditing standards globally to the maximum extent possible, which enhances both the quality of audits and the acceptance of audit work globally.
- (4) We agree with the PCAOB that a risk-based approach is essential in dealing with the work of specialists – either engaged/employed by the auditor or the audited entity. We favour a scaled approach in line with ISA 620, Using the Work of an Auditor's Expert, whereby evidence provided by a specialist employed/engaged by the client ('management's specialist') is treated differently than the one obtained by an independent expert or an expert engaged or otherwise employed by the audit firm ('auditor's specialist'). This is based on the fact that a specialist who is engaged or otherwise employed by the client is working on behalf of the client.

- (5) Our detailed responses to the questions included in the PCAOB proposal are set out below. For further information, please contact my colleagues Hilde Blomme at hilde@accountancyeurope.eu or Noémi Robert at noemi@accountancyeurope.eu.

Sincerely,



Olivier Boutellis-Taft
Chief Executive

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 50 professional organisations from 37 countries that represent close to **1 million** professional accountants, auditors, and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18)

APPENDIX: RESPONSES TO QUESTIONS

Questions 1-3: Current Practice

- (6) The information included in the proposal satisfactorily reflects the current practice in audit firms. We agree with the PCAOB that in the areas covered by the PCAOB standards relating to Auditing Accounting Estimates, Auditing Fair Value Measurements and Disclosures, and Auditing Derivative Instruments, Hedging Activities, and Investments in Securities, the use of specialist knowledge or skill in relevant areas has increased in recent years.
- (7) In line with ISA 620, Using the Work of an Auditor's Expert, we support an approach whereby evidence provided by a specialist employed/engaged by the client ('management's specialist') is treated differently than the one obtained by an independent expert or an expert engaged or otherwise employed by the audit firm ('auditor's specialist'). This is based on the fact that a specialist who is engaged or otherwise employed by the client is working on behalf of the client.

Question 4-11: Economic Considerations

- (8) Nothing to report

Question 12: Special Considerations for Audits of Emerging Growth Companies

- (9) Nothing to report

Question 13: Applicability of the Proposed Requirements to Audits of Brokers and Dealers

- (10) Nothing to report

Questions 14-15: Effective Date

- (11) Nothing to report

Questions 16-17: Scope of this Proposal

- (12) We support the PCAOB view that the Board should be proactive in addressing auditors' dealings with specialists by means of its standard setting activities as an alternative to devoting additional resources to inspections and enforcement of existing standards. In terms of investor protection, action to prevent weaknesses occurring in the conduct of the audit is far more appropriate than the retrospective identification of weaknesses that have already occurred. However, this does not imply that every issue is susceptible to resolution through auditing standards.
- (13) With regards to auditor's specialists, we support an approach that would be similar to the approach used by the IAASB in ISA 620. We see the benefit of a scalable approach, taking into account practical differences between an engaged specialist and an employed specialist. In our view, a principle-based approach recognising practical differences, but setting a common objective, is appropriate.

Questions 18-24: Proposed Amendments Related to Using the Work of a Company's Specialist

- (14) With regards to company's specialists, we agree with the Board approach in rescinding the parts of AU sec 336 that relate to company specialists, and then mirror the approach taken in ISA 500, Audit Evidence. We think that the auditor's risk assessment in assessing the objectivity and competence of a company's specialist should determine the need for, and nature of, further audit procedures. Even if it is standard practice for auditors to perform specific procedures to evaluate the work of specialists, requirements need to be drafted in a way that allows flexibility to accommodate individual audit circumstances.

Questions 25-31: Proposed Amendments Related to Supervising or Using the Work of an Auditor's Specialist

- (15) We agree that any revisions to the PCAOB standards should continue to require the auditor to evaluate the knowledge, skill and objectivity of an auditor's specialist; inform the specialist of his or her responsibilities; and evaluate the specialists work and conclusions. As per ISA 620, the auditor needs to assess the extent of the procedures against a number of factors using professional judgment. We favour this approach.

Questions 32-39: Proposed Amendments to AS 1210 for Using the Work of an Auditor Engaged Specialist

- (16) Further consideration is needed from the PCAOB with regards to the differences between employed and engaged specialists so as not to disadvantage audit firms which do not employ specialists, which are likely to be smaller audit firms in particular.
- (17) The Board should adopt a principles-based "enhanced objectivity approach". We note that the potential requirements set forth in the proposal are far more prescriptive than the requirements of ISA 620, and in many cases, mirror the application material in that standard. It should be noted that in some jurisdictions and/or fields of expertise, there may be a limited number of specialists; the balance between professionalism and inconsequential threats to objectivity should therefore be better balanced.
- (18) When dealing with the degree and level of evaluation of the specialist's work required by the auditor, costs need to be considered for a proportionate and realistic approach. The degree and level of evaluation of the specialists' work required by the auditor should not be prescribed to the extent that the increased costs outweigh the incremental increase in audit quality.
- (19) There also needs to be due consideration of the impact to smaller audit firms, as the currently stated practice as described in the proposal holds true predominantly for larger network firms. In some jurisdictions and in specific areas, there may be a limited number of suitable specialists for auditors to employ or engage.

Questions 40-43: Other Considerations

- (20) Nothing to report