Overview of Comments Received on Recent Standard Setting Proposals

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Disclaimer

The views expressed by each of the presenters are their own personal views and not necessarily those of the PCAOB, members of the Board, or the PCAOB staff.
Recent Standard-Setting Proposals

- Auditing Accounting Estimates, Including Fair Value Measurements
- Auditor’s Use of the Work of Specialists
- Supervision of Audits Involving Other Auditors
Auditing Accounting Estimates, Including Fair Value Measurement’s and Auditor’s Use of the Work of Specialists

- On June 1, 2017, the Board proposed to:
  - Update and strengthen the standards for auditing accounting estimates and fair value measurements; and
  - Strengthen and enhance PCAOB standards regarding the auditor’s use of the work of specialists.

- The proposals were informed by a variety of outreach, including comments on the respective staff consultation papers.

- The comment period on both proposals closed on August 30, 2017.
Auditing Accounting Estimates, Including Fair Value Measurements

- The proposal would:
  - Replace three existing, overlapping standards with a single standard that streamlines and strengthens the direction to auditors, including an emphasis on applying professional skepticism;
  - Build on the three existing approaches to auditing estimates that auditors are familiar with in AS 2501, AS 2502, and AS 2503;
  - Further integrate the risk assessment standards to focus auditors on estimates with greater risk of material misstatement; and
  - Update standards in light of developments in auditing practices for fair value of financial instruments
Auditing Accounting Estimates, Including Fair Value Measurements

- 37 comment letters received:
  - Accounting Firms and professional associations (of accountants) 18
  - Trade Groups 7
  - Pricing Services and Specialists 5
  - Investor Groups 3
  - Regulators and Standard Setters 2
  - Academics 1
  - Individual 1

  total 37
Auditing Accounting Estimates, Including Fair Value Measurements

- High-level themes from Commenters:
  - General support for single standard
  - Support for retaining the three existing approaches
  - Support for the special topics appendix addressing financial instruments, including the use of pricing services
  - Suggested clarifications and refinements to specific requirements in the proposal
Auditing Accounting Estimates, Including Fair Value Measurements

- Specific Aspects of the Proposal Receiving Comment:
  - Objective of the standard
  - Testing the company’s process
    - Evaluating methods used by the company
    - Identifying significant assumptions used by the company
  - Developing an independent expectation as a range
Auditing Accounting Estimates, Including Fair Value Measurements

- Specific Aspects of the Proposal Receiving Comment:
  - Appendix A to the proposed standard
  - Proposed Amendments to AS 1105, *Audit Evidence*
  - Proposed Amendment to AS 2401, *Consideration of Fraud in a Financial Statement* Audit, relating to the retrospective review
Auditing Accounting Estimates, Including Fair Value Measurements

- Other Areas of Comment:
  - Guidance
  - Effective Date
  - IAASB proposal, ED-540, *Auditing Accounting Estimates and Related Disclosures*
Auditor’s Use of the Work of Specialists

- The proposal would:
  - Establish a uniform risk-based approach to testing and evaluating the work of company specialists, in amendments to the standard on audit evidence; and
  - Establish a common supervisory approach for auditor specialists, whether employed or engaged, by amending AS 1201 and replacing AS 1210 with new requirements for using the work of auditor-engaged specialists.
Auditor’s Use of the Work of Specialists

- 34 comment letters received:
  - Accounting firms and professional associations 19
  - Trade groups 5
  - Investor groups 2
  - Specialists and specialist groups 6
  - Regulators and standard setters 2

34
Auditor’s Use of the Work of Specialists

- High-level themes from Commenters:
  - Support for separating the requirements for using the work of company’s specialists and auditor’s specialists
  - Support for retaining the existing meaning of the term “specialist”
  - Support for retaining Al 11, *Using the Work of a Specialist: Auditing Interpretation of AS 1210*
  - Economic impact on smaller accounting firms
  - Suggested clarifications and refinements to specific requirements in the proposal
Auditor’s Use of the Work of Specialists

- Specific Aspects of the Proposal Receiving Comment:
  - Testing and evaluating the work of the company’s specialist
    - Understanding methods and significant assumptions used by the company’s specialist
    - Evaluating whether data was used appropriately by the company’s specialist
  - Assessing the relationship of the company’s specialist to the company
  - Assessing the objectivity of an auditor-engaged specialist
Auditor’s Use of the Work of Specialists

- Other Areas of Comment:
  - Guidance
  - Effective Date
Supervision of Audits Involving Other Auditors

- 2016 Proposal (amendments and standard)
- 2017 Supplemental Request for Comment (SRC) with targeted revisions relating to, e.g.:
  - Serving as “lead auditor”
  - Considering other auditors’ qualifications, including their independence, and knowledge, skill, and ability
  - Supervision, including supervision in multi-tiered audits
  - Divided-responsibility audits
- Comments on the SRC were due November 15
### Supervision of Audits Involving Other Auditors

- 21 comment letters received on SRC:
  - Accounting firms and associations of accountants: 75%
  - Academics: 5%
  - Investors: 5%
  - Trade groups: 5%
  - Other: 10%
Supervision of Audits Involving Other Auditors

- High-level themes in comment letters on SRC:
  - Continued support for:
    - Enhancing the standards governing the use of other auditors, and
    - Risk-based approach to the supervision of other auditors
  - Acknowledgement that certain revisions are responsive to comments on 2016 Proposal
  - Questions raised and suggestions provided regarding certain other revisions
Supervision of Audits Involving Other Auditors

- Specific aspects of SRC that received comments:
  - Criteria for serving as “lead auditor”:
    - “Importance” threshold
    - 50% threshold for divided-responsibility audits
  - Lead auditor’s responsibilities for considering other auditor’s qualifications:
    - Compliance with SEC independence, and PCAOB independence and ethics requirements
    - Other auditors’ knowledge, skill, and ability
Supervision of Audits Involving Other Auditors

Specific aspects of SRC that received comments (cont’d):

- Aspects of supervision:
  - Instructing other auditors
  - Reviewing other auditors’ work
- Supervision in multi-tiered audits
Supervision of Audits Involving Other Auditors

- Other areas of comment on SRC:
  - Divided-responsibility audits:
    - Different GAAP used by company and subsidiary
    - Lead auditor’s interaction with other auditors
  - Economic impact
  - Effective date