

American Federation of Labor and Congress of Industrial Organizations



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July 29, 2015

Sent via Electronic Mail: comments@pcaobus.org

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: Staff Consultation Paper No. 2015-1 on the Auditor's Use of the Work of Specialists

Dear PCAOB Members:

On behalf of the American Federation of Labor and Congress of Industrial Organizations ("AFL-CIO"), I appreciate the opportunity to comment on the Public Company Accounting Oversight Board ("PCAOB") Staff Consultation Paper on the Auditor's Use of the Work of Specialists dated May 28, 2015. The AFL-CIO commends the efforts by the PCAOB to consider improvements to its standards for auditors' use of the work of specialists in conducting audits of public companies.

The AFL-CIO is the umbrella federation for U.S. labor unions, including 56 unions, representing 12.5 million union members. Union-sponsored and Taft-Hartley pension plans hold \$587 billion in assets. Union members also participate directly in the capital markets as individual investors and as participants in pension plans sponsored by corporate and public-sector employers. The retirement savings of America's working families depend, in part, on companies having reliably audited financial statements.

The risks of a material misstatement arising from an auditor's use of the work of specialists varies according to the type of specialist and the subject matter. For example, an actuary who measures pension plan liabilities according to professionally proscribed actuarial standards may pose relatively less risk to an audit. In contrast, a valuation specialist who uses a proprietary model to price illiquid securities or complex derivative instruments may pose relatively greater risk of fraud or error.

Office of the Secretary
July 29, 2015
Page Two

Given the potential risks related to the use of the work of specialists, Auditing Standard No. 10 should be strengthened as proposed by the Staff Consultation Paper. Auditors should be required to evaluate the knowledge, skill, and objectivity of their specialists. Engagement partner supervision of specialists in an audit should require that the specialist be informed of the specialist's responsibilities. And finally, the engagement partner should evaluate the assumptions and methods used by specialists.

Furthermore, the requirements of Auditing Standard No. 10 and the PCAOB's Independence Rule should be extended to cover specialists that are engaged by the auditor. The applicable standards should not vary depending on whether the audit firm employs a specialist in-house or if the audit firm engages an outside specialist. Employed specialists and engaged specialists perform the same type of work, and therefore the use of this work by auditors should be subject to the same standards.

In addition, AU sec. 336 should be amended to require that auditors evaluate information received from a company's specialists in the same manner that auditors are required to evaluate information produced by others in the company. The standards that auditors are required to assess company provided information should not vary based on whether the information is provided from a specialist. More rigorous testing of the work of company specialists will reduce the risk of material misstatements.

Thank you for the opportunity to comment on PCAOB Staff Consultation Paper on the Auditor's Use of the Work of Specialists. Investors will benefit from enhanced auditing standards to govern the use of the work of specialists. If I can provide any additional information on the AFL-CIO's views, please contact me at 202-637-5152.

Sincerely,

A handwritten signature in black ink, appearing to read 'BJR', with a stylized flourish at the end.

Brandon J. Rees
Deputy Director
AFL-CIO Office of Investment

BJR/sdw
opeiu #2, afl-cio