



441 G St. N.W.  
Washington, DC 20548

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

**PCAOB Staff Consultation Paper No. 2015-01, *The Auditor's Use of the Work of Specialists* (May 28, 2015)**

This letter provides the GAO's comments on the Public Company Accounting Oversight Board's (PCAOB) referenced staff consultation paper.

We support the PCAOB's efforts to improve the quality of financial reporting and increase the confidence users have in the audit of financial statements. We encourage the PCAOB to work closely with other standard setters, such as the International Auditing and Assurance Standards Board and the Auditing Standards Board, to promote robust auditing standards and consistency of practice by continuously improving and harmonizing standards.

We concur with the PCAOB's view, discussed in detail in Section IV of the staff consultation paper, concerning the need for improvements to PCAOB standards related to use of specialists. In addition, we generally concur with the potential amendments presented in the staff consultation paper. We believe such changes would significantly improve the PCAOB standards.

The PCAOB staff consultation paper seeks comment on 48 specific questions. We have provided comment on most of those questions in an enclosure to this letter.

We thank you for considering our comments on these important issues as the PCAOB continues its effort to enhance its auditing standards.

A handwritten signature in black ink, appearing to read "James R. Dalkin".

James R. Dalkin  
Director

Financial Management and Assurance

Enclosure

## Enclosure

### Comments on Staff Consultation Paper No. 2015-01, *The Auditor's Use of the Work of Specialists*

Following are our comments on the questions included in Sections III through VIII of the consultation paper.

#### III. Current Requirements and Current Practice

##### **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?**

GAO audits are conducted in accordance with generally accepted government auditing standards (GAGAS). GAGAS incorporate by reference the American Institute of Certified Public Accountants' (AICPA) Statements on Auditing Standards. Accordingly, PCAOB standards do not apply to GAO. Nevertheless, the information presented in Section III appears to reasonably characterize our understanding of current practice.

##### **2. Are there any challenges associated with current practice, especially for those accounting firms that have incorporated the standards of the IAASB or of the ASB into their audit methodologies?**

We have not encountered significant challenges associated with implementing AU-C sec. 620.

##### **3. For accounting firms that use the work of an auditor's specialist:**

- a. **Does the firm employ or engage those specialists? How does the firm decide to employ versus engage a specialist? For larger firms that employ specialists, are there circumstances when the firm uses engaged specialists? If the firm employs and engages specialists, describe the relevant ways in which each may be used in an audit.**
- b. **Does Figure 1 in Section II.A accurately describe the activities for which the firm uses the work of a specialist? What other specialized knowledge and skill do specialists have and in what areas of the audit is their work commonly used?**
- c. **What type of work do the specialists perform? Does the type of work vary depending on whether the firm employs or engages the specialist? Does the type of work vary depending on the specialist's field of expertise?**
- d. **Is the auditor's specialist more likely to assist in testing the company's process or developing an independent estimate? Why?**

GAO employs and engages auditor specialists. Generally, our employed specialist is a stakeholder for the audit engagement. Generally, our determination to engage a specialist is based on the need for additional resources to perform detailed evaluations or detail testing.

Figure 1 in Section II.A appears to reasonably describe the activities for which firms use specialists.

We use specialists to assist in evaluating internal control relating to information systems. In addition, we use specialists to assist in evaluating certain significant estimates. Significant estimates include pension liabilities, health care liabilities, environmental and disposal liabilities, insurance and guarantee liabilities, and asset valuations. In addition, we use specialists to assist in evaluating certain projections, such as those included in the U.S. Government's Statements of Social Insurance. Also, the component auditors for our audit of the U.S. Government's consolidated financial statements use a variety of specialists.

While the work of our specialists includes both testing models and assumptions and developing independent estimates, the work is more process testing oriented. A considerable amount of work is related to information systems controls. In addition, for a variety of unique estimates, the more efficient method of testing is deemed to be through testing management's process, especially since we generally perform an evaluation of internal control.

**4. For accounting firms that use the work of an auditor's employed specialist:**

- a. Does supervising the work of employed specialists in accordance with Auditing Standard No. 10 present any challenges?**
- b. How does the firm evaluate whether the work was performed and whether the results of the employed specialist's work support the conclusions reached?**
- c. Does this evaluation vary by the nature of the specialization and degree of the auditor's familiarity with that particular specialization?**
- d. How would the evaluation change if the firm engaged the specialist?**
- e. What is the process for determining whether more senior specialists in the firm, such as partners or principals, should assist the auditor in supervising the work of the specialist? How does that assistance affect the auditor's supervision of the work of the employed specialist?**

GAO audit engagements generally include the participation of the corresponding GAO specialists.

We evaluate the work of our employed specialists in accordance with AU-C sec. 620. Specifically, we evaluate the adequacy our specialists' work by evaluating the relevance and reasonableness of the specialists' findings and conclusions and their consistency with other audit evidence. For work that involves the use of significant assumptions and methods, we obtain an understanding of the specialists' assumptions and methods and evaluate the relevance and reasonableness of the assumptions and methods in the circumstances. We consider the rationale and support the specialist provides and how these relate to our other findings and conclusions. In addition, to the extent applicable, we evaluate the relevance, completeness, and accuracy of source data used by the specialists.

When we engage a specialist, in addition to the steps indicated above, GAO's employed specialist generally reviews in detail the work of the GAO-engaged specialist.

**5. For accounting firms that use the work of an auditor's engaged specialist:**

- a. What process does the firm use to assess the knowledge and skill of a specialist before engaging the specialist?**
- b. Are there circumstances when the auditor performs procedures in addition to those specified in AU sec. 336 to evaluate the work of the specialist (e.g., performs procedures similar to those in Auditing Standard No. 10)? If so, describe those circumstances and the reasons for using that approach. Do**

**senior specialists in the firm (if any), such as managers and partners, assist in evaluating the engaged specialist's work?**

- c. How does the firm apply the requirements of AU sec. 336, in conjunction with the risk assessment standards, to the use of the work of an engaged specialist?**
- d. In using the work of an engaged specialist, does the firm have access to all the methods and models of that specialist, or are there instances when access to proprietary methods or models is restricted by the specialist or the specialist's employer?**

As part of engaging a specialist, we generally issue a request for proposal that details, among other things, the required knowledge and skills of the specialist. The proposals are evaluated by senior members of the audit engagement team and, as appropriate, GAO specialists. Assessing a specialist's knowledge, skills, experience, and independence is critical to engaging a specialist.

We evaluate the work of an engaged specialist consistent with AU-C sec. 620. See our answer to question 4 for procedures performed relating to the work of our auditor specialists.

We generally provide our engaged specialist our risk assessment. In addition, as applicable, the specialist will test or assist in testing key controls.

Generally, our approach has been to test the agency's methods or models. Either our employed specialist, or our engaged specialist, tests the methods used and evaluates the reasonableness of the assumptions. In cases where GAO uses an engaged specialist, a GAO specialist reviews the engaged specialist's work for reasonableness, in addition to the reviews performed by the auditors.

**6. For accounting firms that use the work of a company's specialist:**

- a. What are the circumstances in which the firm uses the work of a company's specialist? If so, describe the related audit procedures performed in connection with the specialist's work. Are there circumstances when the auditor performs procedures in addition to those specified in AU sec. 336 to evaluate the work of the specialist? If so, describe those circumstances and the reasons for using that approach.**
- b. Does Figure 1 in Section II.A accurately describe the activities for which the auditor uses the work of a company's specialist? Are there other activities in which the auditor uses the work of a company's specialist that should be considered within the scope of this project?**
- c. In what circumstances has the firm concluded that the findings of the company's specialist were unreasonable and therefore performed additional procedures, as required by AU sec. 336? In those circumstances, what procedures did the auditor perform?**
- d. How does the firm currently apply the requirements of AU sec. 336, in conjunction with the risk assessment standards, to the use of the work of a company's specialist?**
- e. Are there any differences between how the firm uses the work of a company's employed specialist and a company's engaged specialist?**

Consistent with AU-C sec. 500, *Audit Evidence*, we consider the work of a company's specialist as audit evidence provided by management, and accordingly, we subject such information to audit procedures that may include having GAO-employed specialists or GAO-engaged specialists review the methods and assumptions.

#### **IV. Potential Need for Improvement**

##### **7. 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?**

We concur with the staff's analysis for the need to improve PCAOB standards related to using the work of specialists.

As suggested in the staff consultation paper, the work of a company-employed or company-engaged specialist should be considered information provided by management, and thus requires sufficient audit procedures to assess its adequacy to ensure that the specialist's work is reasonable for the auditor's purposes.

##### **8. When an auditor obtains an understanding of the methods used by the company's specialist:**

- a. If the auditor has access to the specialist's methods (or models), is that access at a sufficiently detailed level (as opposed to a general level, such as a website description) to allow the auditor to obtain sufficient, appropriate audit evidence?**
- b. If the auditor does not have such access, how does the auditor obtain sufficient, appropriate audit evidence regarding the relevant assertion?**

We generally obtain the access to the agency's specialists' methods (or models) at a very detailed level that allows our specialists (either GAO-employed or GAO-engaged) to obtain sufficient, appropriate audit evidence.

#### **V. Alternative Regulatory Approaches**

##### **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?**

Revisions to PCAOB standards appear to be the most appropriate way to address the issues discussed in the staff consultation paper. In addition, the PCAOB's concurrent efforts relating to auditing accounting estimates and fair value measurements, as discussed in its *Estimates and Fair Value Consultation Paper*, should help address some of the issues discussed in the staff consultation paper.

##### **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?**

As in essence the auditor's engaged specialist and the auditor's employed specialist are performing identical tasks, the audit requirements should be similar. However, it does not appear unreasonable to have different requirements for an employed specialist to the extent that the employed specialist's work is subject to PCAOB Auditing Standard No. 10.

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

We do not offer a response to this question.

**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 do not offer a response to this question.

**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?**

We do not offer a response to this question.

**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? If so, how might the company's use of the work of a competent and objective specialist under the potential alternatives affect the nature, timing, and extent of the auditor's procedures?**

It is appropriate for an auditor to consider the knowledge, skill, and objectivity of a company's specialist. Nevertheless, it is our view that for assertions with higher risk of material misstatement, to the extent applicable, the auditor should be required to use the services of an auditor-engaged independent specialist or an auditor-employed specialist.

The evaluation of the knowledge, skill, and objectivity of a company's specialist may have a bearing on the auditor's risk assessment and may affect the extent of the auditor's specialist's review of the work performed by the company's specialist.

**15. How do auditors currently obtain an understanding of the assumptions and methods used by a specialist under AU sec. 336?**

Please see answer to question 4.

**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?**

As suggested in the staff consultation paper, we believe that the work of the company's specialist should be considered as audit evidence and should be subject to audit procedures similar to other audit evidence obtained from the company.

**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?**

The PCAOB may consider an approach similar to AU-C sec. 500.08 (and its application guidance AU-C sec. 500.A35-49) for areas of lower risk. This would allow the auditor to use the work of a company's specialist after performing certain audit procedures, including evaluating the relevance and reasonableness of the assumptions and methods used. However, for assertions with higher risk of material misstatement, we believe the approach suggested in the staff consultation paper—in essence, the auditor using the auditor-employed or auditor-engaged specialist—is warranted.

**18. Are there any practical concerns with rescinding AU sec. 336? The staff is especially interested in the views of auditors, companies that typically use the work of specialists, and specialists, including those in specialized industries (such as oil and gas and environmental engineering). Are there other challenges associated with testing the work of a company's specialist?**

We do not offer a response to this question.

**VI. Potential Amendments – Definitions**

**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?**

In general, we concur with the potential definitions provided. However, as indicated in footnote 2 in the staff consultation paper, the definitions exclude persons with specialized knowledge in income taxes and information technology. Distinguishing the role of an auditor with expertise in accounting and auditing from that of an expert in another field may require professional judgment. For example, a non-certified public accountant (CPA) who is an expert in tax issues related to transfer pricing, or a non-CPA who is an expert in cybersecurity, perhaps should be considered as a specialist in a field other than accounting and auditing, but would not be considered a specialist under the potential definition in the staff consultation paper. We believe that persons with highly specialized skills in taxes or information systems should be evaluated to determine whether they should be considered specialists for the purposes of AU sec. 336. To the extent that such persons do not possess the skill and knowledge to perform financial statement audits, the PCAOB may consider whether such persons should be considered specialists.

**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?**

Please see answer to question 19.

**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?**

Please see answer to question 19.

#### **VII. Potential Amendments – Auditor's Employed or Engaged Specialist**

**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?**

While the requirements appear adequate, we suggest that the introductory wording be reevaluated. The auditor generally does not "determine the knowledge and skill" of a specialist. Rather, the auditor evaluates information to determine whether the specialist possesses the necessary skill and knowledge to assist the auditor in obtaining sufficient, appropriate audit evidence.

**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?**

The matters described in the potential requirements on which the auditor and an auditor's specialist should reach an agreement appear to be sufficient and appropriate. The PCAOB may consider also requiring that the auditor communicate with the specialist the relationship of the audit's risk assessment to the work the specialist is performing. Clear communication of such audit risks will likely augment the effectiveness of the specialist's work.

**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?**

We do not envision any significant obstacles.

**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)?**

We do not offer a response to this question.



**26. How do accounting firms determine what information an auditor’s specialist should provide to the auditor? Are there circumstances in which auditors may not retain all audit evidence obtained from the specialist?**

Generally, a GAO-employed or GAO-engaged specialist provides a copy of the entire set of audit documentation that is reviewed and incorporated into our audit documentation. Consistent with the agreement with our specialist, generally such documentation includes detailed audit plans, documentation of procedures performed, and a report on findings and conclusions based on the procedures performed.

**27. Do the potential requirements appropriately reflect what the auditor’s responsibilities should be when an auditor’s specialist develops an independent estimate? How would these potential requirements differ from current practice (e.g., for audits performed in accordance with ISA 620 or AU-C Section 620)?**

The potential requirements appear to reasonably reflect what the auditor’s responsibilities should be when an auditor’s specialist develops an independent estimate.

PCAOB may consider clarifying that the auditor needs to evaluate the sufficiency of the work that the specialist performed. As worded, it appears that the auditor defines the “nature, timing and extent of the work the specialist is to perform” and the auditor evaluates the “conclusions of the specialist.” It may not be clear that the auditor needs to also evaluate the sufficiency of the work performed as a basis for the conclusions reached.

We also suggest that the PCAOB consider clarifying that the auditor should evaluate the auditor’s specialist’s consideration of alternative methods and assumptions available, and the auditor’s specialist’s rationale for selecting the specific methods and assumptions used in developing an independent estimate. While the rationale may be implicit within the “information presented in the report or documentation of the specialist,” we suggest clarification as the specialist’s rationale for selecting certain methods and assumptions over other available alternatives may have a significant bearing on a financial statement audit. In addition, the auditor’s specialist, in evaluating the work of a company’s specialist, should also explain why he or she believes (or does not believe) that the specific methods and assumptions are reasonable in the particular circumstances.

**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? How would these potential requirements differ from current practice (e.g., for audits performed in accordance with ISA 620 or AU-C Section 620)?**

Please see answer 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? How would these potential requirements differ from current practice (e.g., for audits performed in accordance with ISA 620 or AU-C Section 620)?**

Please see answer 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?**

The PCAOB may consider providing additional guidance on steps that the auditor should consider in evaluating the work of an auditor's specialist. For example, AU-C sec. 620.A36-37 provides application guidance on various steps the auditor may perform in evaluating an auditor's specialist's findings and conclusions.

**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)? If not, how should the potential requirements be tailored?**

Please see answers to questions 27 and 30.

**32. How does the auditor evaluate relationships between an auditor's engaged specialist and a company under AU sec. 336?**

Please see answer to question 5.

**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?**

The potential requirements appear appropriate and feasible.

**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?**

The auditor's engaged specialist should meet the independence criteria.

**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? If not, should other relevant factors be added to the potential enhanced objectivity requirements? For example, should the potential requirements take into account information barriers or other controls to address conflicts of interest at a specialist’s firm?**

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 audited company appear appropriate.

**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? If not, are there other relevant factors that would be helpful to add to the potential requirements? For example, should the potential requirements take into account “threats” to objectivity and “safeguards” to reduce the threats, as provided in ISA 620?**

The potential requirements for the auditor to evaluate the objectivity of an auditor’s specialist appear appropriate.

**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?**

The enhanced objectivity approach appears to provide sufficient assurance.

**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? If not, are there other relevant factors that would be helpful to add to the potential requirement?**

We suggest that PCAOB consider further clarifying the purposes of obtaining “information about the process used by the auditor’s engaged specialist to formulate responses to the auditor’s request for information.” Also the PCAOB may consider clarifying what constitutes an adequate process. Such clarification would improve the quality and consistency of the work performed.

**39. Does the specialist (or his or her employer) typically have a system in place capable of tracking the information to respond to the auditor’s request? If not, could a system feasibly be created?**

We do not offer a response to this question.

## VIII. Questions Related to Economic Impacts and Implications

**40. For accounting firms that use the work of an auditor's or a company's specialist for public company audits:**

- a. In how many (e.g., what percentage) of those audits is the work of specialists used? Provide details within the following categories:
  - i. Auditor's employed specialists;
  - ii. Auditor's engaged specialists;
  - iii. Company's employed specialists; and
  - iv. Company's engaged specialists.
- b. For the auditor's specialists described in a.(i) and a.(ii), what is the ratio of specialist hours to total audit hours?
- c. How are the auditor's engaged specialists compensated?

Not applicable. GAO does not perform public company audits.

**41. What are the likely economic impacts, including benefits and costs, of the potential alternatives discussed in this staff consultation paper? Are there any unintended consequences not already identified that might result from the alternatives?**

We do not offer a response to this question.

**42. To what extent would the potential alternatives help to improve audit quality or reduce the incidence of undetected misstatements, audit deficiencies, and fraud?**

The potential alternatives should significantly improve audit quality.

**43. Would any of the potential alternatives lead to increased cost? If so, what are the estimated (i) number of audits affected and impact on audit hours and cost and (ii) effects on companies' costs?**

We do not offer a response to this question.

**44. Do the incremental costs associated with any of the potential alternatives decline as an accounting firm uses specialists more frequently?**

We do not offer a response to this question.

**45. Are the costs of the potential alternatives likely to be reduced in years after the year of initial implementation?**

We do not offer a response to this question.

**46. Are the economic impacts of the potential alternatives likely to be different for audits involving (i) emerging growth companies, (ii) brokers and dealers, (iii) companies in specialized industries, (iv) companies in certain stages of their life cycles (e.g., development stage), and (v) the use of the work of specialists in specific fields of expertise? If so, provide relevant details.**

We do not offer a response to this question.

**47. Are the economic impacts of the potential alternatives likely to affect accounting firms of different sizes differently? If so, provide relevant details. Are there other alternatives that might address the need for improvement noted in this staff consultation paper at lower cost or greater efficiency?**

We do not offer a response to this question.

**48. As part of considering the need for change, the staff is analyzing academic literature that relates to the auditor's use of the work of a specialist. Is there ongoing research or other information, other than that identified in this staff consultation paper, that the staff should consider in evaluating the economic aspects of changes in standards for the auditor's use of the work of a specialist?**

We do not offer a response to this question.