

August 11, 2015

Public Company Accounting Oversight Board
Attention: Office of the Secretary
1666 K Street, NW
Washington, DC 20006-2803

Via e-mail – comments@pcaobus.org
Re: Staff Consultation Paper 2015-01 – *The Auditor's Use of the Work of Specialists*

Plante & Moran PLLC (Plante Moran) is the 13th largest public accounting firm in the United States and serves a wide range of public and non-public entities in multiple industries. Plante Moran supports the PCAOB's efforts to improve standards by seeking feedback and appreciates the opportunity to provide comments on the Staff Consultation Paper ("consultation paper") referenced above. In addition, as requested in the consultation paper, we have provided a summary of the most common specialists that are employed by us, engaged by us, or engaged by the issuers we audit.

Nature of Plante Moran's Primary Connections with Specialists

Plante Moran employs or engages a variety of specialists. Where we have evaluated that a business case exists for Plante Moran to directly invest in specialists, we have done so. Currently, we have specialists on staff in the following areas and these staff members participate in our audit engagements for both issuers and non-issuers as needed:

- Assets acquired and liabilities assumed in business combinations – Valuation specialist
- Goodwill impairment – Valuation specialist
- Long-lived asset and intangible asset impairments – Valuation specialist
- Real estate assets – Appraiser
- Stock options – Valuation specialist
- Complex financial instruments – Valuation specialist

Where we have not been able to support a business case for an employed specialist, we may engage a specialist to assist our assurance teams in audit engagements for both issuers and non-issuers. The most common specialists that we engage are as follows:

- Insurance loss reserves - Actuary
- Complex financial instruments – Valuation specialist

Issuers and non-issuers we audit have also engaged specialists, when they deem necessary, in the following specialty areas:

- Insurance loss reserves – Actuary
- Defined benefit plan actuarial liabilities - Actuary
- Complex financial instruments – Valuation specialists
- Long-lived asset and intangible asset impairments – Valuation specialists
- Real estate assets – Appraiser
- Assets acquired and liabilities assumed in business combinations – Valuation specialist
- Goodwill impairment – Valuation specialist
- Stock options – Valuation specialist

Plante Moran Commentary on the Staff Consultation Paper

Revision or Removal of AU section 336, *Using the Work of a Specialist*

Generally, we believe the core principles in AU section 336 should be maintained. When applied properly, we believe the concepts in AU 336 are effective audit guidance for auditors addressing complex calculations and nuances in specialty areas in which the auditor may not be well versed, while still placing appropriate responsibility on the auditor to evaluate the specialist's work. We also recommend the issuance of a practice alert on this topic to highlight key areas where failures to properly apply AU section 336 have been noted in order to improve how auditors currently conduct audits under the existing guidance and to improve overall consistency and effectiveness. In the absence of, or in addition to, a practice alert, we believe that clarifying and, in some cases enhancing, the requirements within existing AU section 336 guidance would assist in providing greater consistency and effectiveness in its application.

Our suggestions related to improving consistency in application include providing guidance, either by enhancing the existing standard or in a practice alert, on the following:

- Identifying responsibilities of the auditor and the specialist
- Evaluating objectivity and credentials of specialists
- Evaluating methods and assumptions used by specialists and linking risk assessment to proper audit procedures for risks identified
- Using auditor judgment/scalability
- Evaluating differences that arise during this process
- Documenting results and conclusions

We believe that eliminating AU section 336 would create unnecessary confusion related to the appropriate standards to apply and would result in additional divergence in practice based on the application of such alternative guidance.

Factors to be Considered When Using the Work of Any Specialist

We believe, consistent with the risk-based audit approach, that the use of a standard approach for all types of specialists may not be the proper approach. We believe that the use of any type of specialist requires a significant amount of auditor judgment and depends on many factors such as materiality and risk of material misstatement, sensitivity and complexity of the accounting estimates under audit, the knowledge and expertise of the auditor with respect to those estimates and the methods and practices customarily used by specialists in developing those estimates, as well as the qualifications, expertise and credentials of the specialist being utilized.

Underlying credentials of specialists

An important aspect of the credentials of the specialist is the quality of the membership or other requirements underlying those credentials. These requirements would include technical and other requirements for membership, and ongoing requirements for compliance with a code of professional conduct and professional standards, continuing education, and discipline. Where a particular specialty lacks significant membership requirements underlying the credentials, particularly with respect to maintaining those credentials, we perceive there is a higher risk associated with the results of a specialist's services.

In addition, credentials can change over time, as credential source organizations evolve in response to marketplace demands. For instance, the available credentials for valuation professionals have improved in recent years in response to the growing demand for fair value measurements. There are also multiple sources of credentials for appraisal and valuation engagements and, in our view, auditors need to evaluate the relative quality of those credentials in order to properly apply the guidance.

We recommend that the Board provide additional guidance in the standards to assist auditors in understanding their responsibilities with regards to (1) the nature and quality of specialists' credentials based upon the underlying membership requirements; (2) the need to regularly reassess the quality and relevance of the credentials as they change over time and (3) properly differentiating among existing credentials within a specialty when evaluating the quality of a specialist's credentials.

Testing approach

The consultation paper suggests a potential shift in relative responsibility for accounting estimates, from a non-auditor employed specialist to the auditor, whereby the auditor would be responsible for the detailed assumptions and models utilized by the specialist at the same level as the specialist, rather than vesting the specialist with the principal responsibility for determining the appropriateness and reasonableness of the methods and assumptions used, with the auditor responsible for an overall judgment with respect to the reasonableness of those matters in the circumstances. In our view, the use of specialists emanates from the auditor needing specific

expertise to properly evaluate an accounting estimate. As a result, we have a couple of specific concerns associated with this proposed revision:

- Potential duplicative efforts and costs of hiring an auditor-engaged specialist to audit the work of the specialist that has been employed or engaged by the issuer when there is an insignificant reduction in risk of material misstatement in the financial statements from performing these procedures. For instance, if an issuer insurance company has engaged an actuary to opine on its loss reserves, and if the auditor appropriately follows the existing PCAOB standards for specialists in the course of the audit, the auditor may not need to always engage its own actuary to assist in the audit. There are, of course, some circumstances where engaging the actuary by the auditor may have some significant benefit to the quality of the audit. The auditor should be able to exercise appropriate judgment in response to different circumstances.
- Issues related to the resolution of the differences in estimates developed by multiple credible specialists that will inevitably exist due to the nature of the work being performed by the specialists. We believe the Board should consider providing guidance related to resolution of these differences when a range of acceptable results exists, especially in instances whereby differences between those results would be material to the financial statements.

We believe that the approaches to auditing the work of the specialist vary depending on the risk associated with the factors discussed above and that one standard audit approach should not be mandated for all types of specialists. Auditors should be able to exercise their judgment to determine additional audit procedures to be applied, if deemed necessary.

Auditor-employed and Auditor-engaged Specialists

We believe that when using both auditor-employed specialists and auditor-engaged specialists, auditors should continue to evaluate the appropriate skill level of the specialist based on proper credentials, experience and reputation and should continue to clearly outline responsibilities of the specialist in accordance with existing PCAOB standards. In addition, we support the continued use of auditor judgment in determining the extent to which the work of these specialists can be relied upon when evaluating the work performed related to the audit. We believe it is important to retain the flexibility to evaluate and review the reasonableness of the work performed by the specialist and determine if and when additional audit procedures may be necessary under the current standard.

With respect to additional supervision requirements associated with auditor-engaged specialists specifically, although we recognize the importance of continuing to identify specific relationships that may have an impact on objectivity, we would caution that mandating compliance with similar quality control standards that currently exist under AS10 related to auditor-employed specialists (such as independence) may not be practical or possible to implement for auditor-engaged specialists and may not result in additional objectivity or improve overall audit quality. In fact, we believe the implementation of such a broad based standard may have the opposite effect resulting in a decreased number of qualified specialists willing to be engaged by auditors. Furthermore, we then have concerns that firms unable to economically justify the employment of a variety of

specialists may not be able to engage qualified specialists willing to abide by AS 10, therefore resulting in a practical inability to comply with these new requirements.

Issuer-employed and Issuer-engaged Specialists

We believe there is a spectrum of acceptable evidence that can be obtained from different specialists that could be considered reasonable and appropriate depending on the circumstances. On one end of the spectrum, we view evidence obtained from auditor employed or engaged specialists (as discussed above) to have the highest level of evidence quality, moving next to issuer-engaged specialists and then to issuer-employed specialists on the other end of the spectrum. The evaluation of evidence quality, in our view, also evolves during the audit as the credentials and reputation of the preparer are determined and assumptions, models and conclusions are subjected to auditor scrutiny.

We find that our assessment of the evidence provided by specialists varies and can result in application of additional audit procedures in order to substantiate the reasonableness of the specialists' methods, assumptions and conclusions. There may be instances where an auditor should engage a specialist to provide an additional level of evidence on a material, sensitive estimate. However, auditors should be able to continue to apply judgment with regard to the nature and scope of audit procedures, including the work of specialists combined with other procedures, to appropriately audit these significant estimates.

We believe the existing guidance in AU section 336, when applied appropriately, allows for the flexibility to audit the work of specialists employed in developing estimates in response to differing circumstances. We believe the standard, if enhanced, should retain this flexibility, while providing additional clarification regarding the documentation requirements associated with properly complying with the standard.

Other Potential Specialists

We believe that experts used related to information technology and taxes should continue to be excluded from the definition of "specialists". While these areas have increased in complexity over the years, we believe these are aspects of the accounting and auditing discipline and the expertise of auditors, and that, generally, auditors of issuers should maintain the internal expertise required to effectively audit these areas.

Independence

We believe that specialists engaged by the auditor should not be required to be independent under SEC rules as it would be impractical to require the auditor to establish and enforce this level of independence with an engaged specialist. The SEC independence rules are complex and we expect that specialists are not well versed enough in this area to determine their applicability and ultimately make this representation to the auditors. We are concerned that a requirement that causes the specialist to create a quality control system to track SEC independence compliance may be a cost and effort that the specialist is unwilling to undertake, with a possible result being a decreased number of otherwise qualified specialists being available to the auditor. In addition, smaller firms cannot generally make a business case for employing

numerous specialists to cover all the specialty areas that may be applicable to its issuer audit engagements. The end result might be to discourage qualified smaller firms from continuing their SEC practices, which is not in the best interest of investors.

Also, some specialists do confirm certain aspects of objectivity that are required in the underlying membership requirements of their specialty in their reports that can assist the auditor in evaluating the specialist's objectivity. We do not believe that an auditor-engaged specialist needs to be SEC independent in the sense of auditor independence in order to be qualified. We believe a specialist's compliance with its own underlying membership requirements will generally be sufficient, if those requirements have been deemed sufficient in the auditor's judgment.

In summary, we believe the existing standard, when applied appropriately, remains relevant and useful in providing guidance to auditors when specialists are relied upon during an audit. We believe the majority of the issues arising in practice with respect to the use of specialists relate to improper application of existing standards that we believe could be best addressed in a practice alert specific to this topic. In the absence of, or in addition to, a specific practice alert being issued, we support enhancements to the current standard to provide this additional clarity.

Thank you again for the opportunity to comment on this consultation paper. We would be pleased to respond to any questions the PCAOB or its staff may have about these comments. Please direct any questions to John Klisch at john.klisch@plantemoran.com or 312-980-3336 or Joan Waggoner at joan.waggoner@plantemoran.com or 312-980-2945.

Very truly yours,

PLANTE & MORAN, PLLC