

P B T K

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July 28, 2015

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Public Company Accounting Oversight Board  
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Transmitted by e-mail to: [comments@pcaobus.org](mailto:comments@pcaobus.org)

Re: Staff Consultation Paper No. 2015-01, "The Auditor's Use of the Work of Specialists"

We appreciate the opportunity to respond to the Staff Consultation Paper No. 2015-01, "The Auditor's Use of the Work of Specialists," (the "SCP") issued May 28, 2015, by Office of the Chief Auditor (the "staff") the Public Company Accounting Oversight Board (the "PCAOB" or the "Board").

#### **Part 1 – Overriding Concerns**

It is our firm belief that, in general, auditing standards should be principles-based rather than rules-based and should guide but not eliminate, or even substantially reduce, the need for auditors' professional judgment. Therefore, we are not in favor of prescriptive, "one-size-fits-all" standards that mandate procedures without regard to auditors' scope judgments when appropriately made based on facts and circumstances, most significantly, their assessments regarding the materiality of the subject matter, the inherent risk of material misstatement and the nature and extent of other evidence to be relied upon in support of the related assertion(s). We are extremely concerned that an evolving pattern of more prescriptive standards will ultimately result in a future generation of non-thinking, checklist-driven auditors capable only of a robotic approach to auditing. Accordingly, when developing new standards, we believe the Board should give greater recognition to this principle than the present apparent leaning of the language in the SCP, and should minimize the prescription of both unconditionally and presumptively mandatory procedures, as they are defined in Rule 3101.

Consistent with our comments made hereinbelow and in our previous letters to the PCAOB, we believe the essence of risk-based auditing (which the Board has embraced in theory) is to determine audit scope judgmentally after thoughtful analysis of the significant assertions, materiality, risk of material misstatement, and the nature and extent of other evidence rather than based on a cookbook of mandated audit procedures. In fact, we believe that the establishment of cookbook standards results in unnecessary costs without benefits and is, in fact, an overreach of the PCAOB's statutory charge in Section 101(a) of the Sarbanes-Oxley Act of 2002 for the "establishment and enforcement of *appropriate* auditing standards [emphasis added]."

In addition, if the so-called "potential requirements" set forth in the SCF were to be adopted in the standards, it would place additional burdens on smaller firms that are unable economically to employ personnel with the requisite knowledge or skills to perform these additional procedures, such as large firms typically do. Accordingly, in many circumstances, such firms might be compelled to or engage its own specialists.

That said, we recognize and concur with the SCP that today's complex business environment has resulted in a need for auditors to rely to a greater extent than in the past on the work of specialists; however, we question whether such circumstances warrant any significant strengthening of the extant standards or alternatively, whether they merely warrant additional guidance (which may be nonauthoritative), and training for audit firms that do not provide it adequately internally. According to the second full paragraph on p. 4 (Section I), the staff asserts that the SCP "has been informed by, among other things, current accounting firm practices, findings from the Board's oversight activities, discussions with the Board's inspections and enforcement staff and the Board's advisory groups, and comment letters submitted to the Board on other matters." Intuitively, we suspect that observations from inspection activities weighed heavily in informing the consultation paper and will likely do so in the development of any future standards or amendments.

The foregoing notwithstanding, p. 6 in Section I of the SCP describes the size of the so-called "sample" of audits identified in connection with PCAOB inspections of engagements conducted by large firms and the number of audits conducted by small firms that were analyzed (as to which the term "sample" is not used). According to the last sentence in the cited paragraph, "The audits inspected by the PCAOB are most often selected based on risk rather than selected randomly, and ... may not represent the use of the work of specialists across a broader population of companies." Accordingly, we seriously doubt whether the number of engagements analyzed in either category can constitute statistically valid samples from which reasonably reliable conclusions about the actual extent of deficiencies related to the use of specialists' work may be drawn. We hope this fact is given due consideration by the staff and the Board in determining the need for and proposing more robust standards to address such observations.

In the first paragraph in Section IV.B (p. 23) of the SCP, the staff summarizes observations from the Board's oversight activities (which we read as inspections and enforcement actions) that "have informed the staff's views about current practice and the potential need for guidance or changes to the standards." These observations are characterized in the next sentence in that paragraph as indicating that auditors, at times, "may not have fulfilled their responsibilities under existing standards" when using the work of a specialist, whether an auditor's or a company's specialist. However, neither that language nor the specific audit deficiencies cited appear to suggest significant weaknesses in the extant standards that need to be addressed but rather appear primarily to be criticisms of auditors' judgments, training or competency or merely their compliance levels.

For example, as stated by the staff in the third bullet on p. 4 (Section I) of the SCP, we recognize and appreciate that the extant standard, Auditing Standard ("AS") No. 10, does not provide any specific requirements for how to supervise the work of an auditor employed specialist, but we believe detailed supplemental guidance in that regard might best be provided in another form, rather than in a standard, *e.g.*, as a Staff Audit Practice Alert, as is suggested in Section V.A, footnote 60 (p. 26) of the SCP. As noted in our response to Question 9 in Part 2 of this response, we view this approach as a far more viable alternative to standard-setting. In our opinion, it would also better serve the public interest (as a protective device that would better assure and enable a higher level and frequency of compliance) than the other suggestion contained in Section V.A, *i.e.*, stepping up the Board's inspection and enforcement activity to serve more effectively as a deterrent to noncompliance because the latter approach (like closing the barn door after the horse is out) would necessarily come only after observed instances of noncompliance.

The foregoing notwithstanding, we believe that only minor modifications to the extant standards are warranted, *e.g.*, for clarifying and emphasizing that AS No. 10 applies to all auditor's employed specialists.<sup>1</sup>

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<sup>1</sup> Section IV.A.1 of the SCF states that AS No.10 "requires the auditor to, among other things: (i) inform the specialist of his or her responsibilities, including the objectives of the procedures he or she is to perform and the nature, timing, and extent of those procedures; (ii) direct the specialist to bring issues to the attention of the auditor so the auditor can evaluate those issues and determine that appropriate actions are taken in accordance with PCAOB standards; and (iii) review the specialist's work to evaluate whether the work was performed and documented, the objectives of the procedures were achieved, and the results of the



## Part 2 – Answers to Specific Questions Presented in the SCP

Primarily because of (a) the extensive length, depth and breadth, overall, of the SCP and the large volume of questions presented therein by the staff and the vast diversity of possible responses necessary to adequately address the wide variety of facts and circumstances likely to be encountered in practice (depending on the subject matter to be addressed by the work of a specialist), (b) our limited resources, and (c) the short period of time allowed for submitting comments, we have limited our responses to certain selected questions where we believe our responses are most likely to be useful to the staff. The selected questions are numbered below to correspond with their numbers as presented in the SCP.

1. *Does the information presented in Section III accurately characterize current practice? Are other aspects of current practice – at larger and smaller accounting firms – relevant to the staff's consideration of potential standard setting in this area?*

Subject to the following clarification, we believe the information presented in Section III, most particularly Section III.C, is generally correct. We agree with the information captioned “**Auditor's Specialist**” beginning on p. 15 (primarily because of the use of non-absolute terms describing widely varying practices like “many” and “may.” We also believe that except to the extent driven by differences in firms’ internal practice guidance, such widely diverse practices are more likely to be found among individual engagement partners and engagements within a given firm than among firms and that many such variations are most likely attributable primarily to judgmental differences in perceived risks and other attendant circumstances (which should clearly be encouraged rather than prohibited by any future standard).

We disagree with the unqualified statement in the short paragraph captioned “**Company's Specialist**” on p. 16, which reads “...smaller firms were more likely to use the work of a company's specialist,” but would agree if words like “if any” were added. This is because the smaller clients of smaller firms are less likely to employ their own specialists, and if one were to be engaged for the audit, we believe it is most likely that the auditor would engage one.

We believe that observed differences in practice described under the caption, “**Standards Issued by Other Standard Setters**,” likely result from differences in levels of familiarity with the cited alternative standards, a desire to comply with what are seen by engagement personnel as “best practices,” or an overriding firm policy that is commonly built into the firm’s practice aids effectively requiring compliance with the most robust requirements derived from among such alternative standards.

7. *This section [Section IV] provides the staff's views about the need to improve the standards based on issues related to the standards, inspections observations, and the views of the SAG. Do commenters agree with the staff's analysis of the need to improve standards? Are there other issues the staff should consider with respect to this need?*

As we have stated in Part 1 of this response, we agree that auditors would likely benefit from more specific guidance (preferably outside the standard) about how to supervise an auditor's specialist than is currently provided in AS No. 10. However, we do not agree that the principles-based character of the operative standard or any supplemental guidance to be provided (or any other standard for that matter) should be abandoned as is suggested by the staff on p. 21 of the SCP. In general, we believe in principles-based auditing standards because we believe (a) that there is no substitute for sound auditor judgment and (b) that the primary role of the PCAOB should be to

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work support the conclusions reached.” However, these responsibilities are not mentioned in AS No. 10 (which is very brief) of with any specific reference, nor is there is no any indication in that standard that it is intended to apply in any way, to an auditor-employed specialist. In fact, the only references in AS 10 to a specialist direct the reader to AU sec. 336. Moreover, with the exception of income tax and information technology specialists, which are singled out in footnote 1 to AU sec. 336.01. Also, there is no clear language in AU sec. 336 that either (a) excludes auditor-employed specialists from its applicability or (b) indicates the applicability of AS No. 10 thereto instead. Although we see this as a serious flaw in the extant standards, it is, nevertheless, easily (and should be) fixed.



help guide that judgment and not to substitute pre-judgments of the standard-setters for those of the auditor who has the ability to assess the relevant facts and circumstances firsthand. In this particular case, we believe the potential variations in relevant circumstances are too great to allow such pre-judgments as would be necessary for a “one-size-fits-all” standard to be either effective or efficient.

In the first paragraph on p. 21 of the SCP, the staff asserts that “a less rigorous level of oversight of specialists whom the auditor engages” is imposed by AU sec. 336, as compared to that imposed by AS No. 10 for an auditor’s employed specialist. We concur with this assessment only, as the term “oversight” is defined in footnote 46 on p. 20 of the SCP (*i.e.*, to direct the work of the specialist). We point out, however, that the requirements of AU sec. 336 are necessarily more rigorous than those of AS No. 10 in the sense that auditors must perform procedures under AU sec. 336 to assess the competency and objectivity of engaged specialists.

Subject to our comments in footnote 1 to Part 1 of this response (about the lack of clarity as to the applicability of the requirements of AS No. 10 specifically to use of the work of an auditor’s employed specialist other than a tax or information technology specialist), we see this so-called “less rigorous level of oversight” as limited to a lack of any articulated requirement in AU sec. 336 to (a) obtain and understanding with the specialist as to the responsibilities to be assumed and the objectives, nature, timing, and extent of the procedures to be performed, (b) to direct the specialist to bring certain issues of potential significance to the audit objectives, if encountered, to the auditor’s attention for evaluation and resolution, and (c) review the specialist’s work to evaluate whether it was performed as agreed and adequately documented, the objectives of the procedures were achieved, and the results of the work support the specialist’s conclusions.

We agree with those who believe that AU sec. 336 should be made more rigorous so as to include the additional requirements described in the preceding paragraph so long as it is made clear in the amended or new standard that such requirements are intended to be sufficiently scalable such that the extent of procedures necessary to comply remains commensurate with the auditor’s judgments about materiality, risk and the degree of reliance being placed on the specialist’s work in relation to other evidence. Nevertheless, we believe it is appropriate for the level of oversight of engaged specialists (once again, as the term “oversight” is defined in footnote 46 on p. 20 of the SCP), to be less than that of auditor’s employed specialists. In addition, the auditor should be expected to apply a broader type of oversight to auditor’s employed specialists in connection with the firm’s quality control system, *e.g.*, by exercising discretion over the nature and extent of training to be received by the specialist and by setting goals and periodically evaluating performance, and by monitoring the objectivity, of the specialist.

It is mentioned in Section IV.C on p. 24 of the SCP, that it is the view of many PCAOB Standing Advisory Group members that auditors’ responsibilities under AU sec. 336.12 should be expanded to require evaluating the reasonableness, rather than merely obtaining an understanding, of methods and assumptions used by an auditor’s specialist or a company’s specialist (whether engaged or employed). However, we see this a dangerous ground that might likely lead to unrealistic expectations and actions by adversaries who attempt to hold auditors responsible to have knowledge and skills that far exceed reasonable levels of competency based on typical auditors’ education, training, experience and skill sets. Auditors cannot reasonably be expected to have more than a fundamental knowledge of other disciplines for which the use of specialists is deemed appropriate and is commonplace. It would be analogous to attempting to hold auditors responsible as handwriting experts to identify forged signatures on documents, a limitation that has long been generally accepted.

We also agree with the views of some that are cited in Section IV.D on pp. 24-25 of the SCP that support retaining the requirement in AU sec. 336.12 for testing information provided by a company’s employed specialist as if it were developed by company management primarily because of the substantial inherent risk that such information was obtained by the specialist from, or influenced by, management and, therefore, is biased. The same may be true, but most likely to a lesser extent, for a company’s engaged specialist, depending on the company’s relationship with the specialist.



We believe it is important that any future revisions to the relevant standards make it clear that, like other procedures to be performed, the extent of work necessary in connection with the auditor's evaluation of both the objectivity and the competency of any specialist other than auditor's employed (who must be independent of the issuer under all the rules applicable to the auditor and who is subject to the audit firm's training, resources, and other elements of its QC system) should be commensurate with the auditor's materiality judgment, assessment of the risk of material misstatement and the relative degree of reliance to be placed on the specialist's work with regard to the related assertion(s). The standards should make it clear that there is an increasing inherent risk of impaired objectivity, and a commensurate need for auditors to exercise professional skepticism when (once judged to be competent), a specialist is, respectively, either (a) employed by the auditor, (b) engaged by the auditor, (c) engaged by the company, or (d) employed by the company. Further, it should be made clear that the nature of procedures to be applied in each of these circumstances relative to any given audit objective (all other considerations being equal) may likely be the same, but the extent thereof (e.g., the testing of data submitted to the specialist) should vary directly with the objectivity risk assessment.

We have the following views regarding the staff's consideration of whether the requirement in AU sec. 336 to evaluate the risk of possible impairment of objectivity, specifically with respect to an auditor- engaged specialist, should be strengthened. As set forth in the previous paragraph, we believe the risk of impairment of objectivity in such cases typically to be relatively low except when it is readily apparent that the issuer engages the specialist for a significant amount of services from time-to-time. AU sec. 336.10 lists several other, less common circumstances (described in Section VII.B.1 of the SCP) that might impair the specialist's objectivity. We think auditors should be able to use that limited guidance effectively to develop the appropriate procedures to make that assessment, in view of the limited risk, without any strengthening of the standard in this regard. In the event, however, that supplemental guidance were to be issued, such as in a Staff Audit Practice Alert, we would be in favor of including some suggested but not mandatory, audit procedures for consideration by auditors.

*9. Are revisions to PCAOB standards the most appropriate way to address the issues as discussed in this staff consultation paper? Are there other alternatives that should be considered?*

As we have noted above, we believe that although certain minimal revisions to AS No. 10 and AU sec. 336 are warranted at this time, we believe the standards are generally appropriate as is. Nevertheless, we believe many auditors would likely benefit primarily from adopting the alternative of providing additional, nonmandatory guidance, such as would best be provided in a Staff Practice Alert, with regard to the use of either an auditor's or a company's specialist, whether engaged or employed.

We do not favor the alternative (presented in Section V.B.1 on p. 27 of the SCP) of developing a separate standard presented in that would apply to an auditor's specialist, whether employed or engaged, while retaining the general applicability of the supervision standard (AS No. 10). We hold this view merely because, in practice, we think the probability of auditor understanding and compliance is greater when all applicable requirements are found in one place. However, this will likely become a moot question once the codification of auditing standards is operational.

As we indicated in our response to Question 7 (second paragraph), we are in favor of extending some of the requirements of AS No. 10 to what is now AU sec. 336, *i.e.*, those that would require to (a) obtain and understanding with an auditor's engaged specialists as to the responsibilities to be assumed and the objectives, nature, timing, and extent of the procedures to be performed, (b) to direct the specialist to bring certain issues of potential significance to the audit objectives, if encountered, to the auditor's attention for evaluation and resolution, and (c) review the specialist's work to evaluate whether it was performed as agreed and adequately documented, the objectives of the procedures were achieved, and the results of the work support the specialist's conclusions. However, because we believe it is unreasonable to expect any auditor to have the skill set necessary to supervise a professional qualified in another discipline effectively to an extent (as presented as an alternative approach in Section V.B.2 on p. 28 of the SCP) that "would integrate the engaged specialists

into the engagement team, and would provide requirements for evaluating the work of an auditor's engaged specialist that are the same as the auditor's responsibilities for supervising the work of employed specialists," we do not believe, it is either practical or appropriate to extend the auditor's responsibility to such an extent. Further, we believe that any auditing standard that would establish such an unreachable expectation for auditors would likely have serious adverse effects on auditors in litigation or other adversarial proceedings.

We believe the operative supervision standard should place greater emphasis on the notion that the nature and extent of supervision to be provided to a specialist, whether engaged or employed by the auditor, should be in direct proportion to the auditor's familiarity with and judgmental evaluation of the specialist's level of knowledge, skill and relevant experience, which is a concept touched upon rather subtly and briefly in paragraph 6(d) of AS No. 10 but which, in our opinion, should be made more prominent (*i.e.*, in a separate paragraph) and expanded upon.

*10. Should the auditor perform the same procedures when using the work of an auditor's engaged specialist as those required for an auditor's employed specialist?*

See the sixth paragraph of our response to Question 7 and the last paragraph of our response to Question 9.

*11. Are there other considerations related to the alternatives presented that the staff should be aware of?*

See the last sentence of our response to Question 9.

*12. Are there other alternatives related to the auditor's use of the work of an auditor's specialist that would result in the consistent treatment of the work of an auditor's employed and engaged specialist? If so, explain the other alternatives.*

We believe Question 12 is addressed by the sixth paragraph of our response to Question 7 and the last paragraph of our response to Question 9. We have no alternatives to suggest at this time.

*13. Are there any limitations on an auditor's ability to treat the work of an engaged specialist the same way as that of an employed specialist?*

Yes. We believe Question 13 is also addressed by the sixth paragraph of our response to Question 7 and the last paragraph of our response to Question 9.

*14. Is it appropriate for an auditor to consider the knowledge, skill, and objectivity of a company's specialist when evaluating the reliability of information provided by that specialist? [Second part of Question 14 has been omitted.]*

Yes; depending, of course, on the auditor's judgments about materiality, risk and the degree of planned reliance to be placed on the specialist's work, it is essential for an auditor to take reasonable steps to assess the knowledge, skill, and objectivity of a company's specialist and to respond appropriately in developing the scope of other procedures to any perceived deficiencies in such attributes, *e.g.*, by seeking to obtain other evidence to corroborate (or correct) the specialist's conclusions, which may include engaging an auditor's specialist.

*16. Should the work of a company's specialist be treated as audit evidence the same way as other information provided by the company? Are there concerns associated with more rigorous testing of the work of a company's specialist that may result from this approach? For example, would auditors increasingly need to employ or engage specialists to perform work to assist the auditor with such testing?*

We see the first part of Question 16 as related to objectivity. Once again, depending, of course, on the auditor's judgments about materiality, risk and the degree of planned reliance to be placed on the specialist's work, we believe that the work of a company's employed specialist should be viewed with a higher degree of professional skepticism, probably requiring additional corroborative evidence, primarily because of the



substantial inherent risk of bias because information was obtained from, or results influenced by, company management. We believe the same would be true for a company's engaged specialist, depending on the results of the auditor's assessment of the specialist's objectivity, but most likely to a lesser extent.

See our response to Question 14, which we believe addresses the second part of Question 16.

*17. Are there other alternatives that would be a more appropriate response to the risks of material misstatement in areas where companies use the work of specialists? If so, what are those alternatives?*

We have no alternatives to suggest at this time.

*19. Are the potential definitions of an auditor's specialist and a company's specialist appropriate? If not, what would be alternative definitions for those terms?*

We have no issues with the proposed definitions.

*20. Is it appropriate to retain the definition of a specialist from AU sec. 336 or is there a need to update the definition to reflect the increased use of the work of persons with specialized knowledge or skill in accounting and auditing? For example, should that definition also include those with specialized knowledge or skill in income taxes or IT?*

We do not believe the operative definition of a specialist in any new or amended standard should be expanded from its current version to include persons with specialized knowledge or skill in accounting and auditing.

*21. Is it clear what constitutes a specialized area of accounting and auditing? For example, are persons with specialized knowledge or skill in regulatory compliance (e.g., related to audits of brokers and dealers) considered to be persons with specialized knowledge or skill in accounting and auditing? Should the staff provide clarification about what constitutes a specialized area of accounting and auditing? Does the discussion in this staff consultation paper appropriately describe when third parties may be inside or outside the scope of the potential definition of an auditor's specialist?*

We believe persons with specialized knowledge or skill in regulatory compliance that are engaged in the practice of accounting and auditing (e.g., related to audits of brokers and dealers) should be considered to be persons with specialized knowledge or skill in accounting and auditing. Based on our view as state in our response to Question 20, we do not believe such persons should be treated as specialists within the meaning of the subject standards. However, other third parties with specialized knowledge or skill in regulatory compliance that are not engaged in the practice of accounting and auditing, such as an attorney, may need to be viewed as specialists if engaged to perform work to assist the auditor in obtaining sufficient appropriate audit evidence, as opposed to providing specialized information or expert (i.e., not necessarily in the legal sense) opinions based on technical research or knowledge but not on work performed for the auditor such as relative to a value estimate. Although it may be challenging or difficult to articulate, we believe the standard (or any supplemental guidance to be issued) that would apply to auditor's engaged specialists should clearly exclude consultations with individuals with specialized knowledge or skills but that do not constitute performing such work.

*22. Are the potential requirements to evaluate the knowledge and skill of an auditor's specialist clear and appropriate? Are there other alternatives to accomplish the objectives? Are there other factors that the auditor should consider?*

Except that we believe the word "determine" should not be used (because it implies a degree of responsibility that is absolute and, therefore, unreasonable), and a term such as "evaluate" or "assess" should be substitutes, we believe the language presented in the grey shaded box in Section VII.A.1 on p. 36 of the SCP is appropriate for an auditor's engaged specialist.

However, we believe the knowledge and skill of an auditor's employed specialist should be evaluated in the same manner, to the same extent and subject to the same auditing (and documentation) standards, as other members of the assigned audit staff. This would generally mean that auditor's employed specialists would be subject to the same hiring and periodic performance evaluation and advancement policies and procedures that the firm's QC system applies to audit staff.

*23. Are the matters described in the potential requirements on which the auditor and an auditor's specialist should reach an agreement sufficient and appropriate? If not, what other matters should be required to be specified in the agreement before the auditor's specialist performs work to assist the auditor?*

In our opinion, a written agreement between the auditor and an auditor's engaged specialist, such as a letter of engagement, is appropriate and should be required by the applicable standard. However, the content of such an agreement should be based on the auditor's judgment (about materiality, risk and the degree of planned reliance to be placed on the specialist's work and other circumstances) as to what is necessary and appropriate in the circumstances, and that all of such content should rarely be necessary. Such judgment should be guided by a list similar to that illustrated in the grey shaded box in Section VII.A.2 on pp. 37-38 of the SCP, which list should not be part of the standard but rather should be incorporated in supplemental guidance (such as a Staff Practice Alert) that clearly indicates that is to be used only a source of ideas from which relevant and significant items should be selected.

As suggested in footnote 74 on p. 38 of the SCP, we believe the understanding between the auditor and the specialist could be in the planning memoranda, separate memoranda, audit programs, or other related audit documentation but only for an auditor's employed specialist, who can be expected to have access to such materials. We also believe such documentation need not be as extensive as an agreement with an auditor's engaged specialist should be. We do not believe this form of documentation, if used for an auditor's employed specialist, should be referred to in the operative standard as an "agreement," but we do believe that such documentation should be acknowledged by a signature of the employed specialist thereon.

*24. Are there any obstacles to reaching an agreement and documenting all of the categories of information described in the potential requirements? Would it be difficult to comply with some of the potential requirements? Are there other alternatives to accomplish the objectives?*

As states in our response to Question 23, we believe that reaching an agreement and documenting all of the categories of information described in the potential requirements set forth in Section VII.A.2 on pp. 37-38 of the SCP should rarely be necessary, and that the extent to which it is should be is a matter of auditor's judgment (about materiality, risk and the degree of planned reliance to be placed on the specialist's work and other circumstances).

*25. Could the potential requirements for informing the auditor's engaged specialist of his or her responsibilities and reviewing the specialist's work and conclusions result in unintended consequences (e.g., tax or employee benefit consequences)?*

Question 25 seems to relate primarily to the risk that because the company is judged to be exercising employer-like control over the specialist, an auditor's engaged specialist might lose independent contractor status and be classified as an employee by the IRS. This would result in employer tax consequences to the company. The IRS publishes extensive, complex guidance for evaluating whether an individual should be classified as an employee or and independent contractors based on three categories of factors, behavioral, financial and relationship. However, in our experience, except in extreme situations unrelated to compliance with the operative auditing standard, there is little or no risk of a professional in another discipline, who provides specialist services to an auditor on an as needed basis, being deemed an employee of the auditor is extremely minimal in almost all cases. Similarly, we see little or no risk of an unintended consequence



relative to the specialist qualification to receive employee benefits. We see nothing in the suggested enhancements to the operative auditing standard that would alter this conclusion.

27. *Do the potential requirements appropriately reflect what the auditor's responsibilities should be when an auditor's specialist develops an independent estimate?* [Second part of Question 27 has been omitted.]

Once again, while we believe the "potential requirements" set forth in the grey shaded areas of pp. 40-41 of the SCP, we believe such material should be provided not as requirements but rather only as guidance, preferably outside the standards, to be considered and applied to the extent deemed appropriate for the circumstances in the auditor's professional judgment, *i.e.*, based on materiality, risk and the degree of planned reliance to be placed on the specialist's work. Accordingly, such guidance, wherever presented, should not be characterized as "requirements" nor should it begin with language (*e.g.*, "should include" such as appears on p.40) that would cause it to be viewed as presumptively mandatory under Rule 3101.

28. *Do the potential requirements appropriately reflect what the auditor's responsibilities should be when an auditor's specialist tests the company's methods and significant assumptions?* [Second part of Question 28 has been omitted.]

Our response with regard to providing requirements vs. guidance would be similar to our response to Question 27.

29. *Do the potential requirements appropriately reflect what the auditor's responsibilities should be when the auditor evaluates the results and conclusions of the work of an auditor's specialist?* [Second part of Question 29 has been omitted.]

Our response with regard to providing requirements vs. guidance would be similar to our response to Question 27.

30. *Do the potential requirements provide appropriate direction for the auditor's consideration of any limitations, restrictions, and caveats in the report of an auditor's specialist?*

Our response with regard to requirements vs. guidance would be similar to our response to Question 27.

31. *Are the potential requirements for evaluating the work of an auditor's specialist appropriate for all types of specialists used in audits (e.g., valuation specialist, actuary, geologist, lawyer, or engineer)?* [Second part of Question 31 has been omitted.]

Our response with regard to providing requirements vs. guidance would be similar to our response to Question 27.

33. *Are the potential requirements under the enhanced objectivity approach for the auditor's use of the work of an engaged specialist appropriate and feasible?*

Our response with regard to requirements vs. guidance would be similar to our response to Question 27.

34. *Should the auditor's engaged specialist (and his or her employer) be required to meet the independence criteria of Rule 2-01? Are there certain types of specialists that would not be able to satisfy these criteria? Could these criteria affect the availability of specialists?*

Although independence is the bedrock of the attest function and, therefore, the audit process and profession, it is beyond objectivity and is neither relevant nor well understood by those practicing in other professions. Specialists who may be engaged by auditors are not in the attestation business of lending credibility to the assertions of others; they are merely engaged to provide audit evidence by determining and reporting a conclusion objectively based on their own special expertise. Other third party sources of of audit evidence,

such as those from whom external confirmations are typically requested and relied upon, are not expected to be independent as are other auditors performing part of the audit work.

35. *Are the potential requirements for the auditor to obtain information regarding business, employment, and financial relationships between the auditor's specialist (including his or her employer) and the company appropriate?* [Second part of Question 29 has been omitted.]

Our response with regard to providing requirements vs. guidance would be similar to our response to Question 27.

36. *Are the potential requirements for the auditor to evaluate the objectivity of an auditor's specialist appropriate? Is it appropriate to apply the reasonable investor test as an overarching principle in assessing the specialist's objectivity?* [Second part of Question 29 has been omitted.]

Our response with regard to providing requirements vs. guidance would be similar to our response to Question 27.

37. *Does the enhanced objectivity approach provide sufficient assurance that the work of an auditor's engaged specialist will not be influenced by business, employment, or financial relationships?*

Yes.

38. *Is the potential requirement that the auditor obtain information about the process used by the auditor's engaged specialist to formulate the responses to the auditor's request for information appropriate and sufficiently clear?* [Second part of Question 29 has been omitted.]

Our response with regard to providing requirements vs. guidance would be similar to our response to Question 27.

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The limited time allowed for comments did not permit us to respond individually and in detail to questions (nos. 40-47) related to economic impacts and implications that are presented in Section VIII of the SCP. However, in general, we believe it should be evident that (a) unnecessary costs will be added to audits in direct proportion to the extent any new or amended standards that result from this process contain procedures that are universally or presumptively mandatory under Rule 3101 and that, therefore, effectively preclude auditors from exercising selective judgment based on the wide variety of circumstances that may present themselves, and (b) those additional costs may be substantial and without benefit in the form of added audit quality.

Thank you for this opportunity to comment on this SCP. We hope the Board finds our comments useful in its deliberations on this important matter. Please contact the undersigned at [hlevy@pbtk.com](mailto:hlevy@pbtk.com) or 702/384-1120 if there are any questions about these comments.

Very truly yours,

**Piercy Bowler Taylor & Kern, Certified Public Accountants**



Howard B. Levy, Principal and  
Director of Technical Services