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At a glance

Two new proposals from the PCAOB addressing auditing accounting estimates and the auditor's use of the work of specialists are intended to promote consistent application in practice and improve audit quality.

PCAOB issues proposals on auditing estimates and using specialists

What happened?

On June 1, 2017, the PCAOB issued for public comment two standard-setting proposals related to [auditing accounting estimates including fair value measurements](#) and [the auditor's use of the work of specialists](#).

Why is this important?

Financial reporting frameworks increasingly require the use of estimates, including fair value measurements. Accounting estimates generally involve subjective assumptions and measurement uncertainty, making them susceptible to management bias. Accounting estimates represent some of the areas of greater risk of material misstatement to the financial statements, requiring additional audit attention and appropriate application of professional skepticism.

Many companies employ or engage specialists to provide information used in the preparation of the financial statements. Auditors also often use the work of specialists to assist in obtaining and evaluating audit evidence, in particular in auditing certain accounting estimates.

Auditing accounting estimates, including fair value measurements

The PCAOB proposal on auditing estimates would replace three existing auditing standards.¹ The proposed single standard is intended to change existing requirements by:

- Prompting auditors to devote greater attention to addressing potential management bias in accounting estimates, while reinforcing the need for professional skepticism;
- Extending certain requirements related to the testing of assumptions, data, and methods in the existing standard on auditing fair value measurements to all accounting estimates to reflect a uniform approach to substantive testing;
- Integrating the risk assessment standards to focus auditors on estimates with greater risk of material misstatement; and
- Providing specific requirements and direction to auditing the fair value of financial instruments, including evaluating the sufficiency of information obtained as audit evidence from third-party pricing services.

¹ *Auditing Accounting Estimates* (AS 2501) would be updated and retitled, *Auditing Accounting Estimates, Including Fair Value Measurements*. AS 2502, *Auditing Fair Value Measurements and Disclosures*, and AS 2503, *Auditing Derivative Instruments, Hedging Activities, and Investments in Securities*, would be superceded.

The auditor's use of the work of specialists

The PCAOB proposal would change existing requirements in the PCAOB's standards addressing audit evidence and supervision of the audit engagement.²

For the use of the work of a company's specialists as audit evidence, the proposal is intended to supplement current requirements related to:

- Obtaining an understanding of the work and report of the company's specialists and related company processes and controls;
- Obtaining an understanding of and assessing the specialist's knowledge, skill and ability, as well as the specialist's relationship to the company; and
- Performing procedures to test and evaluate the work of a company's specialist.

For the use of the work of an auditor's specialist, this proposal is intended to:

- Enhance the requirements for applying a risk-based supervisory approach to auditor-employed specialists, and extend those requirements to auditor-engaged specialists;
- Add requirements for informing the auditor's specialist of the work to be performed and for reviewing and evaluating that specialist's work; and
- Amend the existing requirements for assessing the knowledge, skill, and ability of an auditor's specialist; and
- Amend the existing requirements for assessing the objectivity of an auditor-engaged specialist.

What's next?

Both proposals would apply to audits of issuers, as well as audits of broker dealers. The PCAOB is seeking comment on whether the proposals should apply to audits of emerging growth companies. Comments on both proposals are due by August 30, 2017.

² The PCAOB is proposing to amend AS 1105, *Audit Evidence*, and AS 1201, *Supervision of the Audit Engagement*. The proposal also would replace *Using the Work of a Specialist* (AS 1210) and retitle it, *Using the Work of an Auditor-Engaged Specialist* (AS 1210).

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