KPMG LLP
345 Park Avenue
New York, N.Y. 10154-0102

Telephone +1 212 758 9700
Fax +1 212 758 9819
Internet www.us.kpmg.com

July 31, 2015

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

Staff Consultation Paper
The Auditor's Use of the Work of Specialists

Dear Madam Secretary:

KPMG LLP is pleased to submit its comments about the Public Company Accounting Oversight Board's (PCAOB or the Board) Staff Consultation Paper entitled *The Auditor's Use of the Work of Specialists* (the Paper). We welcome the opportunity to work with the Board, PCAOB staff (the Staff), and other stakeholders to improve audit quality through enhanced auditing standards.

As members of the Center for Audit Quality (CAQ), we participated in the development of the CAQ's views on the Paper as expressed in its comment letter dated July 31, 2015. We are generally supportive of the views expressed in that letter, particularly regarding the importance of retaining the principles of AU sec. 336, *Using the Work of a Specialist*. Specifically, we are supportive of the principle that the auditor is not expected to have the expertise of a person trained for or qualified to engage in the practice of another profession or occupation. We are concerned that replacement or modification of current auditing requirements with requirements for the auditor to effectively re-perform the procedures undertaken by the specialist will challenge the underlying principles of AU sec. 336 and present operational difficulties resulting in potentially unintended consequences.

Our additional comments are based on the fact that we primarily use auditor employed specialists and use auditor engaged specialists only on an infrequent basis and that our audit methodology takes into consideration the standards of the PCAOB, the Auditing Standards Board (ASB) and the International Auditing and Assurance Standards Board (IAASB).

Use of Company's Specialists

We agree with the overall view expressed in the Paper that the extant auditing literature no longer adequately addresses the variety of circumstances in which a company may use specialists, whether engaged or employed. In considering questions 14 -16 of the Paper, we believe that there should be different requirements for a company's specialist than for an auditor's specialist, irrespective of the similarity of the work performed. Because objectivity of a company's specialist may not be the same as that of an auditor's specialist, the persuasiveness of the evidence is not the same. We believe that the approach adopted by the ASB and the IAASB to consider a company's specialist using the same criteria as other audit evidence is both practical and scalable.[1]

We suggest the Staff consider whether use of the work of a company's specialist is analogous to how the auditor considers the use of the work of internal audit or others. When evaluating whether to use the work of internal audit or others, an auditor considers competence and objectivity, including reporting lines, when assessing the reliability of the audit evidence. We believe a similar evaluation should be performed when using the work of a company's specialist and take into consideration the significance of assumptions and methods being used, and any resulting analysis, to the financial statements. Such an approach would be consistent with the requirements of AU-C 500, *Audit Evidence,* and International Standards on Auditing 500, *Audit Evidence*.

In our response to the Staff Consultation Paper entitled *Auditing Accounting Estimates and Fair Value Measurements*,[2] we agreed with the Staff that in a potential new standard it should be clear that management is responsible for all assumptions, including those used by specialists, because the existing fair value framework includes a requirement for the auditor to understand the methods and assumptions used and to make appropriate tests of data provided to the specialist, taking into account the assessment of control risk among other requirements. The assessment of control risk is appropriately directed toward management's oversight of specialists and selection of assumptions, regardless of whether the specialists are employed or engaged.

Further, in the same response, we stated that a requirement for an auditor to test information developed by management's specialist as if it were produced by the company would effectively obviate any benefit management obtains by engaging such a specialist, and we did not agree with the expansion of such a requirement. After careful consideration of the background information in the Paper[3] and listening to the Standing Advisory Group meeting held on June 18, 2015, we continue to believe that such a broad requirement, stated as "in the same manner as the auditor evaluates information produced by others in the company" may be difficult to operationalize.

Other Matters – Terminology

We are concerned that the proposed wording used in a potential requirement to evaluate the work of the auditor's specialist may be difficult to apply. Specifically,

- "*in conformity with the applicable financial reporting framework*"[4] would not appear to be appropriate terminology, as financial reporting frameworks do not consistently specify a method and the specialist may not be as well versed in the financial reporting framework as auditors.
- "*generally accepted within the specialist's field of expertise*"[5] may be difficult to achieve, as both acknowledged by the Staff and our own observations, since many specialist disciplines do not have industry standards.

---

[1] See AU-C 500, *Audit Evidence*, and International Standards on Auditing 500, *Audit Evidence*.

[2] See KPMG comment letter dated November 3, 2014

[3] Page 40 of the Paper.

[4] Page 40 of the Paper.

[5] Ibid.

****

We support the Staff's continued efforts to seek input on audit concepts that impact new auditing standards and appreciate the Board's and Staff's consideration of our comments. If you have any questions regarding our comments included in this letter, please do not hesitate to contact George Herrmann (212-909-5770 or gherrmann@kpmg.com) or Ilene Kassman (212-909-5667 or ikassman@kpmg.com).

Very truly yours,

KPMG LLP

cc:

PCAOB
James R. Doty, Chairman
Lewis H. Ferguson, Board Member
Jeanette M. Franzel, Board Member
Jay D. Hanson, Board Member
Steven B. Harris, Board Member
Martin F. Baumann, Chief Auditor

SEC
Mary Jo White, Chair
Luis A. Aguilar, Commissioner
Daniel M. Gallagher, Commissioner
Michael S. Piwowar, Commissioner
Kara M. Stein, Commissioner
James Schnurr, Chief Accountant
Wesley R. Bricker, Deputy Chief Accountant
Brian T. Croteau, Deputy Chief Accountant
Julie Erhardt, Deputy Chief Accountant