

Statement to Consider New Estimates Standard and Amendments Related to Using the Work of Specialists

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SPEAKER:

Kathleen M. Hamm, Board Member

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Thank you, Mr. Chairman. And thank you to our terrific staff in the Office of the Chief Auditor for all their hard work in bringing before us today these two recommendations, which are designed to strengthen our standards for auditing accounting estimates and using the work of specialists.

I also would like to acknowledge the efforts of our teams from the Office of Economic and Risk Analysis and the Office of the General Counsel for their contributions. I would especially like to recognize Barbara Vanich, my former senior adviser, who stepped up this May to serve as our acting chief auditor, and who has ably guided these two long-awaited standard initiatives to this vote today. Finally, I would like to express my gratitude to my fellow board members for generously sharing their insights as we together evaluated each recommendation.

The two companion releases before us work hand-in-hand because auditors often use the work of specialists in auditing certain accounting estimates. Estimates – such as values of financial and non-financial assets, allowances for loan losses, and contingent liabilities – include some of the most risky areas of the audit because they are so challenging to measure.

Accounting Estimates, Including Fair Value Measurements

Increasingly complex accounting estimates dominate financial reporting frameworks. As a result, estimates have significant effects on companies' reported financial positions and results of operations. They also present a heightened risk of management bias, given their subjective nature.

The estimates standard that we are considering today creates a more uniform, risk-based approach to auditing estimates. And, by highlighting the potential for management bias, the standard also reinforces the auditors' need to apply professional skepticism when auditing management estimates.

The Auditor's Use of the Work of Specialists

Given the complexity of business transactions and financial reporting requirements, including around estimates, auditors and financial statement preparers often require assistance from experts with special skill or knowledge in fields outside of accounting and auditing.

Recognizing the increased importance of specialists, the recommended amendments to our standards make two types of enhancements. First, the amendments strengthen requirements when auditors assess the work of specialists engaged or employed by the companies being audited.

Second, the amendments establish a risk-based supervisory approach for specialists employed or engaged by the auditors themselves. This approach allows auditors to tailor their supervision to the associated risks as well as to the knowledge, skill, and ability of the experts being supervised.

Both of these topics – auditing estimates and the use of specialists – have long been on the PCAOB's standard-setting agenda. Each topic has been subject to thorough research and analysis.

The PCAOB staff has prepared consultation papers and drafted proposed approaches for public comment. Extensive public outreach has occurred. Market participants, audit professionals, investors, and other thought leaders have provided insights. At key junctures, in-depth discussions were held with our Standing Advisory Group, whose members include investors, preparers, audit committee members, auditors, and academics. Our staff also consulted with the staff of the Securities and Exchange Commission.

And, when this new PCAOB board was fully assembled early this year, we together immediately took up the mantle on these two standard-setting projects. Through a careful, deliberative process, we assessed the work already done and considered the extensive input previously received.

We also asked our staff to re-evaluate their previous work on each topic with an eye towards better ensuring that any new or revised standards remain evergreen as the use of technology and data analytics evolves for financial reporting and auditing.

I believe each recommendation will improve our standards and drive audit quality forward in pursuit of our mission to protect investors and further the public interest. Based on what we know today, I also believe that each recommendation is sufficiently principles-based and flexible to appropriately accommodate continued innovation around data analytics and emerging technology. As a result, I support the adoption of both.

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