



August 30, 2017

Office of the Secretary  
Public Company Accounting Oversight Board  
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Via Email to [comments@pcaobus.org](mailto:comments@pcaobus.org)

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

Dear Board Members and Staff:

Grant Thornton LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board’s *Proposed Amendments to Auditing Standards for Auditor’s Use of the Work of Specialists*, and we respectfully submit our comments and recommendations thereon. We commend the Board’s overall efforts with regard to enhancing the auditing standards pertaining to the auditor’s use of the work of specialists. While we are supportive of the approach, we have concerns with certain aspects of the proposal.

**AS 1105, Audit Evidence**

**Obtaining an understanding and assessing knowledge, skill, and ability**

While we previously suggested revisiting the definition of “specialist,”<sup>1</sup> we understand the Board’s decision to retain the extant definition and the reasons therefor. We would, however, recommend that the Board continue to gather information regarding the use of various subject matter specialists on engagements, particularly in areas of heightened complexity (for example, information technology security specialists, data analysts, etc.), during its further deliberations and outreach, including considerations of results of firm inspections, on the proposed standard.

We believe the definitions of the other terms used in the proposal, specifically “company’s specialist,” “auditor-employed specialist,” and “auditor-engaged specialist,” are clear and appropriately align with the respective roles in an audit.

Although linking the proposed changes directly to the risk assessment standards is helpful, we believe that obtaining an understanding of the company’s specialists, as discussed in proposed paragraph .B2, in conjunction with obtaining an understanding of the company’s information

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<sup>1</sup> Refer to our letter dated July 31, 2015 submitted to the PCAOB in response to the Staff Consultation Paper, *The Auditor’s Use of the Work of Specialists* (May 28, 2015)

system is not appropriate. We are concerned that linking the obtaining an understanding of the specialist to an understanding of the information system gained at the “entity-level” indicates that such understanding is obtained without regard to risk at the assertion level related to the specialist’s work. This could have unintended consequences as the level of work effort expended may not provide corresponding improvement to risk identification or the auditor’s related response.

Particularly, we are concerned this could unnecessarily broaden the scope of both the audit of internal controls over financial reporting (ICFR) and the financial statements, since all specialists, regardless of risk and affected financial statement area, would be within scope. A more appropriate approach would be for the auditor to consider the fact that the company uses a specialist to inform the risk assessment. Ultimately, obtaining an understanding of the specialist and how his/her work is used by the company should be risk-based and correspond to the related financial statement account, class of transactions or disclosure(s).

Further, we believe the proposed requirement in paragraph .B2 may also introduce operational challenges, especially from an ICFR perspective, since it further broadens the scope of ICFR. Expecting management to have documented the processes and controls around the selection of specialists could bring into question whether the company’s selection of any vendor should be subjected to testing by the auditor, which we do not think is the Board’s intention. We see potential value in gaining this understanding, but only within the context of being one factor to consider when evaluating the specialist’s objectivity, not in the operation of the entity’s ICFR. Therefore, we ask the Board to consider whether more appropriate placement of this concept would be within the requirements when evaluating objectivity.

We found the additional discussion related to assessing a specialist’s knowledge, skill, and ability on page A3-11 of the proposal to be helpful guidance and ask the Board to consider whether these bullet points could be retained in the final standard through an appendix or note to the paragraph. We believe these are valuable examples that could assist the auditor in identifying applicable and appropriate sources of information to fulfill the related requirement in paragraph .B3.

However, the additional discussion around assessing the specialist’s relationship to the company on pages A3-13 and 14 does not provide greater clarity as to what would be considered sufficient appropriate audit evidence for purposes of proposed paragraph .B4. These bullets are limited to inquiry or otherwise are not likely operational given the absence of regulatory or legislative requirements. Many professions do not have requirements regarding relationships with clients. Additionally, the entities employing specialists generally do not have robust tracking and reporting mechanisms for monitoring independence on the part of the specialist. We are concerned that the results of such inquiries described on pages A3-13 and 14 would not be considered sufficient in practice and therefore request the Board to consider providing more practical suggestions that would be responsive to the proposed requirement, or absent any such suggestions, consider removing the requirement.

We further believe that proposed paragraph .B4 unnecessarily overemphasizes the specialist's relationship to the company by eliminating the notion of objectivity, which is retained elsewhere in the proposal. While we acknowledge the Board's consideration of the differences in how the specialists' work is used in an audit, objectivity remains relevant and important. We strongly urge the Board to replace this paragraph with the wording found in proposed AS 1210.04. In that paragraph, objectivity is the primary focus, with consideration being given to the specialist's relationship to the company. We believe this is likely to be more easily understood and provides better positioning of the two concepts.

#### Testing and evaluating the specialist's work

Paragraph .06 of existing AS 1201, *Using the Work of a Specialist*, states that "the auditor is not expected to have the expertise of a person trained for or qualified to engage in the practice of another profession or occupation." It is our view that this notion is essential and should be explicitly carried forward to the new standard.

Proposed paragraphs .B6a and .B8 require the auditor to evaluate whether the data used by the specialist in developing or supporting an accounting estimate was appropriately used by that specialist. However, it is unclear how the auditor would conduct such an evaluation, especially considering that auditors are not expected to have expertise in specialists' areas or proficiency. This requirement also introduces a level of prescription that we do not believe is appropriate for principles-based standards. We do not see a benefit to audit quality by requiring this evaluation and question whether this proposed requirement would introduce unnecessary cost into the audit process, since auditors may have to consistently retain their own specialists for purposes of meeting this requirement.

### **AS 1201, *Supervision of the Audit Engagement***

#### Qualifications and independence

We agree with aligning existing PCAOB requirements regarding auditors' qualifications and independence to apply to auditor-employed specialists. Nevertheless, we suggest the final standard include greater clarity on how a firm's system of quality control can aid the auditor in meeting these requirements. Audit firms have, among other things, robust independence and quality monitoring mechanisms that we believe can be relied on by an audit team for purposes of assigning specialists to an audit.

#### Informing the specialist of work to be performed

We are supportive of strengthening the requirements around the use of, and collaboration with, auditor's specialists. However, we are concerned that proposed paragraph .C5 could be interpreted to require formal documentation akin to an engagement letter between the auditor and the auditor-employed specialists. Therefore, the final standard could clarify that such documentation could be in the form of a planning memorandum, audit work program, or other workpapers. This would provide auditors with appropriate flexibility and balance between enhancing audit quality and minimizing potential administrative burden.

**Amendments to AS 1210, Using the Work of a Specialist**

We have concerns regarding the documentation requirement in proposed paragraph .06, specifically as it relates to the requirements regarding the specialist's report. We would note that depending on the nature of the engagement, the report might not address each of the items listed in the requirement. We recommend the final standard provide more flexibility with regard to how an understanding between the auditor and the specialist is established and documented, and how the results are communicated.

**Rescission of AI 11**

The proposal, if adopted, would rescind Auditing Interpretation (AI) 11, *Using the Work of Specialist: Auditing Interpretation of AS 1210*. We do not believe that rescinding AI 11 is appropriate because the interpretation provides valuable guidance to auditors in obtaining audit evidence to support management's assertion that a transfer of financial assets has met the isolation criterion of ASC 860-10-40, *Transfers and Servicing*. We do not believe that the requirements to evaluate the work of management's specialist would be adequate for purposes of generating sufficient appropriate audit evidence on these very narrow and technical transactions. In our view, rescinding such guidance would diminish audit quality.

**Applicability and effective date**

We believe all audits, including those of emerging growth companies and broker-dealers, would benefit from the enhancements and clarification that would come with the final standard. While we do not expect a significant impact on our audit practice as a result of adoption, we generally expect that firms, including ours, would need sufficient time to update policies, methodologies, and related training in order to carry through the objectives of the overall project. Given the timing of when these updates are usually made during an audit cycle, we recommend the Board provide an effective date of two years after SEC approval.

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If you have any questions about our response, or wish to further discuss our comments, please contact Trent Gazzaway, National Managing Partner of Professional Standards, at (704) 632-6834 or [Trent.Gazzaway@us.gt.com](mailto:Trent.Gazzaway@us.gt.com).

Sincerely,

