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PCAOB Release No. 2017-003
Proposed Amendments to Auditing Standards
For Auditor's Use of the Work of Specialists

The California Society of CPA's ("CalCPA") Accounting Principles and Assurance Services Committee (the "Committee") is the senior technical committee of CalCPA. CalCPA has approximately 43,500 members. The Committee consists of 55 members, of whom 45 percent are from local or regional firms, 32 percent are from large multi-office CPA firms, 12 percent are sole practitioners in public practice, 6 percent are in academia and 5 percent are in international firms. Members of the Committee are with CPA firms serving a large number of public and nonpublic business entities, as well as many non-business entities such as not-for-profits, pension plans and governmental organizations.

The Committee has provided responses to the specific questions set forth in the Release below.

Question:

1. Does the description of existing audit practice accurately depict the state of practice? Does the discussion of the reasons to improve auditing standards sufficiently describe the nature of concerns arising from the use of the work of specialists that the Board should address? Are there additional concerns that the Board should seek to address?

The Committee believes the information accurately reflects the state of current practice for both large and smaller CPA firms and represents a reasonable starting point for an evaluation of the relevant PCAOB auditing standards. The Committee also notes the Board has developed a more measured response in response to the issues previously identified in PCAOB Staff Consultation Paper No. 2015-01 ("2015-01"). The Committee was critical of the PCAOB staff's initial response to the issues, as communicated in our comment letter on 2015-01 submitted in July 2015.

2. Do these proposed amendments to existing standards appropriately address the reasons to improve standards discussed above? Are the reasons for having separate standards for using the work of a company's specialist, an auditor-employed specialist, and an auditor-engaged specialist clear?

The Committee believes the Board has appropriately addressed the reasons to improve the current standards and agrees that separating the standards by company specialist, auditor-employed specialist and auditor-engaged specialist will hopefully facilitate better application in practice, especially with smaller CPA firms.

3. Are there any other areas of improvement in existing standards relating to audits that involve specialists that the Board should address? Are there related areas of practice for which additional or more specific requirements may be needed?

The Committee is not aware of other areas of practice involving the use of specialists that ought to be addressed by the Board at this time.

4. The Board requests comment generally on the baseline for evaluating the potential economic impacts of the proposal. Are there additional academic studies or data the Board should consider? The Board is particularly interested in studies or data that could be used to assess potential benefits and costs.

The Committee, which is composed of members from a wide range of CPA firms of all sizes, believes the Board's current proposal can be effectively implemented through enhanced training and development of internal guidance at minimal cost to the CPA firm and its clients. The Committee is not aware of any external studies regarding the economic impacts of the proposal.

5. The Board requests comment generally on the analysis of the need for the proposal. Are there additional academic studies or data the Board should consider? The Board is interested in any alternative economic approaches to analyzing the issues presented in this release, including references to relevant data, studies, or academic literature.

See our response to Question 4.

6. The Board requests comment generally on the potential benefits to investors, auditors, and other capital market participants. Are there additional benefits the Board should consider?

None that are not already reflected as the basis for the Board's proposal.

7. The Board requests comment generally on the potential costs to auditors and the companies they audit. Are there additional costs the Board should consider?

See our response to Question 4.

8. The Board requests comment generally on the potential unintended consequences of the proposal. Are the responses to the potential unintended consequences discussed in the release appropriate? Are there additional potential unintended consequences that the Board should consider? If so, what responses should be considered?

The Committee believes the Board's proposed responses to the issues raised in the proposal are well founded and should not have any significant unintended consequences. While it is likely smaller CPA firms might not have the economic resources to have employed specialists in several specialized fields, the availability of engaged specialists should minimize the overall economic costs to the firm's clients requiring such services.

9. The Board also requests comment on the potential unintended consequences of the proposal on competition in the market for audit services. How and to what extent could competition be affected by the proposal? Would audit fees be meaningfully affected by the proposal? Would the availability of qualified auditors in the market be meaningfully affected by the proposal?

As we have stated in our responses to several of the previous questions, the Committee believes the Board's proposal can be effectively implemented with minimal cost to the CPA firms and their clients, and the Committee is not aware of any unintended consequences arising from the new standard's implementation.

10. The Board requests comment generally on the alternative approaches described in this release that the Board considered, but is not proposing. Are any of these approaches, or any other approaches, preferable to the approaches the Board is proposing? What reasons support those approaches over the approaches the Board is proposing?

The Committee believes the Board's current approach to the use of specialists is the most effective and preferable means to achieve the intended objectives. The auditor's ability to assess the objectivity of the auditor-engaged specialist is an important element under the proposed standard.

11. Are there additional economic considerations associated with this proposal that the Board should consider? If so, what are those considerations?

None that the Committee is aware of.

12. The Board requests comment generally on the analysis of the impacts of the proposal on EGCs. Are there reasons why the proposal should not apply to audits of EGCs? If so, what changes should be made so that the proposal would be appropriate for audits of EGCs? What impact would the proposal likely have on EGCs, and how would this affect efficiency, competition, and capital formation?

The Committee is not aware of any reason to support the differential application of the proposed auditing standard, or any PCAOB audit standard, to the audit of an EGC. Consistency in the

application of PCAOB audit standards to similar situations encountered in any audit should be at the forefront of any of the Board's standard setting efforts. The Committee also sees no need for a different effective date for an audit of an EGC.

13. Are there any factors specifically related to audits of brokers and dealers that may affect the application of the proposal to those audits?

None that the Committee is aware of.

14. How much time following SEC approval would audit firms need to implement the proposed requirements?

Assuming the Board were able to finalize the proposal and obtain SEC approval by the 4th quarter of 2017, application for audits of entities with fiscal years ending on or after December 15, 2018 would allow sufficient time for implementation. The Committee does not see the need for a two-year deferral as suggested in the proposal.

15. Would requiring compliance for fiscal years beginning after the year of SEC approval provide challenges for auditors? If so, what are those challenges, and how should they be addressed?

No. See the Committee's response to Question 14.

16. Is it appropriate to retain the existing meaning of the term "specialist" in current auditing standards? Do auditors understand the existing meaning of the term and when a person (or firm) is a specialist? If not, what changes are necessary?

The Committee believes the general term "specialist" is understood as currently set forth in the PCAOB auditing standards, and as set forth in paragraph B1(note 1) of proposed Appendix B of AS 1105, *Audit Evidence*. However, the proposal's emphasis on the three specialist categories, and how the proposed standard would be applied to each category, is a welcome addition as clarity of the auditor's responsibilities in each situation is needed.

17. Are the other terms used in the proposal—"company's specialist," "auditor- employed specialist," and "auditor-engaged specialist"—clear and appropriate for purposes of the Board's proposal? Do these terms align with the role of each of these specialists in the audit?

The Committee believes the three categories are clearly defined in the proposal and are aligned with the role of each in the audit.

18. Does the proposed approach pose any particular challenges to auditors, such as for particular industries? If so, what are those challenges, and how could the proposed approach be modified to better take them into consideration?

The Committee is not aware of any challenges associated with a specific industry that would require additional guidance in the proposed standard.

19. Are the proposed requirements scalable as described? If the requirements are not scalable, what changes to the proposals would make them adequately scalable?

The Committee believes the proposed requirements are scalable based on the auditor's assessment of the risks associated with the use of the specialist's work and do not present any specific challenge to its adoption.

20. How would the proposed requirements for using the work of a company's specialist as audit evidence impact current practice? Describe any changes to current practice you foresee based on the proposed requirements.

The procedures set forth in proposed Appendix B of AS 1105, *Audit Evidence*, will require more time to complete by smaller CPA firms, and will likely require the use of specific audit program or template to insure the required elements have been met. However, the members of the Committee from larger firms believe the enhancements can be implemented in a cost effective manner.

21. Are the proposed requirements related to obtaining an understanding of the work and report(s) of the company's specialist(s) and related company processes and controls, in conjunction with obtaining an understanding of the company's information system relevant to financial reporting, clear and appropriate? Do such requirements belong in proposed Appendix B? If not, where should such requirements be included?

The Committee supports the inclusion of procedures to evaluate the company's underlying internal control processes for using the work of company specialists as integral to the auditor's overall understanding of the information system relevant to financial reporting.

22. Are the proposed requirements for obtaining an understanding of and assessing the company specialist's knowledge, skill, and ability, and relationship to the company, clear and appropriate? Do these proposed requirements represent a change from current practice? If yes, how so?

The Committee believes the proposed requirements for obtaining an understanding of and assessing the company specialist's knowledge, skill, and ability, and relationship to the company are clear and very appropriate. The Committee believes that the clarification of the auditor's responsibilities may require more effort by smaller CPA firms that infrequently encounter the use of a company specialist than CPA firms with more experience in the use of company specialists.

23. The release provides examples of varying the nature, timing, and extent of audit procedures based on the factors described in the proposed requirements. Are the examples provided in the release clear and helpful? Are there additional examples from practice that the Board should consider?

The examples of situations requiring tailoring the nature, timing and extent of procedures applied to the work of a specialist in response to the auditor's risk assessments are useful. The Committee believes the proposed guidance is sufficient without the need for additional examples.

24. Are the proposed requirements to evaluate the relevance and reliability of the company specialist's work clear and appropriate? Do the proposed requirements complement the requirements to evaluate the relevance and reliability of other audit evidence?

The Committee believes the proposed requirements to evaluate the relevance and reliability of the company specialist's work are clear and appropriate.

25. Does the proposed approach pose any particular challenges to auditors? If so, what are those challenges and how could the proposed approach be modified to better take them into consideration?

The Committee does not see the proposed approach to evaluating the work of the company's specialist to be unusually challenging.

26. Are the proposed factors to consider when determining the necessary extent of supervision clear? Are there other factors that the auditor should be required to consider when making this determination? If so, what are those factors and how should they be considered?

The proposed clarified requirements for determining the extent of supervision of the auditor's employed specialist in an appendix to AS 1201 *Supervision of the Audit Engagement*, and the proposed replacement of AS 1210 *Using the Work of a Specialist* with a proposed AS 1210, *Using the Work of an Auditor-Engaged Specialist* suitably highlights the differences in approach required in each situation.

27. Is the extent of supervision in the proposed approach appropriately scalable to the size and complexity of the audit? If not, how can this be made more scalable?

The Committees considers the proposed requirements scalable based on the auditor's risk assessments and the significance of the work of the specialist to the financial reporting process.

28. Are the proposed requirements for establishing and documenting the understanding with the specialist sufficiently clear and appropriate? Would they foster effective two-way communication between the auditor and the specialist? If not, how could they be changed?

The Committee believes the proposed requirements for establishing and documenting the understanding with the specialist are sufficiently clear and appropriate, and should assist in fostering effective two-way communication.

29. To what extent would the proposed requirement for establishing and documenting the understanding with the specialist represent a change in current practice? If so, what is that change?

The Committee believes that smaller CPA firms would experience the greatest challenges to compliance with the proposed requirements but these challenges can be overcome through the use of practice aids that will be developed by various third party vendors.

30. Are the proposed requirements for evaluating the work, including any report, of the auditor-employed specialist appropriate and clear? Is the link between the establishment and documentation of the understanding with the specialist and evaluating the specialist's work or report clear?

The Committee believes the proposed guidance is sufficiently clear to facilitate a clear link between the understanding and the evaluation of the specialist's work product.

31. What, if any, additional guidance is needed for auditors to effectively implement and apply the proposed requirements for using the work of auditor-employed specialists in audits? Should this guidance, if any, be part of the Board's rules or issued separately in the form of staff guidance? Describe specifically what areas need guidance.

The Committee believes the proposed guidance is sufficiently comprehensive to facilitate the intended objectives of the Board. Further refinements that might arise in the initial implementation of the new standard can be evaluated through the PCAOB's inspection program.

32. Does the proposed approach pose any particular challenges to auditors? If so, what are those challenges and how could the proposed approach be modified to better take them into consideration?

At this point, the Committee believes the Board's proposed approach is sufficiently detailed to facilitate implementation by both large and smaller CPA firms without causing undue challenges.

33. Does the proposed approach appropriately reflect the relationship between the auditor and an auditor-engaged specialist as compared to the auditor and an auditor-employed specialist? If not, how should the requirements be tailored to reflect that relationship? Are there any additional requirements needed when an auditor engages a specialist that are not contemplated in the proposed approach? Describe specifically any such requirements.

The Board has taken pains to differentiate the approach to be taken in evaluating the independence/objectiveness of the auditor-employed and auditor-engaged specialist, which is an important outcome of the revision to AS 1210. The Committee does not see the need to establish any additional requirements at this time.

34. Is it clear how the proposed requirement for assessing the knowledge, skill, ability, and objectivity of an auditor-engaged specialist differs from the requirements for assessing the knowledge, skill, and ability of the company's specialist and the relationship of the company's specialist to the company? If not, how can the proposed requirements be changed to improve their clarity?

The Committee believes the greatest challenge in using the work of the company's employed or retained specialist is establishing the true objectivity of a company's employed specialist. In that regard, the Committee believes there was some validity in the expressed view that the work product of a client's employed or retained specialist be looked upon no differently as any other piece of client supplied information. To some extent, that view impacts current practice today. The Board's proposed guidance for assessing the objectivity of an auditor-engaged specialist is sufficiently clear.

35. Does the proposed requirement to assess the objectivity of the auditor- engaged specialist present any challenges to the auditor? If so, what are those challenges and how could they be addressed?

The Committee believes the process of assessing the objectivity of the auditor-engaged specialist was reasonably developed in current practice. Therefore, the current proposal should not create any special challenges.

36. Are the proposed requirements for establishing and documenting the understanding with the auditor-engaged specialist sufficiently clear and appropriate? Would they foster effective two-way communication between the auditor and the auditor-engaged specialist? If not, how could they be changed?

The Committee believes the proposed requirements are sufficiently clear and appropriate.

37. To what extent does the proposed requirement for establishing and documenting the understanding with the auditor-engaged specialist represent a change in current practice? What is that change, if any?

As stated in the Committee's response to Questions 35 and 36 above, we do not see any specific challenges developing regarding the implementation of the proposed standard for establishing an understanding with an auditor-retained specialist. The principal change would be in more clearly documenting the objectivity of the auditor-retained specialist and the communications regarding the scope of services for the intended work product.

38. Are the proposed requirements for evaluating the work, including any report, of the auditor-engaged specialist appropriate and clear? Is the link between the establishment and documentation of the understanding with the specialist and evaluating the specialist's work or report clear?

The Committee believes the proposed standards for evaluating the work of the auditor-engaged specialist are sufficiently clear and suitably linked.

39. What, if any, additional guidance is needed for auditors to effectively implement and apply the proposed requirements for using the work of auditor-engaged specialists in audits? Should this guidance, if any, be part of the Board's rules or issued separately in the form of staff guidance? Describe specifically what areas need guidance.

At this point, the Committee believes the proposed standard is sufficiently comprehensive and does not require additional guidance.

40. Is rescinding AI 11 appropriate, or does the interpretation contain specific guidance necessary to apply PCAOB standards? If so, what is that specific guidance?

The Committee concurs with the Board's plan to delete the Auditing Interpretation regarding the use of a legal opinion in this very fact specific situation.

41. Is rescinding AI 28 appropriate, or does the interpretation contain specific guidance necessary to apply PCAOB standards? If so, what is that specific guidance?

The Committee concurs with the Board's plan to delete the Auditing Interpretation regarding income tax accruals and use of tax opinions from company legal counsel and tax advisors.

42. Are the proposed conforming amendments in Appendix 2 appropriate and clear? Why or why not? What changes to the amendments are necessary?

The Committee does not see any need to change any of the proposed amendments.

43. In addition to the proposed conforming amendments in Appendix 2, are other conforming amendments necessary in connection with the proposed changes to AS 1105, AS 1201, and AS 1210?

The Committee is not aware of the need for further amendments at this time.

The Committee would be glad to discuss our responses further should the Staff have any questions or require additional information.

Very truly yours,



Matthew J. Lombardi
Chair
Accounting Principles and Assurance Services Committee
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