

July 31, 2015

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

RE: Staff Consultation Paper No. 2015-01, “The Auditor’s Use of the Work of Specialists”

Dear Office of the Secretary:

Crowe Horwath LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board’s (“PCAOB”) Staff Consultation Paper No. 2015-01, “The Auditor’s Use of the Work of Specialists” (the “Consultation Paper”).

We concur with the Staff’s observations that the use and importance of specialists has increased in recent years, in part due to the increasing complexity of business transactions and the resulting complexity of information needed to account for those transactions. Also as noted, the Financial Accounting Standards Board (“FASB”) has issued standards that increasingly require the use of estimates such as fair value measurements causing an increase in the use of the work of specialist for financial reporting and thus auditing.

In this letter, we provide for the Board and Staff’s consideration, our views regarding the Consultation Paper in four sections, as follows:

- I. General Overview of the Concept Release
- II. Utilizing the Work of a Company’s Specialist
- III. Utilizing the Work of an Auditor’s Specialist
- IV. Other Matters

I. General Overview of the Concept Release

Auditors are responsible for conducting an audit which gathers sufficient appropriate audit evidence to provide a reasonable basis for their opinion. As noted above, business transactions have become more complex, accounting standards require more use of estimates and fair value measurements are far more prevalent within financial reporting. The Consultation Paper, Figure 1 provides examples of activities that involve the work of specialists, all of which impact financial reporting as well as audit procedures. Our principle belief is that using specialists assists management in accounting for complex transactions and assists the auditor in obtaining sufficient appropriate audit evidence. As a result, we believe using specialists, particularly in today’s financial reporting environment, is a necessary and effective approach for both management and the auditors to help manage financial reporting risk as well as audit risk. This is reinforced through AU336, “Use of Specialist” which states: “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 and base on auditor judgment, may encounter matters that require such specialized skill.” This expectation is essential to managing financial reporting as well as audit risks. We encourage the PCAOB to recognize this point when amending the standard regarding the use of a specialist.

The Consultation Paper identifies various observations from Board oversight activities in which auditors did not fulfill their responsibilities under the current audit standard AU336. These observations likely indicate a need for clearer guidance on the use of specialists, possibly matching the risk assessment

process with suggested procedures to be performed. As noted above, we believe the use of specialists reduces the risk associated with complex transactions and significant estimates, but we also recognize how specialists are engaged or employed, and their qualifications may impact the risk assessment process as well. See more on this under Section IV Other Matters within this letter.

II. Utilizing the Work of a Company's Specialist

The Staff identified various observations from Board oversight activities which clearly articulate opportunities exist to either clarify current guidance in AU336 or draft a new standard. We recommend revising the current AU336 standard to provide additional guidance when utilizing management's specialist whether employed or engaged would provide significant improvement to auditors. We believe there would also be significant benefits by correlating the risk assessment process associated with the use of a specialist to qualifications and objectivity of the specialist.

The risk assessment associated with the use of a specialist may vary depending on whether the specialist is employed or engaged by the company. However, the standard for fair value, AU 328, "Auditing Fair Value Measurements and Disclosures", paragraph 5, footnote 2 states: "For purposes of this section, management's assumptions include assumptions developed by management under the guidance of the board of directors and assumptions developed by a specialist engaged or employed by management." As noted above, we believe the utilization of a specialist typically reduces audit risk, therefore, building on this point is consistent and aligned with the broader risk assessment principles.

Footnote 2 of AU328 differs from AU336, as the latter provides that the appropriateness and reasonableness of methods and assumptions used, and their application are the responsibility of the specialist. AU328, footnote 2 requires the auditor to test specialist assumptions for reasonableness as if they were management's assumptions. AU336 indicates the assumptions are the responsibility of specialist and the auditor should evaluate whether the assumptions and methodology are unreasonable. We recommend revising AU328, to include consideration of the risks associated with the use of specialists in the areas of competence and objectivity and eliminate the concept that assumptions developed by management's engaged or employed specialists are the same as management's assumptions. This clarification could be helpful in improving audit quality and providing more consistency with PCAOB risk based standards.

III. Utilizing the Work of an Auditor's Specialist

The Staff noted in the Consultation Paper that the requirements for using the work of an auditor's engaged specialist are the same as those for using the company's employed or engaged specialist except when the company's specialist develops assumptions used in a fair value measurement (see comments in Section II above). Consistent with our observation for the use of a company engaged or employed specialist, we believe any revision to AU336 should begin with a clear risk assessment process consistent with the PCAOB risk based standards. We encourage the Staff to consider differentiating guidance and requirements based on the risk assessment process, which reflects a likely change between an auditor's engaged specialist and a company's engaged specialist as well as a company's employed specialist procedures.

The Staff also introduced the concept of AS10, "Supervision of the Audit Engagement," for an auditor's engaged specialist. The comparison was made to that of a specialist that is employed by the auditor. Specialists that are employed by the auditors are subject to independence and ethics requirements as well as supervision and quality control requirements based on being associated with an accounting firm. This requirement should not be imposed upon specialists who are engaged by the accounting firm (audit team). As noted in AU336, "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 and based on auditor judgment, may encounter matters that require such specialized skill." Given auditors do not possess the requisite

skills, which is why the specialist is engaged, supervision of the specialist's work does not seem appropriate. If AS 10 is applied to an auditor engaged specialist, auditors may be required to either employ multiple specialists so they can leverage them to supervise; or engage a second specialist to supervise the first engaged specialist all at a cost that seems to significantly surpass any benefit. By analogy, AU336 requires auditors to assess the objectivity and competence of company employed or engaged specialist. We believe that assessment should be used in the overall risk assessment process which would also help identify the procedures that need to be performed but these would not include supervision as defined by AS10.

The Staff introduced the concept of applying requirements similar to those in the SEC's Independence Rule (Rule 2-01 of Regulation S-X) to auditor's engaged specialist. We do not agree with this concept and believe it could have unintended consequences that could have a negative impact on audit quality. Specialists are not required to follow Regulation S-X. Therefore, it is unclear how the PCAOB would require this concept nor is it clear as to the auditor's responsibility to audit a specialist's assertion that they are independent. Finally, use of a company's specialist does not require declaration of independence, therefore this would likely cause confusion based on very different requirements (since independence and objectivity are not the same). By making independence a requirement, auditors may also be limited as to which specialists they might be able to engage. This could increase risk and potentially reduce audit quality and or financial reporting quality. Rather, we believe documentation of objectivity (consistent with a company specialist) is sufficient for an auditor engaged specialist.

An alternative approach to document enhanced objectivity was also noted in the Consultation Paper by the Staff. The Staff noted this enhanced approach would require auditors to document from specialists and the company information regarding business, employment, and financial relationships between the specialist and the company, then evaluate this information and determine if the specialist's objectivity is impaired. A revision to AU336 would need to be very clear on how to determine impairment of objectivity.

Both the potential objectivity enhancement and the independence concept noted above appear to discourage the engagement of a specialist by the auditor which we view to be a significant unintended consequence. We believe objectivity is represented as a continuum and the determination of the objectivity on this continuum represents a risk assessment that should impact the nature, timing and extent of additional procedures to be performed rather than simply eliminating the ability to utilize the work of the specialist. We encourage the Staff to consider this concept of a continuum as revisions to AU336 are contemplated since the elimination of specialists might have unintended consequences of increasing financial reporting and audit risks as fewer specialists are used.

IV. Other Matters

As the Staff noted in the Consultation Paper, there may be bias by the company's specialist caused by the same factors that may cause bias in other personnel of the company who are involved in preparing the company's financial statements. We understand the Staff's view, however, auditing standards already address bias in estimates and require auditors to address this potential bias by performing procedures. The Staff appear to include company employed specialists and company engaged specialists in the same general category regarding bias. We believe this bias can be addressed through documentation of objectivity and therefore do not believe bias should be evaluated in the same manner as other information produced by the company as the Staff suggested.

We believe the development of a flow chart similar to Figure 2 of the Consultation Paper should be incorporated into a revision of AU336. This flow chart could be useful for auditors to understand which specialist they are relying upon and in turn what sections of the standard are applicable. For example, general guidelines about objectivity for Specialist 2, 3 and 4 from Figure 2 could refer to specific paragraph references and potential enhanced procedures might be noted for Specialist 2. In addition, risk assessment procedures would be applicable to all situations in which specialists are utilized so some sections would be noted as applying to all. Essentially, the flow chart would serve as the road map for

the auditor to the various sections of the standard that apply and it would likely improve the auditor's understanding as to why there are differences between the requirements. We believe such a flow chart would be very helpful for auditors and improve their understanding when using specialists.

Crowe Horwath LLP supports the Board's efforts to improve its auditing standards. We believe the comments and observations in this letter will assist the Board in its consideration of the matters in the Consultation Paper and ultimately result in improved audit quality. If the Board has questions on the above comments, please contact Michael G. Yates or James A. Dolinar.

Sincerely,

Crowe Horwath LLP

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Cc: Sydney K. Garmong, Crowe Horwath LLP