



August 30, 2017

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

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

Dear Members of the Board and Staff:

Mazars USA LLP ("Mazars") welcomes the opportunity to comment on PCAOB Release No. 2017-003 Rulemaking Docket Matter No. 044 - *Proposed Amendments to Auditing Standards for Auditor's Use of the Work of Specialists* ("Docket 044"). Mazars appreciates the PCAOB's efforts since the issuance of Staff Consultation Paper No. 2015-01, *The Auditor's Use of the Work of Specialists* ("SCP"). Mazars continues to support the PCAOB's goal of aligning the standards addressing the requirements for evaluating the work of a specialist employed or engaged by either the company or the auditor with the PCAOB's risk assessment standards and believes the proposed amendments, replacements, and rescindments take steps toward reaching those goals. This letter presents our views regarding the changes outlined in Docket 044 for the Board's consideration.

Mazars is a firm with over 100 partners and 700 professionals across the United States ("U.S."), an independent member firm of the Mazars Group, an organization with over 18,000 professionals in more than 79 countries around the world, and a member of Praxity, a global alliance of independent firms. As a U.S. registered public accounting firm and a member of an international network, Mazars holds a unique perspective that may differ from those of our international counterparts due to variations in the client population and in the regulatory and litigation environments.

Our views on Docket 044 are driven primarily by our position in the U.S. marketplace as a medium-sized public accounting firm servicing mostly small to mid-size business issuers (accelerated and non-accelerated filers) in a variety of industries, Form 11-K filers, registered investment companies, and broker-dealers. As such, our primary focus is to address our concerns and challenges related to audits of companies with similar characteristics to our current client base as well as to similar accounting firms.

We recognize the PCAOB's extensive efforts related to addressing the use of specialists standards including the considerations of the feedback received from the SCP, the numerous discussions and considerations of the members of the Standing Advisory Group of the PCAOB, and the data gathering and analyses from recent inspections and available economic information. As noted in our response to the SCP, we did not believe rescinding extant AU 336 (AS 1210) would improve audit quality and recommended certain enhancements to improve auditor performance.

MAZARS USA LLP  
135 WEST 50TH STREET – NEW YORK, NEW YORK – 10020  
TEL: 212.812.7000 – FAX: 212.375.6888 – [WWW.MAZARSUSA.COM](http://WWW.MAZARSUSA.COM)

MAZARS USA LLP IS AN INDEPENDENT MEMBER FIRM OF MAZARS GROUP.



We present our thoughts on Docket 044 in the following categories:

- I. Overview
- II. Amendments to PCAOB AS 1105, *Audit Evidence* (AS 1105)
- III. Amendments to PCAOB AS 1201, *Supervision of the Audit Engagement* (AS 1201)
- IV. Amendments to PCAOB AS 1210, *Using the Work of a Specialist* (AS 1210)
- V. Applicability
- VI. Effective Date
- VII. Conclusion

## I. Overview

The Staff clearly outlines the scope and objectives of the proposed changes to the standards. We concur with continuing to define a specialist, as stated in AS 1210 as “ a person (or firm) possessing special skill or knowledge in a particular field other than accounting or auditing,” with information technology and income taxes deemed specialized areas of accounting and auditing. As noted in the proposal, using a specialist, as defined above, is definitively becoming increasingly prevalent and important during an audit engagement due to increasing complexity of transactions and the necessity to meet the standards of various reporting frameworks. Whether the specialist is employed/engaged by the company or auditor-employed/engaged, or whether the public accounting firm is large or small, the goal remains the same. The auditor must gain the comfort that the work of the specialist can be relied upon to provide evidential matter that supports that the financial statements are not materially misstated.

The Staff’s discussion of smaller firm practices fairly describes our practices, but often, like larger firms, our engagement teams add the use of an auditor-employed/engaged specialist when relying upon the work of a company specialist in order to assess the appropriateness and reasonableness of the company specialist’s methodology, if deemed necessary based on the facts and circumstances evaluated during the assessment of a particular engagement’s risk of material misstatement in the financial statements. The risk-based approach discussed in the proposal aligns the use of specialist standards with the risk-based approach adopted in other PCAOB auditing standards. Use of a specialist’s work, whether company-employed/engaged or auditor-employed/engaged, is a decision based on significance and risk of material misstatement and the need for a specific expertise in order to comply with professional standards.

Our understanding, based on published PCAOB inspection results and speaking with other professionals, is that inconsistencies do exist throughout the profession. These variations in handling the increasingly complex transactions and frameworks necessitate change to existing standards to ensure that a risk-based approach focuses the engagement teams to obtain the sufficient appropriate audit evidence and address the risks of material misstatement in the financial statements. We support appropriate augmentations through clarifications and modifications to the existing standards that could lead to increased investor protection, greater consistency in how members of the profession meet standards, realistic investor, audit committee, and company expectations, and increased efficiency in the audit process without diminishing the auditors’ ability to rely on the work of a specialist. Relying on the specialized skills and knowledge of a specialist, improves the quality of the audit

engagement, since the auditors do not possess the same level of subject-matter expertise as the specialists, hence why the specialist is involved with the company and/or the work performed to support the auditor's opinion.

## II. Amendments to PCAOB AS 1105, *Audit Evidence* (AS 1105)

The goal of AS 1105 as noted in paragraph .01 is to address “what constitutes audit evidence and establishes requirements regarding designing and performing audit procedures to obtain sufficient appropriate audit evidence.” Sufficiency focuses on the quantity and quality of audit evidence based on the auditors' assessed risk of material misstatement. Appropriateness focuses on the relevance to the assertion which would be identified in the risk assessment and reliability of the nature, source, and circumstances surrounding the obtained evidence. During the planning phase of an audit, the engagement team identifies the significant audit areas and gains an understanding of the controls and processes in place in order to properly plan the nature, timing, and extent of testing, which includes identifying the type of support that would provide the most sufficient and appropriate audit evidence.

Obtaining sufficient appropriate evidence enables the auditor to meet the standards in AS 1105.10 which states, “The exercise of due professional care allows the auditor to obtain *reasonable assurance* about whether the financial statements are free of material misstatement, whether caused by error or fraud, or whether any material weaknesses exist as of the date of management's assessment. Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud.” The concepts of reasonable assurance and absolute assurance are of particular importance when considering the audit evidence obtained from the company's specialists. The types of areas addressed by the engagement team when dealing with the work of the company's specialist tend to require a great deal of judgment and subjectivity whereby the auditor could only obtain reasonable assurance. Developing and performing audit procedures to test and examine the work of a company's specialist should provide sufficient and appropriate audit evidence to obtain reasonable assurance regarding an audit area.

### *Assessing the Knowledge, Skill, and Ability of the Company's Specialist and the Specialist's Relationship to the Company*

When considering using a company's specialist, whether employed or engaged, the auditors must continue to obtain an understanding of the professional qualifications of the specialist as previously required. As noted in Docket 044, Appendix 3, Page A3-11, proposed AS 1150.B3 does not provide specific steps to perform in order to understand the professional qualifications of the specialist. Including more guidance on the potential acceptable sources of relevant information, with the caveat that the auditor should use judgment to determine if additional or alternative sources of information are necessary given the facts, circumstances, and identified risks associated with the engagement, would be beneficial to avoid inconsistencies in the procedures performed by auditors.

Considering the relationship to the company is also important in understanding the nature and work of the specialist in order to assess the reliability of the audit evidence to be obtained from the company's specialist. Paragraph .B4 calls for identifying “ whether circumstances exist that give the company the ability to significantly

affect the specialist’s judgments about the work performed, conclusions, or findings.” However, Docket 044 does not provide sufficient guidance in paragraph .B5 regarding what the implications are and how the auditor should respond if the company has the ability to exert influence. In fact, the wording used in the proposed standard implies that if the company can exert significant influence over the specialist, which it potentially would if the company employs the specialist or engages the specialist, then the audit evidence provided by the company’s specialist would not be reliable. This implication is contradictory to the ideas that the auditors should be able to use the company’s specialist’s work as audit evidence, and that the auditors should not be required to use an auditor employed or engaged specialist. The company could end up in the position that they will need to pay for their own specialist and the auditor’s specialist, which seems unnecessary. We recommend that the Staff revisit this part of Docket 044, including considering use of the term “objectivity” versus “relationship to the company” (similar as proposed for auditor-engaged specialists) and providing guidance as to how the nature, timing, and extent of audit procedures may be impacted by the auditor’s assessment of the specialist’s objectivity.

#### *Testing and Evaluating the Work of a Company’s Specialist*

Testing and evaluating the work of the company’s specialist falls under paragraph .10 of AS 1105 that addresses using information produced by the company. Under this standard, the auditor must test the accuracy and completeness of the information and evaluate the sufficiency of the information to serve as audit evidence. Building on this standard, paragraphs .B6a and .B8 of Docket 044 call for the auditor to evaluate if the data was appropriately used by the specialist, and methodologies appropriately applied by the specialist. These requirements imply that the auditor would have the same special knowledge or skill in an area outside of accounting and auditing that the company’s specialist would possess and contradicts the intentions that the auditor should be able to use the work of a company’s specialist as audit evidence and that the auditor should not be required to have its own specialist. We object to performance requirements that would imply or require the use of auditor employed/engaged specialists to comply with the standards.

Furthermore, paragraph .B7d indicates that the auditor should include the ability of the company to significantly affect the specialist’s judgments in its evaluation of what is necessary evidence for testing and evaluation. Since a wide range of factors impact the ability of the company to exert varying levels of influence over the specialist’s judgment, specialist objectivity varies as well. The Note included after paragraph .B7d addresses some of the factors and how they may influence the testing and evaluation of evidence, but additional clarification would ensure greater consistency in the execution and compliance of audit procedures.

### **III. Amendments to PCAOB AS 1201, *Supervision of the Audit Engagement* (AS 1201)**

#### *Qualifications and Independence of Auditor-Employed Specialists*

The auditor-employed specialists are subject to the same standards as all employees of a PCAOB registered public accounting firm. As such, we believe that the standards outlined in QC Section 20, *System of Quality Control for a CPA Firm’s Accounting and Auditing Practice* (“QC 20”), contain the necessary guidance related to auditor-employed specialists and the additional guidance proposed is duplicative.

### *Informing the Auditor-Employed Specialist of Work to be Performed*

We concur with the standards outlined in paragraphs .C5 through .C7 addressing the relevant communication and expectations of the auditor-employed specialist's role in an audit engagement and with members of an engagement team. The auditor-employed specialist should be included as a member of the engagement team, from the planning meeting through documentation and conclusion. As such, the work performed by the auditor-employed specialist should be conducted with the same due professional care, in accordance with AS 1015, as all work performed in order meet the "objective to obtain sufficient appropriate evidential matter to provide a reasonable basis for forming an opinion," as stated in AS 1015.11. Increasing the involvement and communication between the engagement team and the auditor-employed specialist throughout the engagement could benefit the entire team in some instances, since the auditor-employed specialist offers specialized knowledge and skill and potentially a different perspective, and the auditor-employed specialist would be exposed to areas of the financial statements beyond the area assigned. For example, including the auditor-employed specialist in the planning meeting could enlighten all engagement team members, provide a greater understanding of the client and the financial statements, and identify additional risks of material misstatement thus improving the quality of the audit. Through increased communication and involvement, the auditor will be able to improve audit quality while being able to rely on the specialized skills and knowledge of the specialist with the auditor's judgment prevailing.

### *Evaluating the Work of the Auditor-Employed Specialist*

As part of conducting an audit with due professional care, AS 1015.06 states, "The engagement partner is responsible for the assignment of tasks to, and supervision of, the members of the engagement team." The guidance in AS 1201.03-.04 elaborates on the responsibility of the engagement partner, and those who assist the engagement partner in supervising the audit, to include specialists. The proposed language in paragraphs .C8 and .C9 of Docket 044 offers more specific guidance on how to accomplish this supervision, with audit judgment prevailing. We believe this additional guidance will improve audit quality and consistency in the profession.

## **IV. Amendments to PCAOB AS 1210, *Using the Work of a Specialist* (AS 1210)**

### *Assessing the Knowledge, Skill, Ability, and Objectivity of the Auditor-Engaged Specialist*

In contrast to the auditor-employed specialist, the auditor-engaged specialist is not included under QC 20. As such, we concur with the proposed changes that the auditors need to assess the auditor-engaged specialist's knowledge, skill, and ability as well as objectivity. In assessing objectivity of the specialist, giving consideration to the nature and significance of the specialist's work and the auditor's opportunity to perform other procedures, the auditor will be able to determine the extent of the work to be performed by the specialist and the audit engagement team in order for the engagement team to be able to rely on the specialist's work.

### *Informing the Auditor-Engaged Specialist of the Work to be Performed*

The auditor-engaged specialist must be included in different phases of the engagement in a similar manner to the auditor-employed specialist, except for those standards that would apply to a person employed by the firm as noted above. The goal of the auditor-engaged specialist is no different than that of the auditor-employed specialist, as stated in AS 1015.11, "...to obtain sufficient appropriate evidential matter to provide...a reasonable basis for forming an opinion." Paragraphs .06 through .08c outline appropriate communications between the engagement team and documentation from the auditor-engaged specialist.

### *Evaluating the Work of the Auditor-Engaged Specialist*

Utilizing the services of an auditor-engaged specialist supplements the accounting and auditing knowledge and skill of the auditors with knowledge and skills that the auditor does not possess. With that said, the engagement partner and those with supervisory responsibilities must be able to assess the work performed, the relation of the work performed to other areas of the engagements, the relation to the risks of material misstatement identified, and the conclusions reached by the auditor-engaged specialist in the same manner as the auditor-employed specialist. Communicating and reviewing the work of the auditor-engaged specialist and ensuring the consistency with the findings of other audit areas is imperative to be able to utilize the audit-engaged specialist's work as sufficient appropriate audit evidence.

## **V. Applicability**

This guidance would benefit on audits of emerging growth companies and broker-dealers. Having one standard will eliminate confusion and ensure consistency with small firms incurring less costs for training and implementation throughout the firm. With that said, costs related to specialists must be kept down for smaller entities like emerging growth companies and introducing broker-dealers. For example, introducing brokers primarily value stock options with in house personnel using common valuation techniques including Black Scholes, which is commonly practiced and requires little expertise. The auditors' assessment, procedures, and conclusion on the methodology, valuations, observance of inputs, and review of assumptions have not previously required specialists. Auditors generally have experience in this area and are able to gain reasonable assurance regarding the items noted above as prepared by the company's specialist. If the auditor would be required to perform more procedures, unnecessary costs to the company may be incurred.

## **VI. Effective Date**

Implementing a new standard such as the proposed standards in Docket 044 requires training, analysis of the implications on all audit engagements utilizing specialists, and making adjustments to quality control procedures. We recommend an effective date of years ending at least two years after the SEC approves the final standards. The two year window should give smaller firms the ability to analyze, prepare, and implement the new standards.



## VII. Conclusion

We applaud the Board and the Staff in its efforts in continuously improving its auditing standards relating to the auditor's use of the work of specialists that will lead to enhancements in audit quality and consistency in application of the standards. We remain committed to participating in future discussions with the Board and the Staff about how to best implement appropriate recommendations generated by the proposed auditing standard and related amendments to certain other auditing standards that would further enhance audit quality with respect to issuers and improve transparency. Lastly, we fully support the mission of educating investors and other users of financial statements about the process using the work of specialists in the audits of issuers and broker-dealers.

We would be pleased to discuss our comments with you at your convenience. Please direct any questions to Wendy B. Stevens, Practice Leader, Quality & Risk Management, at (212) 375-6699 ([wendy.stevens@mazarsusa.com](mailto:wendy.stevens@mazarsusa.com)) or Bonnie Mann Falk, Quality & Risk Management, at (516) 620-8554 ([bonnie.mannfalk@mazarsusa.com](mailto:bonnie.mannfalk@mazarsusa.com)).

Very truly yours,

*Mazars USALLP*  
Mazars USA LLP