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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:

We are pleased to provide comment to the Board and Staff on the recently issued Office of the Chief Auditor's (the Staff) of the Public Company Accounting Oversight Board (the Board) *Staff Consultation Paper No. 2015-01: The Auditor's Use of the Work of Specialists* (AU 336). We believe that the Staff's efforts in this area as well as issues related to auditing estimates and fair value measurement are vital to improving audit quality. Providing enhanced clarity to the public company auditors enables them to apply their judgment in a reasonable and consistent manner, based on risk assessments and clear guidance.

Baker Tilly Virchow Krause, LLP (Baker Tilly), is a large regional accounting firm operating primarily in the Midwest and Mid-Atlantic regions. We have approximately 2,500 total staff and 300 partners. We have recently crossed the 100 issuer mark and will become an annually inspected firm. Our issuer practice consists primarily of smaller, non-accelerated filers in various industries along with a substantial complement of 11-K audits. Although we will be an annually inspected firm, our organization is substantially different from a big four firm.

Overview:

Baker Tilly welcomes the Staff Consultation Paper (CP) on AU 336. We agree that the use of specialists has become more prevalent as a result of the need for more complex estimates and fair value measurements in preparing financial statements. We encourage the Staff to carefully consider enhancements to AU 336 but do not agree with rescinding the standard. AU 336 and the principles therein have been a cornerstone of the auditing profession for many years, in particular, the concept contained in paragraph .06 "*The auditor's education and experience enable him or her to be knowledgeable about business matters in general, but 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.*" When applied properly, AU 336 enables smaller auditing firms to conduct high quality audits that may include complex measurements and estimates. Therefore any revisions to AU 336 should be made in a way that is operational, sustainable, and scalable for smaller auditing firms. We believe retaining this flexibility in the auditing standard should be an important public policy consideration when the Staff is developing any potential new standard.

We recommend that the Staff consider the approach taken by the International Audit and Assurance Standards Board (IAASB) in their audit standard, ISA 620, *Using the Work of an Auditor's Specialist*, which was also adopted by the U.S. Auditing Standards Board. ISA 620 retained the basic concepts enabling the auditor to use the work of the specialists, which are:

- Evaluating the competence, capabilities, and objectivity of the specialist
- Understanding the expertise of the specialist
- Establishing a written agreement with the specialist
- Evaluating the adequacy of the work of the specialist

Within these basic concepts, the ISA standard provides robust requirements and application guidance which enables the auditor to apply judgment in the context of the related risks associated with the particular estimate.

Specific observations:

- Revisions to AU 336 should align with the risk assessment standards, recognizing that the risk associated with estimates will vary over a continuum. In many cases the auditor can effectively evaluate the work of a company employed specialist and, based on the associated risk, determine that it is reliable evidence. Other estimates may be so critical to the financial statements and have such a high level of inherent risk that the auditor should employ his own (employed or engaged) specialist to develop an independent estimate to validate management's.
- As such, requiring that management specialists be subject to the same level of evaluation of required information as other management produced information is not necessary. Maintaining a principle based approach enables the auditor, based on risk, to determine the extent of procedures required to validate the work of the management specialist. These procedures should include: evaluating the competence and capabilities of the specialist, evaluation of the internal control over financial reporting that management applies to the work of its specialist, testing the inputs used by the specialist, and the application of appropriate auditor's skepticism to the work of the specialist, acknowledging the potential inherent biases.
- When the auditor engages a specialist the basic concepts of AU 336 can be effectively employed. However, improved guidance as provided in ISA 620 would be helpful in assisting auditors to comply with the basic concepts.
- We believe the suggestion in the CP that specialists engaged by the audit firm should be subject to the independence rules in Section 2.01 of Regulation S-X, is not a feasible operational concept. The infrastructure and training required for external specialists to enable them to comply with such requirements would be exceptionally costly and would require other disciplines to apply concepts with which they are not completely familiar. Frankly, the CPA firms themselves have a difficult task in applying all of the rules and interpretive guidance inherent in the SEC rules. We do believe that the auditor can effectively evaluate the objectivity of the engaged specialists through appropriate inquiries both of the specialists' firm and the individuals on the engagement.

- With respect to auditor employed specialists, we believe that the audit firm's quality control system can provide adequate controls over the competencies and objectivity of the firm specialists. We do agree, however, that the standard should promote enhanced communication with these specialists as to the level of risk and other audit considerations related to the estimates where the specialist is involved in providing audit evidence. In other words, the auditor employed specialist should be considered part of the engagement team and be fully informed as to the relevant aspects of the engagement. Additionally, the workpapers of the auditor employed specialist should be part of the engagement files and subjected to the appropriate level of supervision and review in accordance with the firm QC guidelines.
- We agree that income taxes and information technology are specialized areas for accounting and auditing and should continue to be excluded from the definition of specialists.
- We suggest that Staff consider with its enhancements to AU 336, adding an Appendix in a manner that was used in AS #18, to provide additional guidance when applying the standard. Appendix A in AS #18 has been very helpful to our firm's implementation.

Use of third party pricing services:

The CP has concluded that the use of third party pricing services generally would not be included in the definition of a specialist. However, much the same as specialists, the use of third party pricing services by issuers and auditors is common and the ability to rely on these services is critical for the smaller firms in enabling them to provide high quality audits.

While we reluctantly agree that these pricing services do not strictly meet the definition of a specialist, we believe that the concepts in AU 336 can be reasonably employed by the auditor in assessing the reliability of audit evidence in accordance with AS #15. Notably, the procedures used to evaluate the objectivity and competency requirement in AU 336 would be similar to procedures an auditor might use in concluding on: "*Evidence obtained from a knowledgeable source that is independent of the company is more reliable than evidence obtained only from internal company sources.*"

As such we recommend the following:

- Provide additional guidance possibly in the form of a Staff Audit Practice Alert specifically directed to third party pricing services. Or perhaps within AS #15 or the forthcoming new AS on auditing fair value measurements.
- Consider situations and additional guidance where the issuer uses the same pricing services as the auditor, perhaps requiring additional procedures to suitably evaluate management's ICFR over such pricing services.
- Recognize that risk assessments should be applied when making a decision to use a third party pricing service or when relying on management's use of third party pricing services.

We believe providing such guidance will be beneficial in enabling auditors to more properly use and document the reliability of evidence obtained from third party pricing services.

Once again, we appreciate the opportunity to provide comments on this important consultation paper, and look forward to further dialogue as the standard setting process evolves.

Sincerely yours,

Baker Tilly Virchow Krause, LLP

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