



Agenda Item 6

Management Specialists and Fair Value Pricing

Objective of Agenda Item

To obtain direction from the ASB about a project to address management specialists and consideration of convergence with recently issued PCAOB standards.

Background

As part of its consideration of issues relating to proposed SAS *Audit Evidence*, the ASB concluded that material addressing management specialists currently located in AU-C section 500, *Audit Evidence*, be placed in a separate section. In addition, comment letters received on the exposure draft of proposed SAS *Auditing Accounting Estimates and Related Disclosures* (proposed Estimates SAS) suggested that the ASB consider:

- the PCAOB's new requirements for the auditor's use of the work of management's specialists (PCAOB Release No. 2018-006, *Amendments to Auditing Standards for Auditor's Use of the Work of Specialists*)
- the need for more specific guidance related to auditors' use as audit evidence of pricing information from third-party sources, taking into account AS 2501: Appendix A—Special Topics, *Identifying and Assessing Risks of Material Misstatement Related to the Fair Value of Financial Instruments*
- whether a project should be undertaken by the Board to address the requirements and application material in AU-C section 501 to verify the special considerations that remain unique and specific to our jurisdiction

A Task Force will be formed following approval of a project plan by the AITF (expected in February 2020). Patricia Bottomly will chair the Task Force and Ahava Goldman is staffing. Additional members will be added upon AITF approval.

Potential Scope of Project

Initial identification of the scope of this project is as follows:

1. Management specialists
 - Potential amendments to content addressing management's specialists currently in AU-C section 500, to eliminate unnecessary differences with AS 1105, *Audit Evidence – Appendix A, Using the Work of a Company's Specialist as Audit*

Evidence and other amendments in PCAOB Release No. 2018-006, *Amendments to Auditing Standards for Auditor's Use of the Work of Specialists*

- Placement in GAAS of this content, either in AU-C section 501, *Audit Evidence—Specific Considerations for Selected Items*, or in another, perhaps a newly-created, section.
2. Valuation of investments in securities and derivative instruments
- Potential amendments to relevant requirements and application paragraphs in AU-C section 501 to eliminate unnecessary differences with AS 2501: Appendix A—Special Topics, *Identifying and Assessing Risks of Material Misstatement Related to the Fair Value of Financial Instruments*, specifically related to use of pricing services.
 - Placement in GAAS of this content

The direction from the ASB will be used to draft a project proposal for approval by AITF in February, in accordance with ASB Operating Policies.

Proposed Timeline:

- May 2020: Present approved formal project plan to ASB and discuss of issues
- July 2020: Present proposed standard to ASB for consideration
- October 2020: Vote to expose proposed standard for public comment

Issues for ASB Discussion

1. Elimination of Unnecessary Differences Between GAAS and PCAOB Standards

In developing and updating auditing standards, the ASB considers the standards of other standard-setters, such as the International Auditing and Assurance Standards Board (IAASB), the PCAOB, and the General Accounting Office (GAO).

The PCAOB recently issued Release No. 2018-005, *Auditing Accounting Estimates, Including Fair Value Measurements, and Amendments To PCAOB Auditing Standards*, and Release No. 2018-006, *Amendments to Auditing Standards for Auditor's Use of the Work of Specialists*.

The differences between GAAS and AS 2501 are expected to be minimal with the exception of the content included in AS 2501: Appendix A—Special Topics, *Identifying and Assessing Risks of Material Misstatement Related to the Fair Value of Financial Instruments*, specifically related to use of pricing services.

This project will consider whether:

- these two releases include requirements that are incremental to GAAS;
- the incremental requirements are unnecessary differences between audits of issuers and audits of nonissuers; and if so,
- whether the differences are significant enough to warrant amendments to GAAS.

The criteria used to determine an unnecessary difference are as follows:

- Does the requirement address something that is common to issuers and rare for non-issuers?
- Is the requirement more prescriptive than appropriate for principle-based standards?
- Does the requirement result in a performance difference?
- Is the requirement scalable?
- Would applying the requirement in GAAS audits result in higher audit quality?

Note that these considerations and criteria are the same as those used in a previous project to consider differences between GAAS and PCAOB Auditing Standards No. 17, 18 and 19.

Question for the ASB:

Are these considerations and criteria still appropriate and complete?

2. Placement in GAAS

Management specialists is currently in AU-C 500, specifically a definition, one requirement paragraph and 15 related application paragraphs. ASB determined to relocate that content, either in a new section or in a section of GAAS other than AU-C 620, *Using the Work of an Auditor's Specialist*. The initial thinking is to place the material addressing management specialists in AU-C section 501, because there is only one requirement paragraph, which seems insufficient for an entire AU-C section. Should requirements be added as a result of considering unnecessary differences with the PCAOB standards, this decision could be reconsidered.

Valuation of investments in securities and derivative instruments is currently addressed in AU-C section 501 paragraphs .04-10; this content is not in ISA 501. However, proposed Estimates SAS would amend 501 by deleting paragraphs 6-10, leaving only paragraphs 4-5 addressing investments in securities valued based on the investee's financial results. Initial thinking is to place any requirements and related guidance resulting from consideration of AS 2501, along with the remaining content addressing investments in securities in AU-C 501, to AU-C 540. This would be more consistent with how these topics are placed in the ISAs and keep all the content around investments in one section.

Question for the ASB:

Does the ASB agree with the initial view of placing the content addressing management specialists in AU-C 501, and moving content addressing investments in securities and derivative instruments to AU-C 540?

Agenda Items Presented:

The following materials are provided as background to inform the discussion:

Item 6A AU-C section 501, marked for amendments proposed by proposed Estimates SAS

Item 6B Management specialists Paragraphs .08 and .A35-.A49, and definition, as amended by ISA 540, of AU-C section 500, *Audit Evidence*

- PCAOB Release No. 2018-005, *Auditing Accounting Estimates, Including Fair Value Measurements*, AS 2501: APPENDIX A—Special Topics, *Identifying and Assessing Risks of Material Misstatement Related to the Fair Value of Financial Instruments*



AS 2105 Appendix
A.pdf

- AS 1105, *Audit Evidence – Appendix A, Using the Work of a Company’s Specialist as Audit Evidence*



AS 1105 Appendix
A.pdf