



Deloitte & Touche LLP
30 Rockefeller Plaza
New York, New York 10112
USA

www.deloitte.com

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

Re: Staff Consultation Paper, *The Auditor's Use of the Work of Specialists*

Deloitte & Touche LLP (“D&T” or “we”) is pleased to respond to the request for comments from the Public Company Accounting Oversight Board (the “PCAOB” or the “Board”) on its *Staff Consultation Paper — The Auditor's Use of the Work of Specialists* (the “consultation paper” or the “paper”), which addresses potential changes to several auditing standards (specifically, PCAOB AU 336, *Using the Work of a Specialist* (PCAOB AU 336) and PCAOB Auditing Standard No. 10, *Supervision of the Audit Engagement* (PCAOB AS 10)).

We support the Board's efforts to consider the need for improvement of PCAOB auditing standards relating to the auditor's use of the work of a specialist. We acknowledge and appreciate the PCAOB staff's efforts in this area to date, including their commitment to seek further input through the issuance of the consultation paper. We also commend the PCAOB staff for devoting a significant portion of the June 18, 2015, Standing Advisory Group meeting (“SAG Meeting”) to discussing matters relevant to the consultation paper and hearing input from a variety of stakeholders.

We are also supportive of the PCAOB's efforts in considering potential clarifications and amendments to the standards addressing the use of specialists in tandem with the PCAOB's project on Auditing Accounting Estimates and Fair Value Measurements. These matters are closely related, and new or amended guidance in either area therefore needs to be coordinated. We believe that close coordination of these two projects, including concurrent exposure of proposed changes to the PCAOB standards, will allow commenters to better evaluate and analyze the impact of such proposed amendments, individually and collectively. In addition, coordination of the two projects will facilitate improved economic analysis by the PCAOB staff. We believe it will be important that any resulting final standards pertaining to these two related projects become effective at the same time.

Further, as the PCAOB staff addresses the requirements regarding the auditor's use of specialists and auditing accounting estimates, we believe that it would be helpful to develop holistic and comprehensive standards that incorporate risk assessment, consideration of relevant controls, and substantive procedures, as well as relevant supervision and review considerations. While it may be possible to address these aspects or concepts by making reference to relevant requirements in the PCAOB's other auditing standards, we believe that the expectations for auditors would be more clearly set forth by addressing the relevant requirements directly in the specialists and accounting estimates standards. In addition, we recommend that the concept of professional skepticism and its application in these areas be included in any new or amended standards as opposed to solely making

reference to the concept or to other auditing standards.

In this letter, we present our views regarding the topics outlined in the consultation paper, including the suggested changes to the related auditing standards presented therein. In summary:

- Given the differences between auditor’s specialists and company’s specialists, while we support the PCAOB staff’s approach in considering these topics simultaneously, we think that these topics ought to be addressed separately in the issuance of any new or revised requirements or guidance.
- We believe any new or amended standards should closely align with the PCAOB’s risk assessment standards and provide additional clarity regarding the auditor’s responsibilities when using the work of specialists. Further, we believe the requirements should be flexible and allow for the application of professional judgment, in recognition of the increasing complexity of business transactions and business environments and the resulting, ever-changing ways auditors and companies use the work of specialists in determining and auditing financial statement balances.
- We support increased requirements and guidance related to the supervision and review of the work performed by an auditor’s engaged specialist, particularly matters related to (1) assessing the engaged specialist’s objectivity, (2) reviewing and retaining an engaged specialist’s work product supporting their procedures, and (3) assessing the relevance and reasonableness of an engaged specialist’s findings. However, we believe changing the objectivity requirements to align with auditor independence requirements will be costly and challenging to auditing firms and specialist entities.
- We believe that it is important for new or amended standards to recognize that the auditor is not be expected to have the expertise of the specialists, but rather would have sufficient knowledge of the subject matter to plan the auditor’s specialist involvement and evaluate the adequacy of the work of the auditor’s specialist for the auditor’s purposes.
- We support enhanced guidance to assist the auditor when using information prepared by a company’s specialist. We suggest an approach that results in such information being treated as audit evidence and therefore the requirements should be included in PCAOB AS 15, *Audit Evidence* (PCAOB AS 15).

Additional context, detailed comments, observations, and recommendations are provided in the remainder of this letter.

BACKGROUND AND CURRENT PRACTICE

We agree with the PCAOB staff that there has been an increase in the use of the work of specialists by companies and auditors due to the increasing complexity in both business transactions and financial reporting requirements. This increased complexity often results in the identification of new risks of material misstatement or the designation of identified risks as significant risks. Auditors, in turn, seek the assistance of specialists to appropriately respond to these risks. As indicated in the consultation paper and discussed further at the SAG Meeting, we also acknowledge that the PCAOB’s inspection

findings and those of other audit regulators or audit oversight bodies continue to include a number of audit deficiencies related to the auditor's use of the work of specialists. In addition to the efforts that firms have taken and continue to take to address these deficiencies, we also believe amendments to the PCAOB's auditing standards would assist auditors in performing more effective audits.

Given the complexity of business transactions and financial reporting requirements, we use specialists to assist with performing audit procedures in most of the audits we perform in accordance with the PCAOB's standards. Our auditors have access to thousands of employed specialists that regularly provide assistance to auditors covering a wide range of disciplines. These employed specialists provide millions of audit service hours annually. In performing our audits, we primarily use employed specialists in the areas of information technology (IT), tax, and valuation. In terms of valuation specialists, the specialist's work is often focused on assessing the appropriateness of the methods and assumptions used in the valuation, developing independent estimates, assessing subsequent events, and/or testing management's processes. We also use the work of an auditor's specialist in addressing other specialized or pervasive risks (e.g., in response to known or suspected fraud). Given the depth and breadth of available employed specialists, we rarely find the need to engage third-party specialists to assist us with our audits; however, we acknowledge that engaging third-party specialists may be more likely to occur in smaller auditing firms and, therefore, it is important that the PCAOB standards address the use of engaged specialists.

Both the International Auditing and Assurance Standards Board (IAASB) and the AICPA's Auditing Standards Board (ASB) have updated their standards related to using the work of specialists. Because of the differing objectives between (1) the auditor's use of a specialist to assist with the performance of audit procedures and (2) the use of a company's specialist's work as audit evidence, the IAASB and ASB separated the audit requirements and guidance related to these two distinct activities. Separate auditing standards address the auditor's use of a specialist to assist with the performance of audit procedures,¹ and auditing requirements associated with information to be used as audit evidence that has been prepared using the work of a company's specialist are separately stated in the audit evidence standards.² The audit evidence standards provide guidance regarding how the auditor evaluates the relevance and reliability of information to be used as audit evidence that has been prepared using the work of a company's specialist. These standards and the related guidance are principles-based and dependent upon appropriate risk assessments and the exercise of professional judgment.

We agree with the approach of having separate standards for using the work of auditor's specialists and using the work of company's specialists. Consistent with the IAASB's and ASB's updated standards, our audit methodology separates the requirements and guidance related to the auditor's use of the work of a specialist from the requirements and guidance related to information to be used as audit evidence that has been prepared using the work of a company's specialist. In general, we approach the assessment of work performed by the company's specialist from the perspective of evaluating the sufficiency and appropriateness of the evidence that it provides. We are therefore supportive of enhancing guidance to assist the auditor in evaluating whether information to be used as audit evidence prepared by a company's specialist is sufficiently reliable. As stated previously, given

¹ The requirements and guidance relating to use of specialists by an auditor are addressed in the IAASB's ISA 620, *Using the Work of an Auditor's Expert*, and in the ASB's AU-C 620, *Using the Work of an Auditor's Specialist*.

² The requirements and guidance relating to management's use of specialists are addressed in the IAASB's ISA 500, *Audit Evidence* and the ASB's AU-C 500, *Audit Evidence*.

the differences between an auditor's specialists and the company's specialists, while we support the PCAOB staff's approach in considering these topics simultaneously, we think that these topics ought to be addressed separately in the issuance of any new or revised requirements or guidance.

Over the past several years, we have improved our audit methodology by adding and refining requirements related to the auditor's use of the work of specialists. These requirements extend beyond those prescribed by PCAOB AS 10 and PCAOB AU 336 and are the same for all of the auditor's employed specialists, regardless of their area of expertise (i.e., they are applicable to specialists with expertise within the field of accounting or auditing and outside the field of accounting or auditing). We have found that it has been most effective to apply the same supervision and review model to all of our employed specialists. Our methodology also includes separate requirements for engaged specialists used by an auditor, which are currently in line with the requirements prescribed by the ASB in AU-C 620, *Using the Work of an Auditor's Specialist*, and the IAASB in ISA 620, *Using the Work of an Auditor's Expert*, with certain additional requirements. However, as mentioned previously, we rarely engage third-party specialists to assist with our audits.

In addition to enhancements to our methodology, we have also focused on creating and providing training and other tools to further develop the competence and expertise of our employed specialists, including specific training and tools related to the PCAOB's auditing standards. As a result of these enhancements and other activities, we believe we have improved our overall audit quality regarding the use of specialists. Many of our recent changes to the requirements and guidance within our audit methodology align with the potential amendments under consideration by the PCAOB staff and set forth in the consultation paper, particularly regarding the responsibilities for the engagement partner to take responsibility for the direction, supervision, performance, and review of work performed by an employed specialist.

Further, as it relates to an auditor's engaged specialist, we believe that any new or amended standards should closely align with the risk assessment standards and provide additional clarity regarding the auditor's responsibilities. We are supportive of increased requirements and guidance related to the supervision and review of the work performed by an auditor's engaged specialist, particularly matters related to assessing the engaged specialist's objectivity, reviewing and retaining an engaged specialist's work product supporting their procedures, and assessing the relevance and reasonableness of an engaged specialist's findings. We also acknowledge that there may be practical and legal challenges with respect to applying the same supervision model to an auditor's engaged specialists. While we support increased requirements and guidance for the use of an auditor's engaged specialists, we also continue to support sufficient flexibility to allow for appropriate application of these requirements and guidance to the various types of specialist arrangements and structures.

COMMENTS BY TOPIC

Potential Amendments to Specialist Definitions

We agree with the PCAOB staff that, under any of the potential alternatives in the consultation paper, definitions would be required to distinguish between the different roles of an auditor's specialist and a company's specialist. Specifically, the auditor's specialist assists the auditor with planning, performing, and evaluating the results of audit procedures to obtain sufficient appropriate audit evidence; whereas the company's specialist performs work to assist the company in determining or

supporting amounts or disclosures reflected in its financial statements. While we are generally supportive of the potential definitions outlined in the consultation paper, we further suggest the following:

- Provide a clear distinction between a specialist (whether used by the auditor or the company), and a third-party information provider that provides information routinely and commercially available for a fee (e.g., a third party pricing service). Similarly, we believe that auditors would benefit from further clarification as to the relevant audit requirements that are applicable when information from a third-party information provider that is not considered a specialist is used as audit evidence.
- Eliminate the distinction between being “in the field of accounting and auditing” or “outside the field of accounting and auditing” as it pertains to the auditor’s specialist and clarify how the difference pertains to the company’s specialist. The potential definition of a specialist included in the paper excludes individuals with specialized knowledge or skill in the field of accounting and auditing (e.g., income tax and IT). We believe that there is a need to update the definition to reflect the increased use of the work of individuals with specialized knowledge or skill in accounting and auditing. For instance, the use of individuals with specialized knowledge or skill in the areas of income tax or IT by auditors today may extend further than the traditional income tax and IT matters (e.g., foreign income tax laws, cybersecurity, data analytics). While these “specialties” seem to be found more frequently at all auditing firms, they are more akin to other specialists than auditors. Fitting loosely into the field of accounting and auditing, the work often performed by these individuals is complex and frequently outside the expertise of the auditor, similar to an actuary or an environmental specialist. Therefore, the work of these individuals with specialized knowledge or skill in the field of accounting and auditing should be treated the same as those outside the field of accounting and auditing. As such, we recommend the definition of a specialist be inclusive of all individuals with specialized skill or knowledge irrespective of this specialized skill being inside or outside the field of accounting and auditing. We believe that the same logic should be applied to company’s specialists. In other words, a specialist is a specialist under the PCAOB’s standards regardless of whether their field of expertise partially relates to accounting and auditing.
- Clarify the internal control implications of the company’s use of a specialist. The potential definition of a company’s specialist included in the paper is helpful in describing specifically that the specialist may be engaged or employed by the company to assist in the preparation of the company’s financial statements. However, we believe that auditors would further benefit from additional clarity in describing how to evaluate the internal control over financial reporting (ICFR) implications when a company uses a specialist, as described further in the “Company’s Specialist Standard-Setting Matters” section below.

Auditor’s Specialist Standard-Setting Matters

The consultation paper provides two alternatives for how the requirements for using the work of the auditor’s specialists could be set forth in PCAOB standards as follows: (1) developing a new standard or (2) extending the supervision requirements in PCAOB AS 10 to an auditor’s engaged specialist. Our understanding is that the requirements would generally be the same for using the work of employed or engaged specialists under either approach.

Under either approach, it is critical that the requirements for supervision are sufficiently flexible to address the various types of specialist arrangements. For example, the nature of the auditor's supervision of an employed specialist under the same quality control network may differ from that of an engaged specialist outside of the audit firm. Therefore, it would be beneficial for the PCAOB staff to provide additional clarity on the application of the supervision requirements to both an auditor's engaged and an auditor's employed specialist.

Further, the supervision requirements should be scalable, consistent with the associated risk of the underlying account balance, accounting estimate, or business transaction. As such, we recommend that the requirements be flexible and allow for the application of professional judgment, in recognition of the increasing complexity of business transactions and business environments and the resulting, ever-changing ways auditors and companies use the work of specialists in determining and auditing financial statement balances.

Supervision of an Auditor's Specialist. We have the following observations and recommendations relating to the three areas where the PCAOB staff indicated that more specific requirements are being considered:

Evaluating the knowledge and skill of an auditor's specialist. While we agree with the need to evaluate the knowledge and skill of an auditor's specialist, we believe it would be more beneficial to provide a requirement setting the objective of this evaluation that is similar to the approach taken by the ASB³ and IAASB⁴ rather than listing prescriptive matters that must be considered in **all** circumstances for **each** specialist involved. This approach would allow for a principles-based requirement and the use of professional judgement in determining the necessary audit procedures to meet the objective. The more prescriptive matters currently included in the paper as a potential requirement would be more helpful as guidance to be considered by the auditor in applying the requirement.

Informing an auditor's specialist of his or her responsibilities. We agree with the potential amendments for the auditor to inform the auditor's specialist of his or her responsibilities when participating in an audit. This understanding is foundational to the ability of the specialist to carry out appropriate audit procedures that will meet the auditor's objectives and enable the auditor to effectively supervise the work of the specialist.

In addition to the items specifically listed in the potential amendment regarding matters on which the auditor and auditor's specialist should reach an agreement, we recommend the PCAOB staff also consider including the following matters: (1) specialist objectivity expectations for engaged specialists or independence expectations for employed specialists, (2) the process for resolving any specialist findings collectively by the auditor and specialist, and (3) expectations regarding the content and completeness of the specialist's work product for inclusion in the audit documentation in compliance with PCAOB AS 3 and PCAOB AS 15. By reaching agreement on these matters, both auditors and their specialists will have better clarity on the role and responsibilities of the specialist and the importance of collaboration between the auditor and the specialist throughout the audit process.

³ See AU-C Section 620, *Using the Work of an Auditor's Specialist*, paragraph 9.

⁴ See ISA 620, *Using the Work of an Auditor's Expert*, paragraph 9.

Evaluating the work of an auditor's specialist. We agree with the PCAOB staff that it is important for the auditor who reviews the work of the auditor's specialist to focus on the risks associated with the assumptions and models used in the specialist's work. We further agree with the objective of strengthening audit performance standards in this area. However, while PCAOB standards require the auditor to have knowledge of the industry, subject matter (including subject matter to be addressed by auditor's specialists), and requirements of the applicable financial reporting framework, the requirements in the potential standards need to recognize that auditors are not experts in the areas where auditor's specialists are used. As a result, there are certain limitations to the nature and extent of the review that auditors can perform over auditor's specialists, particularly an auditor's engaged specialist. The requirements need to be scalable and recognize that not all specialists are the same and, therefore, a "one-size-fits-all" approach will not suffice.

For example, we may engage specialists with expertise in valuing precious metals when the nature of the company's activities is such that this expertise is necessary to effectively audit an accounting estimate. In this scenario, the expertise is so specialized and technical that we likely would not have sufficient knowledge in the specialist's area to enable us to supervise that specialist in the same manner that we supervise other members of the engagement team in accordance with PCAOB AS 10. Specifically, while we would need to have the knowledge of the industry, subject matter, and framework as required by current PCAOB standards, we may not have the expertise to fully understand all of the technical information contained in their analyses or work product. Therefore, after having performed a robust evaluation of the competence and capabilities of the specialist and the sufficiency and appropriateness of the specialist's expertise for our purposes, we believe it would be appropriate for the auditor to rely on the specialist's expertise when gathering audit evidence to evaluate management's assertions.

We recommend that the requirements for supervision of an auditor's specialist be principles based, whereby the auditor may determine the appropriate level of supervision based on their risk assessment and professional judgement. As stated above, it is important for the standards to recognize that the auditor should not be expected to have the expertise of the specialists, but rather would have sufficient knowledge of the subject matter to plan the auditor's specialist involvement, sufficiently vet the specialist's knowledge and skills, and evaluate the adequacy of the work of the auditor's specialist for the auditor's purposes similar to the matters included in AU-C 620 paragraphs 12 and 13.

With respect to matters the auditor should evaluate when the auditor's specialist develops an independent estimate and tests the methods and significant assumptions used by the company, specific commentary was requested regarding views as to whether the potential new requirements being considered in this area are consistent with current practices. We have the following observations and suggestions in this respect:

- Our audit methodology for addressing the use of an auditor's specialist is consistent with the potential requirements as it relates to evaluating the methods and assumptions used in a management estimate. Specifically, our audit methodology allows for the evaluation of the relevance and reasonableness, in the circumstances, of significant assumptions and methods used by the auditor's specialist giving consideration to the rationale and support provided by the specialist and in relation to the auditor's other findings and conclusions. Such evaluation is often accomplished through a review of the specialist's work and, if necessary, further audit

procedures as determined by the auditor based on professional judgment.

When it has been determined by the auditor that specialist involvement is needed to assist in testing certain areas of the audit, or to assist the auditor in making such determination, it may be helpful and may enhance audit quality for an auditor's specialist to be involved in (1) the risk assessment process for that audit area, and (2) the identification of relevant controls and related assessment of their design and operation. While we do not believe that this should be required in all circumstances as it is often dependent on the assessed level of risk, we believe it would be helpful for the proposed standard to include guidance to this effect.

Regarding the evaluation of the results and conclusions included in a specialist's work, currently the potential requirements state that the auditor should determine whether the specialist's work "support(s) and corroborate(s) or contradict(s) relevant financial statement assertions or conclusions...[and such work is] consistent or inconsistent with evidence obtained from other audit procedures performed." While we generally agree with this potential amendment, we believe it is also important that the auditor's specialist have a role in the evaluation of results and resolution of any findings. It is important for the auditor and the specialist to understand, collaborate, and agree with the resolution of any findings raised by the specialist. As mentioned earlier, specialist involvement in certain complex areas may be necessary to effectively perform procedures that will result in gathering sufficient appropriate audit evidence, as auditors alone may not have the appropriate skills or expertise to perform such procedures. In turn, the auditor may not have the appropriate expertise to resolve issues raised by the specialist without the assistance and agreement of the specialist, and the amended guidance should reflect this fact.

- We have concerns regarding the view, as we understand it, that testing management's significant assumptions and methods is a less preferable substantive approach to either developing an independent estimate or reviewing subsequent events when auditing accounting estimates or fair value measurements⁵ for the following reasons:
 - In integrated audits, auditors are required to understand management's process as part of (1) assessing risk and (2) evaluating the design of internal controls. Therefore, many times it is more efficient and likely more effective to test management's process after gaining that understanding, evaluating the risk of management bias and understanding how that bias is managed and controlled.
 - Based on assessed risks, testing management's assumptions and methods may be just as effective as performing an independent estimate and more efficient to perform. For example, after we assess (1) the nature of a company's employee benefit obligation, (2) the risks associated with the plan and methods and significant assumptions used in the estimate, and (3) the nature and extent of information available from the company, we may determine that testing management's assumptions and methods is the most effective approach to obtain sufficient appropriate audit evidence.
 - Further, there are circumstances where performing an independent estimate may not be

⁵ June 18, 2015, PCAOB SAG Meeting materials, "Auditing Accounting Estimates and Fair Value Measurements: Project Update and Discussion."

possible or practical and there are no subsequent events that can be used for testing. For example, certain environmental liabilities may require the involvement of several different types of specialists who perform various studies that extend over a significant period of time. In these circumstances, it may not be possible for the auditor's specialist to recreate the studies at the necessary time to appropriately develop an independent estimate.

While we agree that tests of subsequent events and development of independent estimates are useful methods to obtain reliable substantive audit evidence, tests of management's process are prescribed by other standards (e.g., PCAOB AS 5, PCAOB AS 18) and we believe it is not appropriate to discount the value of these procedures in auditing accounting estimates, including those areas in which the work of a company's specialist is used. As such, we believe that auditors should select the audit procedures that they believe will most effectively accomplish the objectives and address the risks.

Evaluating the Objectivity of an Auditor's Specialist. The two potential alternatives included in the paper would result in significantly changing the objectivity requirements relating to engaged auditor's specialists. Although we do not typically use engaged specialists, we believe that implementation of new requirements under either of the alternatives will likely prove both challenging and costly to auditors who use engaged specialists and the specialist entities themselves. Under either alternative, specialist entities would be required to establish new processes and controls and incremental effort would also be required by auditors to evaluate the specialist's compliance with the new requirements.

Company's Specialist Standard-Setting Matters.

In the consultation paper, the PCAOB staff presents two potential alternatives for revising the current performance requirements for the auditor's use of the work of a company's specialist as follows: (1) amending PCAOB AU 336 or (2) rescinding PCAOB AU 336. We suggest an approach that results in addressing company's specialists within PCAOB AS 15.

Information Provided by Company's Specialist as Audit Evidence. Overall, we believe PCAOB standards should address the work of a company's specialist through the lens of audit evidence. Simply put, information received from the company's specialist, whether employed or engaged, is audit evidence, and its sufficiency and appropriateness should be evaluated by the auditor in the context of the particular circumstances and the related risks of material misstatement. However, audit evidence received from a company's specialist has unique characteristics and therefore it is appropriate that it require unique consideration by auditors.

As mentioned in the consultation paper and discussed previously in this letter, both the IAASB and the ASB have addressed the requirements for evaluating a company's specialist in their respective "Audit Evidence"⁶ standards. Specifically, the IAASB and ASB standards⁷ require the auditor, considering the significance of that work for the auditor's purposes, to evaluate the competence, capabilities, and objectivity of the specialist, to obtain an understanding of the work of that specialist, and to evaluate the appropriateness of the work as audit evidence for the relevant assertion.

⁶ See ISA 500, *Audit Evidence*, and AU-C 500, *Audit Evidence*.

⁷ See ISA 500, paragraph 8 and AU-C 500, paragraph 8, and related application material.

We continue⁸ to believe that including the requirements for evaluating the use of the work of a company's specialist (similar to those prescribed by the IAASB's and ASB's audit evidence standards) should be within PCAOB AS 15, and that such an approach would appropriately provide the foundational principles needed for the auditor to assess the sufficiency and appropriateness of such evidence rather than the potential requirement to test the information as if management produced it. In doing so, the nature, timing, and extent of audit procedures necessary to perform on this audit evidence would be based on the associated risk assessment and the auditor's professional judgment, which may include determining the need to validate or recalculate the amount determined by the company's specialist but would not necessarily be required in all circumstances (e.g., a consideration point may be that the company's specialist is subject to professional standards and is appropriately credentialed, such as an actuary).

Internal Control over Financial Reporting (ICFR) Considerations. Currently, the consultation paper does not address the implications of the potential changes on the auditor's assessment of ICFR. As the PCAOB staff considers the potential amendments related to using the work of a company's specialist, we recommend the PCAOB staff consider management's responsibilities under current SEC guidance and whether there are any ICFR implications for auditors that require PCAOB staff guidance.

Other Matters

Evaluation of PCAOB AU 9336. The consultation paper does not address the consideration of PCAOB AU 9336, *Using the Work of a Specialist: Auditing Interpretations of Section 336*, specifically the topic of "The Use of Legal Interpretations As Evidential Matter to Support Management's Assertion That a Transfer of Financial Assets Has Met the Isolation Criterion in Paragraph 9(a) of Financial Accounting Standards Board Statement No. 140." We recommend the PCAOB staff assess the requirements and guidance included in this interpretation and update as necessary as part of the auditor's use of the work of specialists project.

Implications for PCAOB's Quality Control Standards. The consultation paper indicates that as part of evaluating the knowledge and skill of an employed specialist, an auditor may use information contained in the firm's quality control system. We agree this is an important consideration in making this evaluation; however, we note that the implications for the necessary procedures relating to an employed specialist (who would be subject to a firm's system of quality control) would differ from those related to an engaged specialist (who would not be subject to the firm's system of quality control). The PCAOB's quality control standards do not currently specifically address the auditor's use of a specialist; accordingly, we recommend that consideration be given to the need for making appropriate updates in this regard.

ECONOMIC IMPACT AND IMPLICATIONS

We support the PCAOB staff's efforts to obtain information and views regarding economic implications of the alternatives addressed in the paper. We encourage the PCAOB staff to continue to conduct additional research and analysis as alternatives are considered, and as they develop the proposed

⁸ Refer to comments included in our letter dated November 3, 2014, regarding *Staff Consultation Paper – Auditing Accounting Estimates and Fair Value Measurements*.

standards or amendments related to an auditor's use of specialists.

Expanded requirements for auditors will result in increased audit effort and related costs. For example, requirements for auditors to test information produced by a company's specialist "as if it was produced by management" or requiring an engaged specialist to be independent in accordance with the requirements of Rule 2-01 of Regulation S-X will drive incremental audit effort. It is critically important that new auditor responsibilities be consistently aligned with clear expectations or requirements for companies, especially as they relate to financial reporting controls and the extent to which management can use or rely on work performed by a company's specialist. Disproportionate increases in audit costs will likely result if the requirements for auditors are not aligned with those of management.

Outreach to and collaboration with others, including preparers, investors, the FASB, SEC, and especially the specialist professions is an essential element of this project and key to developing approaches for the initiative to not only address the issues relating to the use of specialists by auditors as discussed above, but also in connection with assessing the economic impact and implications of proposed alternatives to amending the PCAOB's auditing standards.

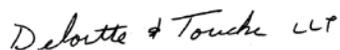
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D&T appreciates the opportunity to provide our perspectives on these important matters. Our comments in this letter are intended to assist the PCAOB staff in analyzing the relevant issues and potential effects of PCAOB standard-setting activities related to the use of specialists. We have attempted to provide comprehensive input which we hope will be helpful to the PCAOB staff in moving forward to the next stage of this very important project. We encourage the PCAOB to continue to engage in active and transparent dialogue with commenters and other stakeholders as any proposed standards are developed and alternatives are considered.

Notwithstanding our recommendations for addressing issues and challenges related to using the work of an auditor's specialist and a company's specialist, given the significance of these areas we believe it is important for the PCAOB to take action in moving this initiative forward in tandem with its efforts regarding auditing accounting estimates and fair value measurements. We welcome the opportunity to continue to assist in whatever way we can.

If you have any questions or would like to discuss these issues further, please contact Thomas Omberg at 212-436-4126, John Fogarty at 203-761-3227, or Dave Sullivan at 714-436-7788.

Very truly yours,



Deloitte & Touche LLP

cc: James R. Doty, PCAOB Chairman
Lewis H. Ferguson, PCAOB Member
Jeanette M. Franzel, PCAOB Member
Jay D. Hanson, PCAOB Member

Steven B. Harris, PCAOB Member

Martin F. Baumann, PCAOB Chief Auditor and Director of Professional Standards

Mary Jo White, SEC Chair

Luis A. Aguilar, SEC Commissioner

Daniel M. Gallagher, SEC Commissioner

Kara M. Stein, SEC Commissioner

Michael S. Piwowar, SEC Commissioner

James V. Schnurr, SEC Chief Accountant

Brian T. Croteau, SEC Deputy Chief Accountant