



CENTER FOR CAPITAL MARKETS  
COMPETITIVENESS

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August 30, 2017

Ms. Phoebe W. Brown  
Secretary  
Public Company Accounting Oversight Board  
1666 K Street, N.W.  
Washington, D.C. 20006-2803

**Re: PCAOB Proposed Amendments to Auditing Standards for Auditors Use of the Work of Specialists (PCAOB Release No. 2017-003, June 1, 2017) (PCAOB Rulemaking Docket Matter No. 044)**

Dear Ms. Brown:

The U. S. Chamber of Commerce (the “Chamber”) created the Center for Capital Markets Competitiveness (“CCMC”) to promote a modern and effective regulatory structure for capital markets to fully function in a 21<sup>st</sup> century economy.<sup>1</sup> CCMC believes that businesses must have a strong system of internal controls and recognizes the vital role external audits play in capital formation.

CCMC supports efforts to improve audit effectiveness and appreciates the opportunity to comment on the Public Company Accounting Oversight Board (“PCAOB”) Exposure Draft on *Proposed Amendments to Auditing Standards for Auditors Use of the Work of Specialists* (PCAOB Release No. 2017-003, June 1, 2017; PCAOB Rulemaking Docket Matter No. 044) (the “Proposal”). The Proposal was preceded by a PCAOB Staff Consultation Paper on *The Auditor’s Use of the Work of Specialists* issued in May 2015, which CCMC commented on and since we reiterate certain matters

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<sup>1</sup> The Chamber is the world’s largest federation of businesses and associations, representing the interests of more than three million U.S. businesses and professional organizations of every size and in every economic sector. These members are both users and preparers of financial information.

discussed in that letter, it is attached and request that it be made part of the record for the Proposal.<sup>2</sup>

The Proposal distinguishes among auditor-employed specialists, auditor-engaged specialists, and company specialists (which can be either employed or engaged by the company). The Proposal would also make a number of alterations in PCAOB audit standards related to the use of these specialists. These changes include amending *Audit Evidence* (AS 1105) by adding an appendix on using the work of a company's specialist as audit evidence; amending *Supervision of the Audit Engagement* (AS 1201) by adding an appendix on supervision of the work of auditor-employed specialists; and replacing AS 1210 and retitling it as *Using the Work of an Auditor-Engaged Specialist*.

The Chamber has concerns with the current proposal, including the costs and consequences for smaller businesses and their auditors. In addition, our comments address some specific concerns regarding the Proposal and changes it would make from current guidance.

## 1. Smaller Business Impacts and Economic Considerations

We are particularly concerned that the proposed requirements will have a significant impact on smaller companies, as well as smaller audit firms. The Proposal appears to be a “one-size-fits-all” approach—there is no real evidence that the proposed requirements would be scalable in a meaningful way.

The Proposal recognizes that the requirements could give rise to recurring costs for auditors in the form of additional time and effort spent by specialists and engagement team members. For example, the Proposal states that:

*The most significant impact of the proposal on costs for auditors is expected to result from the proposed requirements to test and evaluate the work of a company's specialist... [T]hese requirements may result in auditors who currently perform limited procedures over the work of a company specialist engaging or employing an auditor's specialist to assist in performing those procedures. This may lead to significant changes in practice for some firms, particularly smaller firms...<sup>3</sup>*

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<sup>2</sup> See the July 31, 2015 letter from the U.S. Chamber of Commerce Center for Capital Markets Competitiveness on PCAOB Staff Consultation Paper No. 2015-01 on *The Auditor's Use of the Work of Specialists* (May 28, 2015).

<sup>3</sup> See the Proposal, page 41.

Most, if not all, of these costs for auditors will certainly be passed on to companies as increased audit fees. This is especially concerning for smaller companies, whose audit firms may no longer be able to use the work of company specialists as they do in accordance with current PCAOB auditing standards.

Additionally, the PCAOB recognizes that the Proposal could give rise to new recurring costs for management and company specialists. For example, management and company specialists may need to devote more time and resources to respond to auditor inquiries and requests.<sup>4</sup> This is an important point for the PCAOB to consider as regressive audit and internal control costs have been cited by businesses as a disincentive to going public. We believe that those costs should be scalable and smart regulatory tools used to develop standards that achieve important goals in a balanced manner.

While the PCAOB requests comment generally on the potential costs to auditors and companies, the Proposal provides no evidence on the magnitude of the potential costs or any attempt to quantify them.<sup>5</sup> It should be noted that the courts have interpreted that regulatory cost benefit analysis requires an agency to develop an analysis and release it for public comment, which was not done here. We strongly encourage the PCAOB to proactively engage in efforts to obtain such evidence through means in addition to the formal comment process on the Proposal.

For example, in our May 2015 comment letter on the Staff Consultation, we urged the PCAOB to engage in field-testing and similar-type measures before implementing any changes in auditing standards. Among other matters, field-testing could provide evidence that would facilitate quantifying the magnitude of the costs and provide insights on other potential unintended consequences for companies and smaller audit firms.

Such evidence is also important because of the likely competitive disadvantages imposed on smaller audit firms by the Proposal. The PCAOB recognizes that the Proposal may result in some smaller firms accepting fewer audit engagements that would require the use of an auditor's specialist (rather than only use the work of a

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<sup>4</sup> See the Proposal, page 43.

<sup>5</sup> CCMC appreciates that PCAOB inspection data from 2015 find smaller audit firms generally have fewer audit engagements that use the work of a company's specialist or an auditor's specialist (see the Proposal, page 26). (The latter are more likely to be auditor-engaged specialists rather than employed.) However, these inspection data may not be representative of engagements generally. Regardless, the data indicate a meaningful use of specialists by smaller audit firms, including audits that use the work of a company's specialist but not the work of an auditor's specialist.

company's specialist under existing auditing standards) and inhibit some smaller firms from expanding their audit services for the same reasons.<sup>6</sup>

## 2. Specific Concerns Regarding the Proposal

The Proposal elevates the role of the engagement partner in regards to using the work of specialists. For example, the Proposal enumerates requirements for evaluating the work of an auditor-engaged specialist.<sup>7</sup> Given the point of using the work of a specialist on an audit and the very nature of the unique expertise specialists provide, the PCAOB should ensure that the Proposal does not go too far in setting expectations for audit engagement partners in this regard.

The Proposal would rescind A1 11, *Using the Work of a Specialist: Auditing Interpretations of AS 1210*. The PCAOB states this is because:

*[T]he interpretation is based on outdated accounting requirements and banking regulations, and the proposed amendments set forth the necessary requirements for evaluating the work of legal specialists when auditing financial asset transfers.<sup>8</sup>*

CCMC appreciates the importance of updating PCAOB auditing standards to recognize changes in accounting standards and regulatory requirements. Nonetheless, in this instance, we understand that the guidance in this interpretation continues to be very useful for auditors. We strongly encourage the PCAOB to retain this interpretation on the use of legal interpretations as evidential matter.

Further, the Proposal contains certain requirements that appear to present challenges for auditors to implement. For example, the Proposal calls for auditors to:

- Evaluate whether the data were appropriately used by a company specialist.<sup>9</sup>

However, the Proposal provides no guidance on how the auditor would go about doing so in order to meet this requirement. In addition, given other requirements in the Proposal, the need for this evaluating is unclear.

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<sup>6</sup> See the Proposal, page 44.

<sup>7</sup> See the Proposal, page A1-23.

<sup>8</sup> See the Proposal, pages A3-45 to 46.

<sup>9</sup> See the Proposal, pages A1-11 and A5-15.

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- Assess the knowledge, skill, and ability of company specialists and auditor-engaged specialists.<sup>10</sup>

Asking the auditor to consider whether the specialist can perform the requisite task or assignment makes sense when the auditor uses the work of specialists. CCMC appreciates that the Proposal contains some guidance for auditors in making these assessments. However, our concern is with the potential for unintended consequences down the road because of the term “and,” which implies the PCAOB intends that auditors should separately evaluate all three: knowledge, skill, and ability for each specialist. For example, we can envision PCAOB inspectors looking for documentation that the auditor has assessed all three. Put simply, the distinctions that the PCAOB has in mind in regards to this assessment are not clear.

We are concerned that the Proposal makes certain changes with existing practices that are problematic, while also placing regressive costs upon small businesses and their auditors. We hope to work with the PCAOB to resolve these issues, and stand ready to discuss them with you further

Sincerely,



Tom Quadman

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<sup>10</sup> See the Proposal, pages A1-20, A1-21, A3-10, A3-37.