

NOTICE: This is an unofficial transcript of the portion of the Public Company Accounting Oversight Board's Standing Advisory Group meeting on November 13, 2015 that relates to the Staff Consultation Paper, *The Auditor's Use of the Work of Specialists*. The other topics discussed during the November 12-13, 2015 meeting are not included in this transcript excerpt.

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PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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STANDING ADVISORY GROUP

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MEETING

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FRIDAY

NOVEMBER 13, 2015

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The Advisory Group met in the Academy Hall within the offices of FHI 360, located at 1825 Connecticut Avenue, Northwest, Washington, D.C., at 8:30 a.m., James R. Doty, Chairman, presiding.

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1 (...)

2 MR. BAUMANN: Well, thank you very much. I want to
3 thank the Panel for your willingness, again, to take on
4 the task of identifying critical emerging issues that
5 could affect audits and the PCAOB. You did an outstanding
6 job in doing that. You triggered great breakout sessions
7 and I really appreciate what you've done. And the SAG
8 members for their participation in the breakouts. So, we
9 learned a lot and we have a lot of follow-ups on our end
10 to consider as a result of that.

11 Let me turn to the final item on our agenda. And
12 that's a discussion of the use of specialists. Just by
13 way of background, what we've been doing over the past
14 several meetings, and including the Staff Consultation
15 Paper, is trying to put a lot of transparency around the
16 development or the possible development of standards with
17 respect to auditing estimates and fair value measures and
18 then the use of specialists and auditors.

19 We issued a Staff Consultation Paper, got a lot of
20 comments back, and then we've used the SAG meetings to
21 discuss those Consultation Papers and to get your views
22 on those issues and the need for standard-setting. And

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1 as I responded to a question from Joan yesterday, do we
2 think we have that information? I said, I think at this
3 point in time, we've got a lot of good information about
4 the need for standard-setting and potential
5 standard-setting approaches in these areas, so we can
6 march forward reasonably expeditiously.

7 So, again, it's to keep this Standing Advisory
8 Group advised of where we're going along the way with a
9 transparent approach to standard-setting in this area.
10 And we'll continue to do that. And so today is to discuss,
11 what are the themes that we heard back about that Staff
12 Consultation Paper on specialists? And then we'll
13 continue the dialogue going as we advance this project.
14 Greg Scates?

15 MR. SCATES: All right. Thanks, Marty. What I'd
16 like to do first is, as Marty mentioned yesterday in the
17 standard-setting update session yesterday afternoon, the
18 Paper was issued, Staff Consultation Paper, back in May.
19 We've also had the, as you'll recall, the SAG discussion,
20 we had several panels. The panelists consisted of
21 specialists, the firms, SAG members, and others, and also
22 academics. And we had a good discussion in June and we

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1 also had a discussion at the IAG meeting. So we've had
2 a lot of input to the Paper and a number of commenters.

3 The agenda today, I just want to go over briefly
4 background and get your input on two items. One is with
5 respect to the auditor's specialist and the other one with
6 respect to the company's specialist. As background
7 though, as I said, we did get a number of commenters that
8 weighed in on the Staff Consultation Paper. We had 44
9 comment letters came in, as you can tell from the list
10 there. To no surprise, a number of the firms as well as
11 a number of specialists gave their views on the Paper
12 itself and they were very valuable to us as we move forward
13 on this project.

14 As far as the key themes, one of the items we wanted
15 to focus on, we focused on this early on in the Paper, it
16 was the need for the project. And we articulated that on
17 the first couple of pages of the Staff Consultation Paper.
18 And the commenters came in and said, as you can tell from
19 the pie chart there, there were a number of commenters that
20 said, yes, you need to do this project, this is a viable
21 project to go forward.

22 But also, in addition to that, as Marty mentioned

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1 yesterday, they said, yes, this project is important, but
2 you need to align this with the fair value estimates
3 project. And so that's what we've done. We've discussed
4 this with the Board to align these two projects so that
5 when we have deliverables to go out to the public, and we
6 anticipate those will go out in 2016, they will go out on
7 the same date.

8 The next few slides are talking about using the
9 work of an auditor's specialist. The commenters
10 generally supported aligning the requirements with the
11 existing standard, the ISA standard, ISA 620. And
12 commenters were generally supportive of that. Others
13 said, you could also make amendments to 336. You could
14 accomplish it either way. And so, we think it's the
15 direction we would like to go and we want to get your views
16 on that in just a few minutes about aligning it with the
17 620 of the ISA.

18 Also, we had a specific question there about should
19 the supervision requirements under AS 10, should they be
20 extended to the auditor's engaged specialist? And there
21 was actually only one commenter that actually voiced that
22 opinion and said that it should be extended. So most

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1 commenters, obviously, were opposed to that. They were
2 opposed to extending the supervision requirements under
3 AS 10 to an engaged specialist.

4 On the next item, we had another discussion in the
5 Consultation Paper with respect to the independence versus
6 objectivity. As you know, the employed specialist, the
7 specialists employed by the firms are required to be
8 independent, required to comply with all independence
9 requirements of the SEC as well as the PCAOB. But the
10 engaged specialists are not.

11 And so we entertained that question in the Paper
12 itself, should engaged specialists similarly be required
13 to be independent or should they continue to be subject
14 to the existing or more rigid objectivity requirement?
15 And very few people actually supported the independence
16 requirements. There were like four commenters who
17 weighed in saying that you should at least consider the
18 independence requirements with respect to the engaged
19 specialists.

20 Twenty-one of them that weighed in, 21 of the
21 commenters said, no, they should not be subject to those
22 requirements, but you should, obviously, consider more

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1 rigid objectivity requirements. So that's the direction
2 we're considering going is to consider more rigid
3 objectivity requirements for the engaged specialists.

4 MR. BAUMANN: I think I would note that we didn't
5 hear from a lot of investors in the Consultation Paper.

6 MR. SCATES: Right.

7 MR. BAUMANN: So the comment there is few supported,
8 but it did include an investor. And in the commentary,
9 the accounting firms were primarily the respondents in
10 this who had the view that the engaged specialists should
11 not be subject to independence, but they should be subject,
12 I think, to enhanced objectivity requirements.

13 MR. SCATES: Right.

14 MR. BAUMANN: Is that fair?

15 MR. SCATES: Yes. Brian Croteau?

16 MR. CROTEAU: I was just going to ask if maybe you
17 wanted to give some color as to, since the number isn't
18 always important in terms of who supports or not, kind of
19 more of the substance of why people did or didn't support?
20 Hopefully to give a better discussion here this morning.

21 MR. SCATES: Well, as far as the -- let me lay it
22 out in a little more detail. The four commenters that

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1 supported applying the independence requirements, as
2 Marty mentioned though, it really consists of the one
3 investor that weighed in on the Consultation Paper, one
4 regulator, one academic, and one specialist. So you can
5 see clearly that the firms didn't weigh in on that at all.
6 Of course, their view was towards the second bullet with
7 respect to the enhanced objectivity requirements. And I
8 mentioned the 21 commenters that weighed in on that, it
9 was, I'll give you more detail there, it was 12 accounting
10 firms, six associations of accountants, two regulators,
11 and one specialist firm that weighed in on that one.

12 MR. BAUMANN: I think getting to the question a
13 little bit was, and maybe you can comment on this, is those
14 who commented and said enhanced objectivity is the
15 preferred way to go was because the independence rules were
16 written for auditors and large organizations that are not
17 auditors are not familiar with the independence rules.
18 And trying to determine that they have complied with the
19 independence rules would create quite a burden on the
20 auditors to see that they did.

21 And what the monitoring procedures might be on that
22 would be challenging as well, as auditors having

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1 monitoring procedures with respect to independence, would
2 we expect those other organizations to have monitoring
3 procedures? And so a lot of questions were raised about
4 the ability to do that and could we essentially get to a
5 very similar point, I think, with enhanced objectivity
6 requirements that dealt with similar concepts, but not
7 quite as rigid application of monitoring? Would that be
8 a fair assessment?

9 MR. SCATES: Yes.

10 MR. FLETCHER: Well, just to add a little more color
11 to that. This is where we got most of our economic
12 arguments, when it came to independence for an engaged
13 specialist. I think a lot of the view of the people who
14 commented was that this could actually tend to drive
15 engaged specialists out of the audit support business
16 because they would be unwilling to incur the cost of trying
17 to develop systems to be able to track the independence
18 of the various specialists that work with them.

19 MR. SCATES: There were more commenters that
20 expressed that view of the unintended negative
21 consequences that could happen and it could clearly take
22 some of these specialists, some of those firms, out of the

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1 market if we were to require them to put or if they would
2 be required to put in some type of system to address the
3 independence requirements.

4 And then the last item is the commenters did
5 support certain modifications with respect to the
6 requirements, and this is more in line with Paragraph 12
7 of ISA 620 about evaluating the knowledge and skill of the
8 auditor's specialist, informing them of their
9 responsibilities, and evaluating the work of the auditor's
10 specialist. Those are the requirements that we want to
11 focus on.

12 So, what I'd like to do is look at our first
13 question with respect to the members of the SAG. And this
14 first question, again, the background is Paragraph 12 of
15 ISA 620 that says, the auditor should evaluate the adequacy
16 of the auditor's expert, of course the IAASB uses expert,
17 we of course use the word specialist, work for the
18 auditor's purposes, including those three bullets, the
19 relevance and reasonableness of the findings, the
20 specialist or expert's work involves use of significant
21 assumptions and methods, and then as well as evaluating
22 the expert's work, the source of data, and the relevance,

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1 completeness, and accuracy of that data.

2 So that is taken right out of Paragraph 12 of ISA
3 620, and we'd like your views on the appropriateness of
4 using similar requirements as a basis for a potential PCAOB
5 standard on using the work of an auditor's specialist. So
6 should we consider similar requirements as a foundation
7 or basis for a standard on using the work of an auditor's
8 specialist?

9 MR. BAUMANN: Comments? Guy Jubb?

10 MEMBER JUBB: All right. Speaking as an investor
11 and mindful you didn't get many investor responses to the
12 Consultation, I would certainly be supportive of that
13 providing that minimum foundation. I think an investor
14 would expect nothing less than that the auditor would apply
15 that type of evaluation to determine that adequacy. And
16 if it didn't do, it would be regarded as a significant
17 matter, as far as by implication, the financial matter
18 being reported is a material one.

19 If I could maybe just ask a supplementary question
20 though to build on that, has there been any discussion or
21 views regarding, in the same way that the partners rotate
22 from time to time, whether experts should also be subject

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1 to similar type of rotational matters, bearing in mind that
2 sometimes experts will be defensive of previous views
3 expressed and a fresh pair of eyes can bring some challenge
4 to previously held assumptions?

5 MR. SCATES: Well, that's certainly an interesting
6 point for us to consider. We had not presented that in
7 the Paper itself, but you do raise some good points because
8 they will want to -- the natural inclination of anyone to
9 protect their work product going forward. And so if
10 they're challenged in a subsequent period, then if they're
11 still the same specialist, then there's not much of a
12 challenge there to the previous work, you're right. So
13 there's something we should at least consider. And we can
14 consider that also when we're developing the text around
15 the enhanced or more rigid objectivity requirements.
16 Certainly we should consider something like that, or at
17 least have that in mind as we work through that process.

18 MR. BAUMANN: I think that's a good point, the
19 element of objectivity is how objective are you when you're
20 looking at similar information and getting similar views
21 the same year, year after year? But that didn't really
22 come up in the comments otherwise. David Kane?

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1 MEMBER KANE: Yes. Greg, we generally thought that
2 620.12 would be appropriate for the Staff to consider in
3 developing a new standard. It retains the basic elements
4 of what's in 336 and expands upon them, I think, in some
5 good ways. Couple other observations though is to also,
6 while you're looking at 620, maybe pick up 620.08, which
7 talks about the need for the auditor to consider aligning
8 the procedures with the Risk Assessment Standards. So
9 ultimately, the auditor will make a determination of the
10 nature, timing, extent of the procedures based upon his
11 or her risk assessment.

12 And I think the other point, won't spend too much
13 time on it, but that you mentioned earlier, is that
14 ultimately whatever comes out of this project to make sure
15 it doesn't discourage the use of specialists. Because no
16 matter how hard an auditor might try, we just will not have
17 the specialty get in there and perform the procedures that
18 a specialist would, and just take oil and gas for example,
19 along the lines we talked about at the last SAG meeting.
20 So just to make sure it just supports that overall
21 principle and objective.

22 MR. SCATES: Thanks, David. Because we certainly

1 want to encourage the firms to use the work of specialist.
2 And as we know today, and as it's documented in our
3 Consultation Paper, there are more instances now than ever
4 where specialists are needed. And so we certainly want
5 our standards to encourage the use and certainly not
6 discourage. And we certainly appreciate your comments on
7 that point.

8 MR. FLETCHER: And just on the question of the
9 risk-based standards. Again, that wasn't really a
10 question we asked, but we got a lot of commentary about
11 that and the commentators all believed that we should make
12 sure that whatever we do aligns with the Risk Assessment
13 Standards and is risk-based.

14 MR. BAUMANN: Tom Selling -- Selleck, I'm sorry.

15 (Laughter.)

16 MEMBER SELLING: I am really sorry I made that joke.

17 (Laughter.)

18 MEMBER SELLING: I agree with Guy's views about
19 investors' expectations. But with all due respect, I
20 don't think they go far enough. Investors have a right
21 to expect the same level of skepticism from auditors that
22 they apply to management representations, unless the

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1 information comes from other independent sources. And I
2 don't understand why that, that principle is not upheld.
3 I understand that we want to encourage the use of experts
4 for many of these complex matters, but I still really think
5 that we have to hold to the time honored principle of
6 independence when determining the degree to which an
7 auditor may examine the information and rely on it.

8 MR. BAUMANN: Thanks, Tom. Megan Zietsman?

9 MS. ZIETSMAN: Thanks, Marty. I just really wanted
10 to point out that there is some stuff in ISA 620 that
11 supports Paragraph 12. So Paragraph 12 is the
12 requirement, but there's also about seven or eight
13 paragraphs of application guidance, which give a lot more
14 context to those requirements. So, certainly would, I
15 think, be things to look at. And one of the questions
16 might be whether you would want to actually embellish the
17 requirements by having some of that application guidance
18 be more specifically incorporated. Which is something,
19 I think, that the IAASB is starting to think about.

20 And the other point, and I think it goes to David's
21 point about not discouraging the use of specialists, one
22 of the things that the IAASB is specifically looking at

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1 in the context of its estimates project is, should there
2 be something more to really steer the use of or the
3 involvement of experts for particular types of experts?
4 So, as they commence with that project -- and I think that
5 just points to why the two projects are connected. So I
6 just really wanted to point out those two things. Thanks.

7 MR. BAUMANN: I think the team just picked a key
8 paragraph here for -- rather than putting every thought
9 we had about using the ISAs into this discussion today
10 given the limited time. But I think all those points are
11 well taken to consider the application material and 612.08
12 and other things, I think the team is doing that. But your
13 other point you made about the IAASB is considering whether
14 to -- was that to elevate certain of the application
15 material on the use of specialists? Did I understand that
16 or not?

17 MS. ZIETSMAN: Yes. Maybe, I don't want to
18 prejudge where we're going, but really just to signal that
19 we are starting in the context of a number of the projects
20 that are on the work plan which deal with 540, as well as
21 responsibilities of the engagement team and having the
22 right level of people involved. I think it's going to call

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1 into question some of those questions. So we don't
2 specifically have a project to amend 620, I don't want to
3 set anyone off to think that we're doing something like
4 that.

5 But, I think, in the context of looking at the
6 projects around quality control, quality control at the
7 engagement level, as well as 540, some of those questions,
8 I think, are going to arise. I really just wanted to make
9 sure that I pointed to the application guidance and I have
10 no doubt that the team is very carefully looking at all
11 of that. It was just as a kind of a recommendation or a
12 potential thought of something that could be valuable.

13 MR. BAUMANN: Good. Thanks for that clarification
14 and help. Sydney Garmong?

15 MEMBER GARMONG: Yes. And, Marty, I appreciate
16 your comments about how this was just a starting point,
17 but the other thing too that I was struck by is this says,
18 evaluate the adequacy, and then it talks about methods,
19 which presumably are models, and I just wondered if there
20 was a contemplation on providing some more clarity and
21 guidance on what that means. And just as I think about
22 like an actuary and whether auditors are really in a

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1 position to evaluate a model. Just wanted to offer that.

2 MR. BAUMANN: Do you have any further views as to
3 how it should be written instead?

4 MEMBER GARMONG: I don't, I just know that we can
5 evaluate significant assumptions, but when it comes to
6 modeling, I'm not so sure.

7 MR. BAUMANN: Thank you. Joan Amble? And, Guy, is
8 your card still up or is that from before? Okay. Joan
9 and then Guy.

10 MEMBER AMBLE: Okay, thank you. One thing I would
11 ask you to think about including is when you talk about
12 the how of how they evaluate third party specialists is
13 to have in their toolkit kind of the consideration from
14 a risk perspective of the independence and reliability of
15 the information by giving some consideration to who does
16 the hiring of the expert. So, for example, if the issue
17 is in a model on credit or some other evaluation issue,
18 you may want to have the Chief Accounting Officer as
19 opposed to the Credit Officer hire that person. Or you
20 may want to have them engaged in the process. So, I guess,
21 who kind of controls that process is something to consider.
22 I don't think it's determinative in all cases to be one

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1 way or another, but a factor to be taken into kind of your
2 toolkit of risk assessing the information.

3 MR. BAUMANN: Great. Thank you, Joan. And Guy
4 Jubb?

5 MEMBER JUBB: Just to follow through on Tom's
6 intervention. For clarification, I fully support the
7 view expressed as an investor around that degree of
8 skepticism, appropriate skepticism, being brought to
9 bear. My own comments were regarding this is the
10 foundation from which to build, but I wanted to give
11 explicit support to that notion of skepticism applying.

12 MR. BAUMANN: Support noted, thank you. We move on
13 then?

14 MR. SCATES: All right. Let's move to the next
15 discussion with respect to the company specialist.
16 Again, the commenters, a number of them, 11 commenters
17 actually supported aligning our requirements with similar
18 requirements in the ISA 500, Audit Evidence Standard. If
19 not there, they said, well, you could also amend 336 and
20 strengthen the procedures in 336 for evaluating that work
21 of the company specialist. And there were nine commenters
22 that weighed in on that. So you've got then a total of

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1 20 commenters weighing in saying, change is applicable,
2 change should be made here, strengthen the requirements.
3 And that's what we plan to do going forward.

4 So, what we've done here is we looked at, okay, we
5 looked at the existing standard that the ISA has, ISA 500
6 on audit evidence, and we looked at, similar to what we
7 do with the auditor's specialist, we're doing with the
8 company specialist for going forward is, we looked at
9 Paragraph 8 and the requirement is that in order for the
10 auditor to evaluate the audit evidence provided by the
11 company specialist, Paragraph 8 requires the auditor to
12 evaluate the competence, capabilities, and objectivity of
13 that expert, obtain understanding of that work of that
14 expert, and then evaluate the appropriateness of that
15 expert's work as audit evidence with respect to the
16 particular assertion. So the question, similar to
17 auditor's specialist, now with the company specialist,
18 what are your views on the appropriateness of using similar
19 requirements as a basis for a potential PCAOB standard on
20 using the work of a company's specialist?

21 MR. BAUMANN: Phil Santarelli?

22 MEMBER SANTARELLI: Greg, I would generally agree

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1 with using 500.08. I think there's an additional factor
2 here when employing or when relying on the evidence
3 produced by the company specialist, a risk factor is
4 management's internal control for financial reporting
5 over the measurements that, that specialist provides to
6 them. Management could fall into the same trap that some
7 auditors might by taking a specialist's reports, sticking
8 it in the work paper so to speak, and making the mark. So
9 I think that auditors need to consider ICFR over
10 management's use of the specialist and then calibrate
11 accordingly their procedures with respect to the
12 reliability of that evidence.

13 MR. BAUMANN: I think that's really valuable advice
14 and we'll make sure we take that to heart. Bob's card is
15 going up and when we talk about ICFR, Bob usually pops in.
16 So why don't I turn it directly to you, Bob?

17 MEMBER HIRTH: I'm going to not talk about that,
18 but, Greg, I think the idea of using both of the other
19 standards is good and in looking at, does that content make
20 sense? What I noted when I looked at those, they've both
21 been in effect for some time. So I'd encourage you to look
22 at, not just what do they say, but how have they gone and

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1 do people actually believe that what is written in those
2 two standards that you might follow has been effective or
3 what pitfalls have they found in the standard? So I think
4 it's a great idea and we've got the opportunity to do a
5 look-back as to how has it really gone.

6 MR. BAUMANN: We do have that benefit, Bob, and
7 that's an excellent point. We have the benefit to do that
8 and with our collaboration with the IAASB, I know they do
9 a review and have been doing a review of the clarified ISAs
10 and have identified some where they are going back and
11 taking a look at the standards themselves and potential
12 refresh of them, maybe. I think the good news here is I
13 don't think they've identified these standards at this
14 point as something where you think you need to do some
15 additional work. Is that fair, Megan?

16 MS. ZIETSMAN: Yes. And I think that is fair and
17 that they're not specifically on the work plan. But like
18 I just mentioned, I think that it's hard, but given that
19 we are currently going to be doing something around 540,
20 which is estimates, I think it's hard to keep that from
21 moving into questions around involvement of specialists.
22 And then specifically also the use of specialists by

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1 management. But I think there is some information in the
2 2013 ISA post-implementation monitoring study, which
3 obviously would be informative. But I think that's a good
4 point.

5 MR. BAUMANN: Well, as our project of specialists
6 is coordinated with fair values, I certainly understand
7 your point that, in your looking at 540 again, specialists
8 could crop up in that regard. Yes, Bob?

9 MEMBER HIRTH: I didn't want to be flippant, sorry,
10 on the ICFR comment and Phil's comment, which I agree with.
11 So I think I was thinking about that this morning, that
12 I guess depending on the significance of the specialist
13 or specialists that are used, if there are a lot of them
14 that are used, there actually might be a process and a
15 procurement process and evaluation process. So I think
16 the ICFR implications of this will vary by company, but
17 it is a good thing to kind of walk through mentally to see
18 if there is enough there to create internal control
19 processes around specialists.

20 MR. BAUMANN: Thank you. Tom Selling?

21 MEMBER SELLING: In principle, my comment about
22 independence still stands. But if it doesn't, then I

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1 think that the Board needs to make a distinction between
2 types of experts. I think one type of expert can generally
3 be seen as one who is an expert in markets. And then there
4 is someone who's an expert in estimates that in my view
5 are somewhat ineffable. For example, if you were
6 measuring the market value of your exposure to Portuguese
7 loan losses, that would be one thing. But if you're trying
8 to measure the allowance for loan loss in accordance with
9 GAAP, that's very different.

10 And I think in the latter case, I don't think the
11 standards should view management's expert as any different
12 from management itself. In the former case, I might be
13 able to see some acknowledgment of an expertise when there
14 is actual market data as a reference point. But there are
15 many, many estimates for which people are supposedly
16 experts, but I think it's a bigger stretch to rely on that
17 type of estimate.

18 MR. BAUMANN: We had teed up the question about when
19 using the work of a specialist and a specialist of course
20 is doing work in an area, who is an expert outside of
21 accounting and auditing, whether or not their work should
22 be evaluated as if it was prepared by management with the

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1 same degree of rigor? Or given the nature of the fact that
2 it's work outside of the expertise of the auditor, to have
3 separate standards like 500.08? And we didn't get back
4 a lot of support in our comments for, test that as if it
5 was performed by management. If that's your point here?

6 MEMBER SELLING: I'm afraid it is my point.

7 MR. BAUMANN: Yes, that's what I thought. All
8 right. So it's been out, we've been soliciting views on
9 that and we have a number of comments pro and con on that
10 approach. Rick Murray?

11 MEMBER MURRAY: Greg, at our June meeting, Loretta
12 Cangialosi made the opening panel presentation on behalf
13 of issuers. I think her point was pretty clearly, hey
14 guys, the numbers are ours and the responsibility for
15 getting them right is ours. There is an audit role, but
16 don't let it become part of our numbers developing process
17 or get in the way of them.

18 Why would that not suggest that the three
19 provisions of ISA 500 that you note would be expressed as
20 having the auditor evaluate the company's attention to
21 those three issues as opposed to reaching through the
22 company and out into company source data for separate

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1 evaluation? And what happens if the auditor comes to a
2 different view than the company does in an area where minds
3 could differ?

4 MR. BAUMANN: What was the last question, that what
5 would happen if what, Rick?

6 MEMBER MURRAY: What happens if the auditor takes
7 a different view -- if the auditor is required to reach
8 back through the company to the source material and make
9 its own determination and what happens if the auditor has
10 a different conclusion than the company did within the
11 boundaries of reasonable minds can differ?

12 MR. BAUMANN: Well, I think, just one response is,
13 I think the auditor has a responsibility to do an
14 independent evaluation of the management conclusions and
15 if it's necessary to reach beyond what management did and
16 to look at the work of the specialist, then I think that's
17 a necessary aspect of an independent audit. So I think
18 that's the way we're approaching this.

19 So I think we're not approaching it, at least in
20 this suggestion, to test certain information with the same
21 rigor as if it was prepared by management, but saying that
22 if this is important work in terms of management reaching

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1 their conclusion and recording their accounting estimate,
2 then the auditor has certain obligations to evaluate the
3 work of management's specialist, consistent, I think, with
4 the way ISA 500.08 has been doing it.

5 MEMBER MURRAY: I understand that's the basis of
6 this approach. What I'm questioning is, is it necessary
7 or is it an excessive application of the scope of audit
8 regulation in the area that is basically issuer
9 responsibility rather than auditor responsibility?

10 MR. BAUMANN: Okay. Thank you for that comment,
11 we'll take it into consideration. Phil?

12 MEMBER SANTARELLI: Yes. I just wanted to follow
13 up on Rick's comment. Actually, when I think about
14 management's ICFR over specialist measurement, I really
15 think that part of it is, this is what they need to be doing.
16 So before they hire a specialist, they need to be thinking
17 about and evaluating the competencies, understanding what
18 that expert or specialist is trying to do, and then
19 themselves evaluate the appropriateness of what the
20 conclusions were of the specialist.

21 So from an auditor's perspective, if you, and it's
22 a scale, so if you come into a situation where management

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1 has done a very good job with that and we're comfortable
2 with the underlying source data that was used by the
3 specialist, that indicates a certain level of work that
4 we would have to do with respect to that report. If, on
5 the other hand, management has not done a good job of that,
6 has not evaluated, has really, as I said, basically taking
7 a specialist measurement and recorded it and paid their
8 bill, then the level of work that the auditor would have
9 to do scales up. And I think that's this risk assessment,
10 control risk assessment that enters into it. As well as,
11 of course, the inherent risk in the measurement, but the
12 control risk, I think, factors into the level of effort
13 that the auditor has to put in.

14 MR. BAUMANN: Thanks for that point. And, Rick, is
15 your card back up on this? And thanks for your comments
16 too, Rick.

17 MR. SCATES: I had one last question, we have just
18 a few minutes. With respect to the company's specialist,
19 there's something I want to, kind of with what Guy was
20 saying and you were saying about rotation, I want to look
21 at the -- the company specialist, they're either employed
22 or engaged, okay. But what -- in order for us to draft

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1 this standard, we're going to draft it and align it with
2 our Risk Assessment Standards. In order to do that then,
3 we're going to take a careful look, as we've been talking
4 about, objectivity and objectivity with respect to the
5 specialist.

6 But in doing that, and again aligning with our Risk
7 Assessment Standards, I'd like your views on the company's
8 employed specialist, their objectivity, versus the
9 objectivity of someone who's engaged from outside.
10 Obviously, the person inside is not going to get rotated,
11 the person outside could get rotated. I'm just tagging
12 on to what, Guy, you were saying about rotation. I know
13 that was with respect to auditor's specialists, but you
14 could take that also with respect to company specialists.

15 But should we, in drafting this standard, should
16 we take that into consideration that an engaged specialist
17 is more likely to be more objective than someone who is
18 employed by the company and who is going to, as I said
19 earlier, they would have a natural tendency to protect
20 their work product going forward?

21 MR. BAUMANN: Mike Gallagher?

22 MEMBER GALLAGHER: Thanks, Marty. Thanks, Greg.

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1 I think there is a difference. I think it would be hard,
2 even though if they're employed, they're experts and they
3 may have some certification or credentialing, it's hard
4 to say that the information provided by them is not
5 information provided by management, because they are. I
6 do think it's different if somebody's engaged versus
7 employed, inherently, and you have to look facts and
8 circumstances.

9 For example, if somebody's engaged and it's their
10 only client, well, that's not very different than being
11 employed. But if the company on which they're serving as
12 a client is one of 20,000 clients, they're likely not going
13 to put their credentialing and reputation and everything
14 else on the line to get to an answer that management would
15 like. They're going to be, I think, inherently are more
16 likely to be more independent.

17 MR. BAUMANN: I think that's a very good point and
18 essentially you're saying, evaluating objectivity as a
19 scale and the employed specialist is probably on a --
20 management's employed specialist is pretty low level on
21 that scale, the specialist that maybe has one or two
22 captive clients is not further away on that scale, but

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1 maybe up a little bit, and then that large company that
2 has 5,000 clients and they're just, none of them are
3 particular so important to that large company, that
4 they're pretty objective at that scale. So they're on a
5 scale and that risk-based assessment affects your view of
6 objectivity and, therefore, the amount of work. Kind of
7 your perspective?

8 MEMBER GALLAGHER: Yes.

9 MR. BAUMANN: Great. David Kane?

10 MEMBER KANE: Yes, just one other quick point on
11 that, Marty. Because there is some language in ISA 500,
12 I think on A42, talking about the scale that Mike is
13 discussing here and then the factors that we should be
14 thinking about in terms of employed versus engaged. So
15 I would encourage you to pick that up.

16 MR. BAUMANN: All right. Well, thank you very much
17 for that discussion, Greg. Thanks for leading that.

18 (...)

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