PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

SPOTLIGHT

Considerations for Audit Firms Using the Work of Specialists

February 2025

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OVERVIEW

As part of the PCAOB's strategic objective of enhancing inspections and improving audit quality by delivering useful guidance to the audit profession, we, the PCAOB inspection staff, are providing this Spotlight to highlight important considerations for a PCAOB-registered public accounting firm ("audit firm," "firm," or "auditor") that uses the work of a specialist on audits of a public company ("company") or broker and dealer ("broker-dealer"). Other stakeholders, including audit committees, may find this information helpful in understanding how a firm may use the work of a specialist in obtaining or evaluating audit evidence.

As financial reporting frameworks continue to evolve, they increasingly require the use of estimates, particularly those based on fair value measurements. As a result, accounting estimates have become both more prevalent and significant, leading to a corresponding rise in the frequency and significance of the use of the work of specialists. Companies may also use company specialists to assist them in developing accounting estimates, including fair value measurements, or to evaluate characteristics of physical assets, among other things. Auditors increasingly use the work of specialists in their audits to assist in obtaining and evaluating audit evidence. If a specialist's work is not properly overseen or evaluated by the audit firm, there may be a heightened risk that the audit firm's work will not be sufficient to detect a material misstatement in the financial statements.

To assist the auditors of companies and broker-dealers in complying with professional standards, this Spotlight highlights recent staff observations from our inspections when the firm used a specialist. Our observations – including common audit deficiencies, reminders, and good practices – are designed to help audit firms ensure appropriate procedures are performed when using the work of a specialist.

BACKGROUND

How Specialists Are Used by Companies and Audit Firms

A specialist is a person or firm possessing a special skill or knowledge in a particular field other than accounting or auditing.

Companies across many industries use specialists ("company specialists") to assist in developing accounting estimates in their financial statements. Those companies may use a variety of company specialists, including actuaries, appraisers, other valuation specialists, legal specialists, environmental engineers, and petroleum engineers. Broker-dealers might use a specialist for hard-to-price securities or goodwill. An auditor will often use the work of these company specialists as audit evidence.

Auditors also frequently use the work of specialists engaged by the audit firm ("auditor-engaged specialist") or employed by the audit firm ("auditor-employed specialist"), to assist in their evaluation of significant accounts and disclosures, including accounting estimates in those accounts and disclosures.

An auditor typically does not have the same expertise as a person trained or qualified to engage in the practice of another profession. In particular, the specialist's work is highly technical in nature and often is not entirely transparent to the auditor, who may not have complete access to the specialist's work or the same level of knowledge and skill in the specialist's field. If a specialist's work is not properly overseen or evaluated by the auditor, there may be a heightened risk that the auditor's work will not be sufficient to detect a material misstatement to the financial statements.

Examples of Activities That Often Involve the Work of Specialists

The following are example of activities that often involve the work of specialists, as noted in **PCAOB Release No. 2018-006, *Amendments to Auditing Standards For Auditor's Use of the Work of Specialists***:

Estimates and Valuations

- Assets acquired and liabilities assumed in business combinations
- Environmental remediation contingencies
- Financial instruments
- Goodwill impairments
- Impairment of real estate or other long-term assets
- Insurance reserves
- Intangible assets
- Pension and other post-employment obligations

Legal Interpretations

- Legal title to property
- Legal obligations
- Laws, regulations, or contracts

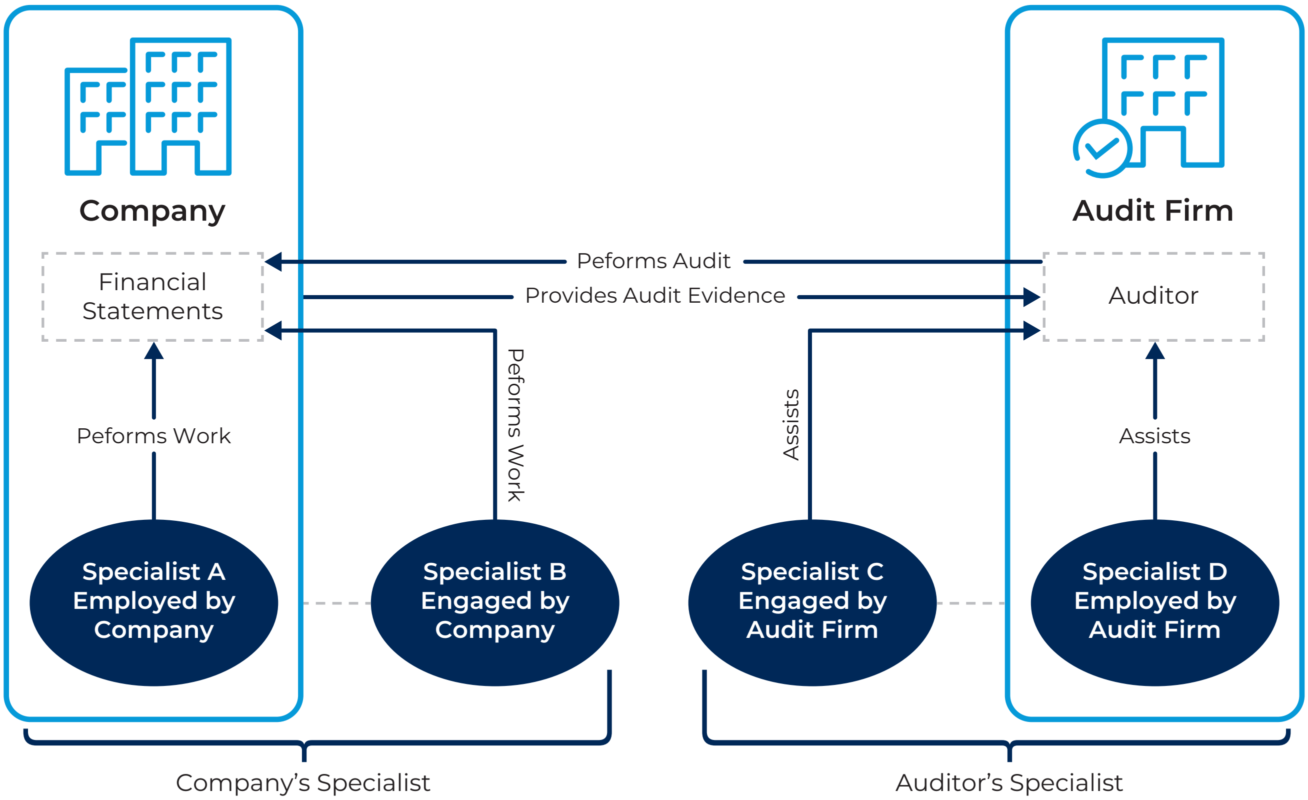
Evaluation of Physical and Other Characteristics

- Material stored in stockpiles (i.e., inventory)
- Mineral reserves and condition
- Oil and gas reserves
- Property, plant, and equipment useful lives and salvage values

PCAOB Requirements Related to Use of Specialists

The PCAOB standards applicable to using the work of a specialist are different based on the role of the specialist and depend on whether it is a company specialist, an auditor-employed specialist, or an auditor-engaged specialist. Figure 1 highlights those roles.

Figure 1 – Potential Ways Auditors Use Specialists in an Audit



The standards to address using the work of specialists under these relationships are:

- Auditing Standard (AS) 1105, *Audit Evidence*, where Appendix A addresses using the work of a company specialist as audit evidence.
- AS 1201, *Supervision of the Audit Engagement*, where Appendix C addresses supervising the work of auditor-employed specialists.
- AS 1210, *Using the Work of an Auditor-Engaged Specialist*, which sets forth requirements for using the work of auditor-engaged specialists.

A company specialist and an auditor-engaged or auditor-employed specialist have fundamentally distinct roles.

- A company specialist contributes to the preparation of the financial statements.
- A specialist engaged or employed by the audit firm performs work to assist the audit firm in obtaining and evaluating audit evidence.

Recognizing these distinct roles is important for auditors to assess the contributions of each type of specialist within the audit process.

EVALUATING THE WORK OF A COMPANY SPECIALIST

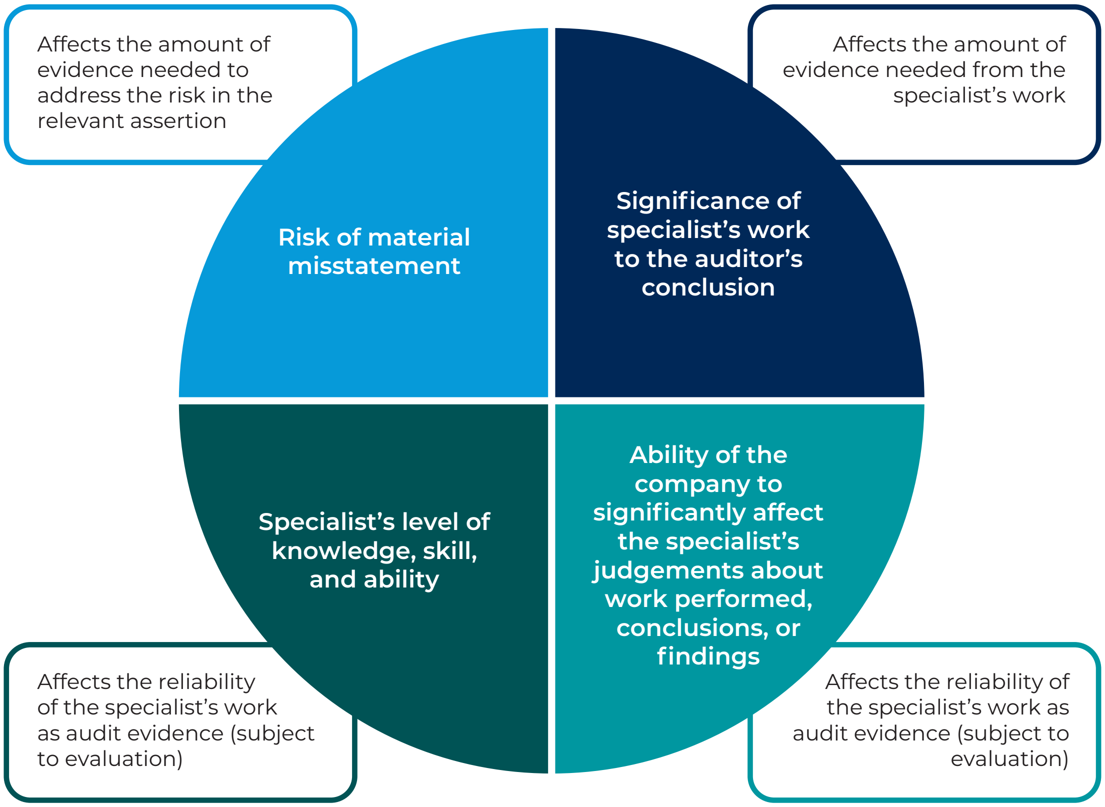
The auditor's responsibilities with respect to data, significant assumptions, and methods used by the company specialist generally are:

- **Company-produced data:** Test the accuracy and completeness of company-produced data used by the company specialist.
- **Data from sources external to the company:** Evaluate the relevance and reliability of the data from sources external to the company that are used by the company specialist.
- **Significant assumptions:** Evaluate whether the significant assumptions used by the specialist are reasonable, including:
    1. Assumptions developed by the company specialist;
    2. Assumptions provided by company management and used by the company specialist; and
    3. Assumptions based on the company's intent and ability to carry out a particular course of action.
- **Methods:** Evaluate whether the methods used by the company specialist are appropriate under the circumstances, taking into account the requirements of the applicable financial reporting framework.

The focus of the auditor's evaluation of the work of the company specialist does not require reperforming the work of the company specialist or evaluating whether the work complies with all technical aspects in the specialist's field. Instead, the auditor's responsibility is to evaluate whether the work of the company specialist provides sufficient appropriate evidence to support a conclusion regarding whether the corresponding accounts or disclosures in the financial statements are in conformity with the applicable financial reporting framework.

Four factors affect the necessary evidence from the auditor's evaluation of the work of the company specialist to support a conclusion regarding a relevant assertion as shown in Figure 2.

Figure 2 – Factors That Affect the Necessary Evidence From the Auditor's Evaluation of the Company's Specialist's Work



In some situations, if the auditor has doubt about the knowledge, skill, and ability of the company specialist or about the company's effect on the judgements of the company specialist, the auditor might choose not to use the work of the company specialist, instead of performing additional procedures with respect to evaluating the company specialist's work. The auditor may also consider the implications of this situation to the company's internal control over financial reporting, if appropriate.

The following examples illustrate various ways in which the factors discussed above can affect the necessary audit effort in evaluating the work of a company specialist. The examples assume that the auditor will evaluate, as appropriate, the data, significant assumptions, and methods used by the company specialist, and evaluate the relevance and reliability of the work of the company specialist and its relationship to the relevant assertion.

Example 1 – An oil and gas production company employs an experienced petroleum reserve engineer to assist in developing the estimated proved oil and gas reserves that are used in multiple financial statement areas, including:

1. The company's impairment analysis;
2. Depreciation, depletion, and amortization calculations; and
3. Related financial statement disclosures, such as reserve disclosures.

A substantial portion of the engineer's compensation is based on company earnings, and the engineer has a reporting line to the company's chief financial officer, which may also be a fraud risk.

The auditor concludes that the risk of material misstatement of the valuation of oil and gas properties is high, and the reserve engineer's work is significant to the auditor's conclusion regarding the assertion. Thus, the auditor would need to obtain more persuasive audit evidence commensurate with a high risk of material misstatement and susceptibility to significant management influence, devoting more audit attention to the data, significant assumptions, and methods that are more important to the specialist's findings.

On the other hand, relatively less audit evidence might be needed for the work of an individual reserve engineer if the company has several properties of similar risk, and the reserve studies are performed by different qualified reserve engineers who are either (1) engaged by the company, having no significant ties that give the company significant influence over the specialists' judgments, or (2) employed specialists for which the company has implemented compensation policies, reporting lines, and other measures to prevent company management from having significant influence over the specialists' judgments.

Example 2 – A financial services company specializes in residential mortgage and commercial mortgage loans, which are either sold or held in its portfolio. During the financial statement audit, the auditor may inspect appraisals prepared by the company specialists for the real estate collateralizing loans for a variety of reasons, including in conjunction with testing the valuation of loans and the related allowance for loan losses.

Under these circumstances, the persuasiveness of the evidence needed from (and the necessary degree of audit attention devoted to evaluating the methods, significant assumptions, and data used in) an individual appraisal would depend, among other things, on the importance of the individual appraisal to the auditor's conclusion about the related financial statement assertion.

In general, more audit attention would be needed for appraisals used in testing the valuation of individually large loans that are valued principally based on their collateral than for appraisals inspected in loan file reviews for a portfolio of smaller loans with a low risk of default and a low loan-to-value ratio.

Example 3 – A manufacturing company engages an actuary to calculate the projected pension benefit obligation ("PBO") for its pension plan, which is used to determine the related accounts and disclosures in the financial statements. The auditor has assessed the risk of material misstatement for the valuation of the PBO as high and concluded that the actuary's work is significant to the auditor's conclusion.

The actuary has extensive experience and is employed by a highly regarded actuarial firm with many clients. The actuary and actuarial firm have no relationships with the company other than performing the actuarial pension plan calculations for the company's financial statements.

Under these circumstances, the necessary level of audit attention is less than it otherwise would be for a situation where a specialist has a lower level of knowledge, skill and ability, or the company has the ability to significantly affect the specialist's judgments about the work performed, conclusions, or findings.

When more audit attention is needed, the auditor would focus on those aspects of the specialist's work that could be affected by the issues related to the specialist's knowledge, skill, and ability or by the company's ability to significantly affect the specialist's judgments.

The three examples above are provided only to illustrate the auditor's consideration of the four factors when determining the necessary audit effort for evaluating the work of the company specialist. Differences in circumstances, or additional information, could lead to different conclusions. The examples are not intended to prescribe the specific procedures to be performed in evaluating the work of a company specialist in any particular situation.

The auditor should evaluate the relevance and reliability of the company specialist(s) findings and perform additional procedures, as necessary, if those findings or conclusions appear to contradict the relevant assertion[1] or the work of the company specialist do not provide sufficient appropriate evidence. The auditor may need to consider, if appropriate, additional procedures when the company specialist(s) report, or equivalent communication, contains restrictions, disclaimers, or limitations regarding the auditor's use of the company specialist(s) report(s) – or the auditor has identified that a specialist has a conflict of interest.

USING THE WORK OF AN AUDITOR-EMPLOYED SPECIALIST

Determining the Extent of Supervision

The necessary extent of supervision depends on (1) the significance of the auditor-employed specialist's work to the auditor's conclusion regarding the relevant assertion; (2) the risk of material misstatement of the relevant assertion; and (3) the knowledge, skill, and ability of the auditor-employed specialist relevant to the work they will perform.

Auditors can use information from, and processes in, the firm's quality control system when assessing the knowledge, skill, ability, and independence of auditor-employed specialists. However, the fact that a system of quality control may have a process for making assignments of specialists does not relieve the engagement partner (with the assistance of appropriate supervisory personnel on the engagement team) of his or her responsibility to determine whether the assigned specialist has the necessary qualifications and independence for the audit engagement in accordance with AS 1000, *General Responsibilities of the Auditor in Conducting an Audit* ("AS 1000"), and AS 2101, *Audit Planning*.

Qualifications and Independence of Auditor-Employed Specialists

AS 1000 requires that personnel be assigned to engagement teams based on their knowledge, skill, and ability. This requirement applies equally to auditor-employed specialists and other engagement team members, and auditor-employed specialists must be independent of the public company.

It is not practicable in this publication to address all the legal structures or affiliations between accounting firms and specialists. Where the specialist is employed by an affiliated entity that adheres to the same quality control and independence requirements as the auditor's firm, provided

1 Audit evidence is all the information, whether obtained from audit procedures or other sources, that is used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence consists of both information that supports and corroborates management's assertions regarding the financial statements or internal controls over financial reporting and information that contradicts such assertions.

that affiliated entity's quality control is deemed effective, the auditor would assess the qualifications and independence of that specialist in the same ways as an engagement team member employed by the firm.

Informing the Specialist of the Work To Be Performed

The auditor should establish and document an understanding with the specialist regarding the degree of responsibility of the auditor-employed specialist for:

1. Testing data produced by the public company, or evaluating the relevance and reliability of data from sources external to the public company;
2. Evaluating the significant assumptions used by the public company or the public company specialist, or developing his or her own assumptions; and
3. Evaluating the methods used by the public company or the public company's specialist, or using his or her own methods.

This understanding can be documented in a variety of ways, such as in planning memoranda, separate memoranda, or other related workpapers.

The intent of this requirement is to enhance coordination of the work between the auditor and the auditor-employed specialist and to facilitate supervision. Regardless of the auditor-employed specialist's degree of responsibility, the engagement partner and, as applicable, other engagement team members performing supervisory activities, are responsible for evaluating the auditor-employed specialist's work and report, or equivalent documentation.

The engagement partner and, as applicable, other engagement team members performing supervisory activities should inform the auditor-employed specialist about matters that could affect the specialist's work. This includes, as applicable, information about the public company and its environment, the public company's processes for developing the related accounting estimate, the public company's use of specialists in developing the estimate, relevant requirements of the applicable financial reporting framework, possible accounting and auditing issues, and the need to apply professional skepticism.

The engagement partner and, as applicable, other engagement team members performing supervisory activities should implement measures to determine that there is proper coordination of the work of the specialist with the work of other relevant engagement team members to achieve a proper evaluation of the evidence obtained in reaching a conclusion about the relevant assertion.

The auditor is responsible for complying with relevant auditing standards, including, when applicable, AS 2501, *Auditing Accounting Estimates, Including Fair Value Measurements*. This requirement is intended to prompt the auditor to coordinate with the specialist to make sure that the work is performed in accordance with the applicable standards, including the requirement to consider relevant audit evidence, regardless of whether it supports or contradicts the relevant financial statement assertion.

Evaluating the Work of the Specialist

As with the extent of supervision required, the extent of review and evaluation of the auditor-employed specialist's work depends on (1) the significance of their work to the auditor's conclusion regarding the relevant assertion; (2) the risk of material misstatement of the relevant assertion; and (3) their knowledge, skill, and ability. In performing the review, the auditor also should evaluate whether the auditor-employed specialist's work provides sufficient appropriate evidence. The scope of this publication does not include specific audit documentation requirements of AS 1215, *Audit Documentation*.

USING THE WORK OF AN AUDITOR-ENGAGED SPECIALIST

The objective of the auditor is to determine whether the work of the auditor-engaged specialist is suitable for the auditor's purpose and supports the auditor's conclusion regarding the relevant assertion.

Knowledge, Skill, and Ability

Auditors can use information and established processes from the firm's quality control system when assessing the knowledge, skill, and ability of auditor-engaged specialists. The fact that a system of quality control may have a firm-level process for screening engaged specialists does not relieve the engagement partner (with the assistance of appropriate supervisory personnel on the engagement team) of his or her responsibility to assess whether the engaged specialist has the necessary knowledge, skill, and ability for the audit engagement. The relevant facts and circumstances, including the nature, scope, and objectives of the auditor-engaged specialist's work, should be considered when performing this assessment. An auditor-engaged specialist may be an individual or an entity.

Objectivity

Auditors can assess the auditor-engaged specialist's level of objectivity along a spectrum and use the work of a less objective specialist if the auditor performs additional procedures to evaluate the auditor-engaged specialist's work. The auditor should perform procedures that are commensurate with, among other things, an engaged specialist's degree of objectivity. If the auditor-engaged specialist or the entity that employs the specialist has a relationship with the public company that affects the auditor-engaged specialist's objectivity, the auditor should (1) perform additional procedures to evaluate the data, significant assumptions, and methods that the engaged specialist is responsible for testing, evaluating, or developing consistent with the understanding established with the engaged specialist pursuant to AS 1210.06, or (2) engage another specialist. The necessary nature and extent of the additional procedures would depend on the degree of objectivity of the specialist.

Informing the Specialist of the Work To Be Performed, Determining the Extent of Review, and Evaluating the Work of the Specialist

The requirements for the auditor-engaged specialist are parallel to the requirements for the auditor-employed specialist when determining the extent of the auditor's review, informing the auditor-engaged specialist of the work to be performed, and evaluating the work of the auditor-engaged specialist.

The auditor's evaluation of the specialist's report or equivalent documentation includes considering the effect of any restrictions, limitations, or disclaimers in the engaged specialist's report or equivalent documentation on both (1) the relevance and reliability of the audit evidence the engaged specialist's work provides and (2) how the auditor can use the report of the engaged specialist.

COMMON DEFICIENCIES RELATED TO USE OF SPECIALISTS

The following are illustrative examples of deficiencies that the PCAOB's staff has observed:

- The auditor's risk assessment did not consider information in the annual filings or other available information that is inconsistent with the auditor's risk assessment and/or the company specialist(s) report.
- The auditor identified a risk of material misstatement associated with account balances, such as balances reported under fair value, that are estimated using a company specialist but did not perform appropriate control testing and/or substantive procedures to address the identified risk, including designing and implementing an audit response that addresses the risk.
- The auditor did not perform procedures to evaluate the work of the company specialist beyond inclusion of the company specialist report in the audit file.
- The auditor did not involve a specialist to assist in an area for which the auditor does not have the knowledge, skill, and ability to perform appropriate procedures.
- The auditor appropriately performed procedures on the financial data provided to the specialist and obtained an understanding of the significant assumptions and methods used by the specialist. However, the auditor did not consider significant nonfinancial data produced by the company provided to the specialist (such as geological, engineering, and geophysical data important to an extraction industry reserve report and related disclosures or employee census data related to an actuarial calculation), and the related significant assumptions and methods used by the specialist to develop a financial estimate. In performing their audit procedures, the auditor did not test the completeness and accuracy of the significant nonfinancial data produced by the company and used by the specialist.

REMINDERS FOR AUDIT FIRMS

Auditors should design and perform their audit procedures as required by PCAOB auditing standards. Below, we share reminders for auditors about certain key areas when using the work of specialists:

- **Continual risk assessment:** Risk assessment is a continual and iterative process that occurs throughout the audit. When information from a company specialist used as audit evidence or an auditor's specialist contradicts earlier risk assessments, those assessments should be reevaluated to ensure their continued relevance and accuracy.
- **Knowledge, skills, and ability:** The use of a company specialist might introduce data, significant assumptions, and methods that could be beyond the auditor's knowledge, skill, and ability. It is important for the audit firm to ensure it has – or retains – individuals with the knowledge, skill, and ability to obtain sufficient and appropriate audit evidence to provide a reasonable basis for its opinion.
- **Testing and evaluating specialist data:** Under PCAOB standards, if the auditor is using the work of a company specialist as audit evidence, it is required to test the accuracy and completeness of company-produced data used by the company specialist. Additionally, the auditor must

evaluate the relevance and reliability of data from sources external to the company that are used by the company's or the auditor's specialist.

- **Supervising and analyzing specialist procedures:** The engagement partner and, as applicable, other engagement team members performing supervisory activities should review the specialist's report, or equivalent documentation, provided by the auditor-engaged or auditor-employed specialist and evaluate whether the specialist's work provides sufficient appropriate evidence in accordance with PCAOB standards.

GOOD PRACTICES

Many audit firms – ranging from large global network firms to sole proprietors – engage or employ specialists to perform procedures to support conclusions reached on audits, which we believe can positively influence audit quality. Some examples of these good practices include the following:

- **Involving firm specialists:** Some audit firms ensure that specialists employed by their firm participate in the audit from risk assessment through reporting procedures, while some smaller firms engage specialists with the appropriate knowledge, skill, and ability to supplement their engagement team, as needed.
- **Risk assessment:** Assessing risk is a continual and iterative process that continues throughout the audit. Many auditors involve the audit firm's specialists in this risk assessment process. In some cases, a firm may inventory all assumptions and methods and then document their risk assessment for each to ensure they have designed an appropriate response for those that are classified as significant.
- **Consistency:** Some auditors check that risks identified or not identified by the auditor – or that that the auditor might be less knowledgeable about – are consistent with other available information such as annual filings, industry information, and the specialist's report by creating a matrix document linking these items.
- **Coordination:** The engagement team meets and establishes a clear division of responsibilities between the auditors and the auditor employed- or engaged-specialists, which can help ensure the auditor obtains sufficient and appropriate audit evidence to provide a reasonable basis for their opinion.
- **Supervision:** The extent of supervision depends on (1) the significance of the specialist's work to the auditor's conclusion regarding the relevant assertion; (2) the risk of material misstatement of the relevant assertion; and (3) the knowledge, skill, and ability of the specialist relevant to the work performed by the specialist.
- **Contrary evidence:** Some audit firms create a matrix document that compares the significant assumptions, findings, and conclusions used by the company specialist to other comparable relevant assertions and information in the financial statements, including accompanying information in order to identify matters that require the auditor to perform additional procedures, as necessary, to address differences.
- **Competence:** Some firms will evaluate the competence, relationships to the company, and work of the company specialist through inquiries of the company specialist. For example, they may send a company specialist a questionnaire to obtain information regarding the specialist's professional qualifications and the existence of relationships with the company that could impair the specialist's objectivity.

QUESTIONS FOR AUDIT COMMITTEES

The following questions may be of interest to audit committees to consider about the work performed by the audit firm related to the use of specialists:

- How did the auditor ensure that the auditor's specialist(s) (employed or engaged) is/are appropriately identified and utilized to test significant estimates requiring specialization in the audit?
- Has the auditor engaged or employed specialists in the same field as the company's specialist(s) that were used to develop accounting estimates?
- How did the auditor identify and evaluate areas where a specialist would be used to perform or assist with audit procedures?
- Did the audit firm employ or engage a specialist to help with (1) understanding the process by which the company makes accounting estimates and (2) how the audit firm assesses the risks of material misstatement related to those accounting estimates?
- If auditor's specialist(s) was/were not used to evaluate significant assumptions, critical estimates, or disclosures prepared by the company specialists, how did the auditor perform sufficient procedures?
- What were the significant judgments discussed or challenged by the auditor's specialist(s)? What was the outcome of those discussions?
- Did the auditor's specialist(s) (employed or engaged) have any significant differences in methodology or results when compared to the company specialist? If so, how did the auditor assess those differences?

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