

August 31, 2017

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

Re: PCAOB Rulemaking Docket Matter 044 – Release No. 2017-003: *Proposed Amendments to Auditing Standards for Auditor’s Use of the Work of Specialists*

Dear Office of the Secretary:

**BKD, LLP** is pleased to provide our comments on the Public Company Accounting Oversight Board’s (PCAOB or Board) *Proposed Amendments to Auditing Standards for Auditor’s Use of the Work of Specialists* (the Proposal).

**BKD, LLP** (BKD) is the 12<sup>th</sup> largest public accounting firm in the United States, with over 2,600 personnel serving clients from 35 offices in 16 states. We have been registered with the PCAOB since its inception and serve as the independent registered public accounting firm for approximately 75 public companies. Our comments come from our perspective as a medium-sized accounting firm and the middle-market clients we serve.

We support the PCAOB’s desire to strengthen the requirements that apply when auditors use the work of specialists in an audit and agree with the PCAOB’s assessment that the use and importance of specialists has increased in recent years, due to additional fair-value requirements and the complexity of business transactions. BKD advocates targeted improvements that would be both operational and scalable for all accounting firms.

Regarding the Board’s proposed amendments, we have several relatively minor concerns but generally are supportive of the amendments as proposed to AS 1201, *Supervision of the Audit Engagement*, and the replacement of AS 1210, *Using the Work of an Auditor-Engaged Specialist*. We have some significant concerns, however, relating to the proposed amendments to AS 1105, *Audit Evidence*. In order to keep the focus on our most substantial concerns, we are limiting our detailed comments to those items in the Proposal where our views most significantly diverge from the Board.

While we are encouraged by the Board’s efforts to implement a risk-based approach when using the work of specialists, we believe the proposed standards as written may result in quite the opposite. That is, a more formulaic and rules-based approach that diminishes the value of

auditor judgment and risk assessment. Based on the discussion in the Proposal accompanying the proposed changes, we do not believe this is the PCAOB's intent and suggest the Board further evaluate how the proposed standards would be operationalized in order to fully appreciate the consequences.

### **Using the Work of a Company's Specialist as Audit Evidence**

#### *Testing and Evaluating the Work of the Company's Specialists*

We note the Board's assertion that "(t)he proposed requirements are aligned with the Board's risk assessment standards, so that the necessary audit effort is commensurate with, among other things, the significance of the specialist's work to the auditor's conclusion regarding the relevant assertion and the associated risk."<sup>1</sup> However, our experience with interpretations of PCAOB auditing standards informs us that a literal read of each paragraph in a given standard is required. Based on this perspective of interpreting standards, it seems possible and even likely that certain paragraphs in the proposed Appendix B to AS 1105 will create a de facto requirement for auditors to employ or engage specialists whenever an audit client uses a specialist to provide audit evidence.

Our concern on this point is the result of considering the proposed language in AS 1105 paragraphs .B6 and .B8. By definition, "a specialist is a person (or firm) possessing special skill or knowledge in a particular field other than accounting or auditing."<sup>2</sup> While auditors are required to have skills and knowledge in the fields of accounting and auditing in order to apply due professional care in performing their audit engagements, in general, auditors are not expected to have similar special skills or knowledge in areas other than accounting or auditing, where specialists are used.

Specifically in proposed paragraphs 1105.B6a and 1105.B8(3), the Proposal indicates the auditor's procedures to test and evaluate the work of a company's specialist involves "evaluating whether the data was appropriately used by the specialist." Given that auditors cannot be expected to have the special skill or knowledge that the specialist has, it appears that a rebuttable presumption exists in the proposed standards that the auditor would not be able to accomplish these procedures without engaging or employing their own specialist to appropriately make such evaluations.

Further, proposed paragraph 1105.B8 provides "(t)he auditor also should evaluate whether the methods used by the specialist are appropriate and the significant assumptions used by the specialist are reasonable." Again, it is unclear how an audit professional without the expertise or training in the specialist's field or occupation would be qualified to evaluate and conclude on the appropriateness of the methods and assumptions used by the specialist. Rather, we believe there

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<sup>1</sup> See page 23 of the Proposal.

<sup>2</sup> Proposed AS 1105.B1, Footnote 1.

are many situations when evaluating the qualifications and work of specialists under existing standards provides an appropriate audit response to address the risk of material misstatement. The language in the proposed standards leads us to conclude in situations where an auditor may possess such special skill or knowledge, or determine not to use an auditor's specialist for any reason, it may be difficult to establish and justify the decision not to use an auditor's specialist in the circumstances.

We recommend the Proposal keep the principles of extant AS 1210 on this topic, which explicitly acknowledges that auditors' are "not expected to have the expertise of a person trained for or qualified to engage in the practice of another profession or occupation."<sup>3</sup>

#### *Company Employed vs. Engaged Specialists*

We note the Board makes no distinction in the nature and extent of procedures to be performed regardless of whether a company's specialist is employed or engaged. Considering the requirement to evaluate aspects of the specialist's work as noted above, as well as the requirement to comply in certain circumstances with the more detailed procedures in the *Proposed Auditing Standard for Auditing Accounting Estimates, Including Fair Value Measurements*, we believe there are differences that should be considered when determining the appropriate audit procedures in situations where a company engages (rather than employs) a specialist.

While AS 1105.08 provides that "evidence obtained from a knowledgeable source that is independent of the company is more reliable than evidence obtained only from internal company sources," it is unclear why the Board believes this is not the case when it comes to audit evidence from a specialist. We suggest the guidance in AS 1105.08 should generally remain applicable to audit evidence obtained from specialists. In addition, we believe the proprietary nature of external specialists' models will create significant difficulties in applying the proposed procedures.

The consequences in this instance could create a further need for the auditor to engage another specialist in order to develop an independent estimate, instead of testing the estimate developed by the company. This would result in companies essentially paying for two specialists to create two separate estimates, with potentially no comfort that either estimate would be more appropriate than the other. Additionally, smaller public companies may bear an increased burden in this situation, as they and their accounting firms are more likely to need to engage external specialists for specific situations where they do not have the economies of scale and scope to economically employ relevant specialists.

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<sup>3</sup> Extant AS 1210.06.

Office of the Secretary  
Public Company Accounting Oversight Board  
Page 4  
August 31, 2017

BKD supports the PCAOB's endeavors to further audit quality. Additional specificity and clarity around the use of specialists benefits the profession given their increasing importance. However, we believe the interpretation and implementation challenges of the Proposal may result in a de facto requirement for auditors to employ or engage specialists in all situations where a company also employs or engages its own specialist. Further, smaller firms' limited resources and scale make it impossible to retain the variety of in-house specialists needed for multiple types of complex business transactions, and thus they and their middle-market clients will bear a disproportionate burden. The scalability of enhancements to auditing guidance is critical to ensuring a sustainable playing field for all public accounting firms without compromising audit quality. In addition to considering standard-setting updates, we encourage the PCAOB to continue to issue additional guidance when the inspection process reveals consistent departures from the current guidance on the use of specialists.

We appreciate the opportunity to express our views for the Board's consideration. If you have any questions or would like to discuss these matters further, please contact Doug Bennett at 417.831.7283 or by email at [dbennett@bkd.com](mailto:dbennett@bkd.com) or Peter Kern at 417.831.7283 or by email at [pkern@bkd.com](mailto:pkern@bkd.com).

Sincerely,

Handwritten signature of BKD, LLP in black ink.

**BKD, LLP**