



National Association of State Boards of Accountancy

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July 28, 2015

Office of the Secretary  
PCAOB  
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[comments@pcaobus.org](mailto:comments@pcaobus.org)

Re: Staff Consultation Paper No. 2015-01, *The Auditor's Use of the Work of Specialists*

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to comment on Staff Consultation Paper No. 2015-01, *The Auditor's Use of the Work of Specialists* (the "Concept Paper"). NASBA's mission is to enhance the effectiveness and advance the common interests of the Boards of Accountancy that regulate all certified public accountants and their firms in the United States and its territories. In furtherance of that objective, we offer the following in response to the questions posed in the Concept Paper.

#### OVERALL COMMENTS

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We agree with the Board's efforts to consider the need for requiring auditors to have (i) similar responsibilities for overseeing an auditor's employed or engaged specialist, (ii) greater responsibility for evaluating the methods and assumptions used by an auditor's specialist, and (iii) responsibility for evaluating the reasonableness of methods and assumptions used by a company's specialist.

We also agree with the PCAOB's considering these proposed changes to the specialist standards with the topic of auditing management estimates, since many auditors and companies use specialists in the review of significant estimates. We would also encourage the PCAOB to issue any proposed revisions to guidance in these areas at the same time, so that commenters could consider the impact of those changes concurrently. Likewise, we would encourage the effective dates of any proposed changes to these standards be effective at the same time.

The PCAOB and other audit regulators continue to disclose a number of audit deficiencies related to an auditor's use of specialists. The Concept Paper indicates that one way to improve audit quality would be through additional resources being devoted to inspections and enforcement of existing standards. However, we do not believe that would solve the underlying issues identified in the Concept Paper, and therefore we support the issuance of new guidance in this area.

We agree that an auditor's specialist should be independent and objective. However, we believe that the cost would significantly outweigh the benefits of changing the requirements of SEC Regulation S-X Rule 2-01 as this would have a huge impact on smaller firms and specialist entities. Therefore we support the "enhanced objectivity approach" outlined in the Concept Paper.

## SPECIFIC COMMENTS

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### Potential amendments- definitions:

In response to Question 20, we do not believe that changes should be made to the standards regarding the use of specialists with respect to income taxes or information technology. These individuals are considered part of the engagement team and the lead audit partner is responsible for the supervision and review of the engagement team. In situations where a smaller firm may need to engage a third party IT or income tax specialist, they should apply existing professional standards in the oversight of that specialist.

Question 21 asks should the staff provide clarification about what constitutes a specialized area of accounting and auditing? The Concept Paper discusses that not all third parties may be "specialists." We suggest that the PCAOB specifically address this in the definition, or a footnote, and clarify the difference between a third party information provider and a specialist. For example, a third party that provides readily available fair value investment information to a company or an auditor through the use of a subscription service should be not be considered a specialist.

### Evaluating the objectivity of an auditors' specialist:

The Concept Paper discusses two alternatives that would result in significantly changing the objectivity requirements relating to engaged auditor's specialists.

The first alternative would apply the independence requirements of Rule 2-01 of Regulation S-X to engaged specialists. We understand that large firms have spent significant time and resources in developing, monitoring and maintaining systems to assist their professionals, including engaged specialists, in complying with these requirements. It appears that in evaluating independence of engaged specialists under this alternative, auditors would be required to verify the processes and controls at the specialist entity are effective in meeting independence requirements. If this alternative were made a requirement, auditors would need additional guidance on expectations regarding the verification of an engaged specialist's independence, including whether a similar evaluation of the engaged specialist's system of quality control would be necessary.

The second alternative would apply an enhanced approach to incorporating the reasonable investor test as an overarching principle and, similar to Rule 2-01, would require the auditor to obtain and evaluate information regarding relationships or interests an auditor's engaged specialist has with the company

that might impair the specialist's objectivity. This too would require significant changes in practice by specialist entities.

The PCAOB should carefully consider the potential economic impact of either of these alternatives as it may not be practicable for specialist entities to continue to provide services to auditors as a result of these alternatives.

Evaluating the work of specialists:

We agree with the PCAOB staff that an auditor who reviews the work of an auditor's engaged specialist or management specialist should focus on the risks associated with the assumptions and models used in the specialist's work. The auditor should also have knowledge of the industry, subject matter and applicable reporting framework. However, the proposed standard should recognize that an auditor is likely not a specialist in many of the areas where specialists are used. There are likely limitations in the nature and extent of the review that auditors can perform over specialists, particularly auditor's engaged specialists or management specialists.

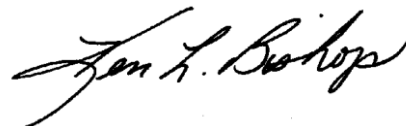
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We appreciate the strong relationship between the PCAOB, NASBA and the State Boards of Accountancy, and we look forward to being able to continue to provide transparent, relevant financial information to the users of our financial statements. Thank you for the opportunity to share our comments on Staff Consultation Paper No. 2015-01, *The Auditor's Use of the Work of Specialists*. Please contact us if you have questions or need clarification regarding our comments.

Sincerely,



Walter C. Davenport, CPA  
NASBA Chair



Ken L. Bishop  
NASBA President and CEO