



Agenda Item 2F

EXPOSURE DRAFT

PROPOSED STATEMENT ON AUDITING STANDARDS

AMENDMENTS TO AU-C SECTIONS 501, 540 and 620

(Amends Statement on Auditing Standards [SAS])

- ***No. 122, Statements on Auditing Standards: Clarification and Recodification, as amended, section 620, Using the Work of an Auditor's Specialist [AICPA, Professional Standards, AU-C sec. 620]***
- ***No. 142, Audit Evidence [AICPA, Professional Standards, AU-C sec. 501]***
- ***No. 143, Auditing Accounting Estimates and Related Disclosures [AICPA, Professional Standards, AU-C sec. 540]***

November X, 2020

Comments are requested by February X, 2020

Prepared by the AICPA Auditing Standards Board for comment from persons interested in auditing and reporting issues.

Comments should be submitted in Word format and sent to CommentLetters@aicpa-cima.com.

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Explanatory Memorandum

Introduction

This memorandum provides background to the proposed Statement on Auditing Standards (SAS) *Amendments to AU-C Sections 501, 540, and 620*.¹ If issued as final, the proposed SAS will amend the following SASs:

- No. 122, *Statements on Auditing Standards: Clarification and Recodification*, as amended, section 620, *Using the Work of an Auditor's Specialist* (AICPA, *Professional Standards*, AU-C sec. 620)
- No. 142, *Audit Evidence* (AICPA, *Professional Standards*, AU-C sec. 501)
- No. 143, *Auditing Accounting Estimates and Related Disclosures* (AICPA, *Professional Standards*, AU-C sec. 540)

Background

The mission of the Auditing Standards Board (ASB) is to serve the public interest by developing, updating, and communicating comprehensive standards and practice guidance that enable practitioners to provide high-quality, objective audit and attestation services to nonissuers in an effective and efficient manner. The ASB accomplishes this mission in part by developing auditing, attestation, and quality control standards that inspire public trust in the profession. 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).

Comment letters received on the exposure draft of SAS No. 143, *Auditing Accounting Estimates and Related Disclosures* (Estimates SAS) suggested that the ASB consider:

- the need for more specific guidance related to auditors' use of pricing information from third-party sources as audit evidence, taking into account PCAOB Accounting Standard (AS) 2501: [Appendix A—Special Topics, Identifying and Assessing Risks of Material Misstatement Related to the Fair Value of Financial Instruments](#)
- whether the PCAOB's amendments for the auditor's use of the work of specialists (PCAOB Release No. 2018-006, [Amendments to Auditing Standards for Auditor's Use of the Work of Specialists](#)) included material that, if included in the requirements or application material of generally accepted auditing standards (GAAS), would enhance audit quality for audits of financial statements of nonissuers in an effective and efficient manner.

PCAOB Release No. 2018-005 (AS 2501, *Auditing Accounting Estimates*, and the related amendments) was taken into account when SAS No. 143 was drafted. The ASB believes that, with

¹ All AU-C sections can be found in AICPA *Professional Standards*.

the exception of AS 2501 Appendix A, *Special Topics*, which addresses special topics related to fair value of financial instruments and the use of pricing services, SAS No. 143 appropriately addressed the content in Release No. 2018-005. This includes AS 1105 Appendix B, *Audit Evidence Regarding Valuation of Investments Based on Investee Financial Results*, which is materially consistent with AU-C section 501, paragraphs 4-5 and related application material. The ASB is proposing to amend SAS No. 143 by adding an appendix addressing the use of pricing services in evaluating estimates regarding the fair value of financial instruments.

The ASB considered the PCAOB's amendments in Release No. 2018-006, including the addition to AS 1105, *Audit Evidence*, of Appendix A, *Using the Work of a Company's Specialist as Audit Evidence*. The ASB believes that the principles-based requirements in GAAS encompass all the actions required by the PCAOB, and that the PCAOB requirements that are more detailed than the equivalent GAAS requirements are more prescriptive than is appropriate for principle-based standards. The ASB is proposing amendments, based on material identified in Release No. 2018-006, that it believes would enhance audit quality if added to GAAS as application guidance.

Effective Date

If issued as final, the proposed amendments to AU-C sections 501, 540 and 620 will be effective for audits of financial statements for periods ending on or after December 15, 2023.

Explanation of Proposed Changes

The following is a summary of the proposed changes to extant AU-C sections 501, 540, and 620 that the ASB believes would be the most significant.

Proposed Revisions to AU-C section 501 (pages X-XX)

Amendments to various application material paragraphs are proposed to provide guidance on applying SAS No. 143 when management has used the work of a specialist in making accounting estimates, as well as other proposed amendments to enhance guidance about evaluating the work of the management's specialist.

Proposed Revisions to AU-C Section 540 (pages xx-xx)

The proposed amendment to AU-C section 540 is to add a new appendix, *Use of Pricing Information from Third Parties as Audit Evidence*, that provides guidance on the use of pricing information from pricing services when evaluating management's estimates related to the fair value of financial instruments.

Proposed Revisions to AU-C Section 620 (pages xx-xx)

Amendments to various application paragraphs in AU-C section 620 are proposed to enhance the

guidance related to using the work of an auditor's specialist.

Guide for Respondents

Respondents are asked to comment on the proposed changes to existing standards and whether they will enhance audit quality.

Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, when appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in the exposure draft, it will be helpful for the ASB to be made aware of this view, as well.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available for public inspection at the offices of the AICPA for one year, beginning February 10, 2020. Responses should be submitted in Word format, sent to commentletters@aicpa-cima.com, and received by February XX, 2021. Respondents may also submit a PDF version of their response for posting to the AICPA website.

Comment Period

The comment period for this exposure draft ends February X, 2021.

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(2020–2021)**

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PROPOSED STATEMENT ON AUDITING STANDARDS

AMENDMENTS TO AU-C SECTIONS 501, 540, AND 620

(*Boldface italics* denotes new language. Deleted text is shown in ~~strikethrough~~.)

Proposed Amendment to AU-C Section 501

AU-C Section 501, *Audit Evidence—Specific Considerations for Selected Items*

[No proposed amendment to paragraphs .01–.A18. Paragraph .A19 included for context.]

Use of Management’s Specialists for Inventory Counts

.A19 Management may engage specialists who have expertise in the taking of physical inventories to count, list, price, and subsequently compute the total dollar amount of inventory on hand at the date of the physical count. For example, entities such as retail stores, hospitals, and automobile dealers may use specialists in this manner.

.A20 An inventory count performed by an external inventory firm engaged as a management specialist does not, by itself, provide the auditor with sufficient appropriate audit evidence.

Paragraph .26 ~~The auditor is required by section 500~~ **requires the auditor** to perform certain procedures if information to be used as audit evidence has been prepared using the work of a management’s specialist.^{fn-7} The auditor may, for example, examine the specialist’s program, observe its procedures and controls, make or observe some physical counts of the inventory, recompute calculations of the submitted inventory on a test basis, and apply appropriate tests to the intervening transactions.

[No proposed amendment to paragraphs .A21–.A69.]

.A70 When information to be used as audit evidence has been prepared using the work of a management’s specialist, the requirement in paragraph .26 applies. For example, an individual or organization may possess expertise in the application of models to estimate the fair value of securities for which no observable market exists. If the individual or organization applies that expertise in making an estimate, which the entity uses in preparing its financial statements, the individual or organization is a management’s specialist, and paragraph .26 applies. If, on the other

^{fn-7} ~~Paragraph .08 of section 500 addresses management’s specialists~~

hand, that individual or organization merely provides price data regarding private transactions not otherwise available to the entity, which the entity uses in its own estimation methods, such information, if used as audit evidence, is subject to paragraph .07 *of section 500*, but it is not the use of a management's specialist by the entity.

.A71 The nature, timing, and extent of audit procedures with regard to the requirement in paragraph .26 may be affected by such matters as the following:

- The nature and complexity of the matter to which the management's specialist relates
- The risks of material misstatement of the matter
- The availability of alternative sources of audit evidence
- The nature, scope, and objectives of the work of the management's specialist
- Whether the management's specialist is employed by the entity or is a party engaged by it to provide relevant services
- The extent to which management can exercise control or influence over the *management's specialist, thereby influencing the* work of the management's specialist
- Whether the management's specialist is subject to technical performance standards or other professional or industry requirements
- The nature and extent of any controls within the entity over the work of the management's specialist
- The auditor's knowledge and experience of the field of expertise of management's specialist
- The auditor's previous experience of the work of that specialist

The need for more persuasive evidence with regard to the requirement in paragraph .26 increases as the significance of the specialist's work, the risk of material misstatement, or the ability of management to affect the specialist's judgments increases, or as the competence, capabilities, and objectivity possessed by the specialist in the particular field decreases.

[No proposed amendment to paragraphs .A72-.A77.]

.A78 When evaluating the objectivity of a specialist engaged by the entity, it may be relevant to discuss with management and that specialist any interests and relationships that may create threats to the specialist's objectivity and any applicable safeguards, including any professional requirements that apply to the specialist, and to evaluate whether the safeguards are adequate. ***Relevant information may be obtained by the auditor from procedures performed in accordance with AU-C section 550, Related Parties.*** Interests and relationships creating threats may include the following:

- Financial interests
- Business and personal relationships *between the entity and the individual specialist or the organization that the specialist works for*
- Provision of other services

[No proposed amendment to paragraph .A79]

.A80 Aspects of the field of the management's specialist relevant to the auditor's understanding may include

- whether that specialist's field has areas of specialty within it that are relevant to the audit.
- whether any professional or other standards and regulatory or legal requirements apply.
- what assumptions and methods are used by the management's specialist and whether they are generally accepted within that specialist's field and ~~appropriate~~ ***appropriately applied under the applicable financial reporting framework for financial reporting purposes.***
- the nature of internal and external data or information the management's specialist uses.

[No proposed amendment to paragraphs .A81–.A82.]

.A83 Considerations when evaluating the appropriateness of the work of the management's specialist as audit evidence for the relevant assertion may include

- ***if that specialist's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods, taking into account the consistency of those assumptions with relevant information;***
- the relevance and reasonableness of that specialist's findings or conclusions, their consistency with other audit evidence, and whether they have been appropriately reflected in the financial statements;
- ~~if that specialist's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods; and~~
- if that specialist's work involves significant use of source data, ***including entity-produced data***, the relevance, completeness, ***and accuracy of that source data.***

.A84 AU-C section 540, Auditing Accounting Estimates and Related Disclosures, includes requirements and guidance related to evaluating significant assumptions. Examples of information that, if relevant, may be taken into account when applying the requirements of AU-C section 540 in evaluating significant assumptions developed by a management's specialist include:

- ***assumptions generally accepted within the specialist's field;***
- ***supporting information provided by the specialist;***
- ***industry, regulatory, and other external factors, including economic conditions;***
- ***the entity's objectives, strategies, and related business risks;***
- ***existing market information;***
- ***historical or recent experience, along with changes in conditions and events affecting the entity; and***
- ***significant assumptions used in other estimates tested in the entity's financial statements.***

.A85 *Factors that affect the relevance and reliability of the management's specialist's work include:*

- *The results of the auditor's procedures over data, significant assumptions, and methods;*
- *The nature of any restrictions, disclaimers, or limitations in the specialist's report or equivalent communication; and*
- *The consistency of the management's specialist's work with other evidence obtained by the auditor and the auditor's understanding of the entity and its environment.*

.A86 *If the management's specialist's methods includes the use of a proprietary model, the auditor's procedures may include, for example:*

- *Obtaining an understanding of the model, including the source of the inputs*
- *Reviewing descriptions of the model in the specialist's report or equivalent communication*
- *Testing controls over the entity's evaluation of the specialist's work*
- *Testing mathematical accuracy of the calculations under the model*
- *Assessing the inputs to and output from the model, which may involve using an alternative model for comparison*

The extent of such procedures will depend on the type of model used (for example, commercially available versus developed internally) and the applicability of the factors described in paragraph .A76.

.A87 *Additional procedures may be necessary if the management's specialist's findings or conclusions appear to contradict the relevant assertion or the management's specialist's work does not provide sufficient appropriate evidence. Examples of situations in which additional procedures may be necessary include:*

- *the management's specialist's findings and conclusions are inconsistent with (i) other information, if any, in the specialist's report, or equivalent communication, (ii) other evidence obtained by the auditor, or (iii) the auditor's understanding of the entity and its environment;*
- *the management's specialist's report, or equivalent communication, contains restrictions, disclaimers, or limitations regarding the auditor's use of the report or communication;*
- *exceptions were identified in performing procedures related to data, significant assumptions, or methods;*
- *the auditor has doubts about the management's specialist's competence, capabilities or objectivity; or*
- *the management's specialist has a conflict of interest relevant to the specialist's work.*

[No proposed amendment to paragraphs .A75–.A78, which are renumbered as .A88–.A91. No further amendment to AU-C section 501.]

1. This amendment is effective for audits of financial statements for periods ending on or after December 15, 2023.

Proposed Amendment to AU-C Section 540

AU-C Section 540, *Auditing Accounting Estimates and Related Disclosures*

[No proposed amendment to paragraphs .01–.A128.]

.A129 When information from an external information source is used as audit evidence, a relevant consideration for the auditor may be whether information can be obtained, or whether the information is sufficiently detailed, to understand the methods, assumptions, and other data used by the external information source. This may be limited in some respects and consequently influence the auditor’s consideration of the nature, timing, and extent of procedures to perform. For example, pricing services often provide information about their methods and assumptions by asset class, rather than individual securities. Brokers often provide only limited information about their inputs and assumptions when providing broker-indicative quotes for individual securities. *Appendix D, “Use of Pricing Information from Third Parties as Audit Evidence”, provides further guidance on the use of pricing information from third parties as audit evidence.* SAS No. 142⁵⁵ provides guidance with respect to restrictions placed by the external information source on the provision of supporting information.

[No proposed amendment to paragraphs .A130–.A153.]

.A154 Appendix C— Use of Pricing Information from Third Parties as Audit Evidence

- 1. AU-C section 500, Audit Evidence, contains requirements and provides guidance about evaluating information to be used as audit evidence, including information from external information sources. This section provides guidance on complying with AU-C section 500 with respect to information to be used as audit evidence relating to accounting estimates, irrespective of the sources of information. This appendix provides additional guidance on meeting the requirements of this section as they relate to the fair value of financial instruments.*
- 2. Audit procedures to identify and assess risks of material misstatement related to the fair value of financial instruments include obtaining an understanding of the nature of the financial instruments being valued, taking into account the following matters:*

⁵⁵ Paragraphs 9 and A40 of AU-C section 500, *Audit Evidence*.

- a. *The structural, contractual and performance features of the financial instruments, including terms affecting the timing and amount of cash flows, such as:*
 - *Time to maturity*
 - *Existence and nature of conversion features*
 - *Contractual interest rates and whether they are variable*
 - *Prepayment features*
 - *Type and quality of collateral.*
 - b. *The extent to which the fair value of the type of financial instruments is based on inputs that are observable directly or indirectly; and*
 - c. *Other factors affecting the valuation of the financial instruments, such as credit or counterparty risk, market risk, and liquidity risk.*
3. *When the auditor uses pricing information from a third party to develop an independent expectation or evaluates pricing information provided by a third party used by the entity, procedures may include evaluating the reliability of information obtained from an external information source and determining whether information can be obtained, or whether the information is sufficiently detailed. The following paragraphs address pricing information from:*
- a. *Organizations that routinely provide uniform pricing information to users, generally on a subscription basis ("pricing services"); and*
 - b. *Brokers or dealers.*

Using Pricing Information from Pricing Services

4. *The reliability of audit evidence depends on the nature and source of the evidence and the circumstances under which it is obtained. The following factors affect the reliability of pricing information provided by a pricing service:*
- a. *The experience and expertise of the pricing service relative to the types of financial instruments being valued, including whether the types of financial instruments being valued are routinely priced by the pricing service;*
 - b. *Whether the methodology used by the pricing service in determining fair value of the types of financial instruments being valued is in accordance with the applicable financial reporting framework; and*
 - c. *Whether the pricing service has an interest or relationship with the entity by which management has the ability to directly or indirectly control or significantly influence the pricing service.*
5. *The procedures performed under section 550, Related Parties, can assist the auditor in determining whether the pricing service has an interest or relationship with the entity by which management has the ability to directly or indirectly control or significantly influence the pricing service. The existence of a process by which subscribers can*

challenge a pricing service's pricing information does not, by itself, mean that management has the ability to directly or indirectly control or significantly influence that pricing service.

6. *If the auditor performs procedures to assess the reliability of pricing information provided by a pricing service at an interim date, the auditor may determine it necessary to evaluate whether the pricing service has changed its valuation process relative to the types of financial instruments being valued, and, if so, the effect of such changes on the pricing information provided at period end.*
7. *The relevance of audit evidence refers to its relationship to the assertion or to the objective of the control being tested. The following factors affect the relevance of pricing information provided by a pricing service:*
 - a. *Whether the fair values are based on quoted prices in active markets for identical financial instruments;*
 - b. *When the fair values are based on models that incorporate observable market inputs based on transactions of similar financial instruments, how those transactions are identified and considered comparable to the financial instruments being valued; and*
 - c. *When no recent transactions have occurred for either the financial instrument being valued or similar financial instruments, how the fair value was developed, including whether the inputs used represent the assumptions that market participants would use when pricing the financial instruments; whether the price was developed using a model with one or more significant inputs that were not observable in the marketplace; or whether the price was developed using a non-binding quote from a broker or dealer*
8. *Fair values of financial instruments based on trades of identical financial instruments in an active market have a lower risk of material misstatement than fair values derived from observable trades of similar financial instruments or unobservable inputs. When the fair values are based on transactions of similar financial instruments, audit procedures to evaluate the process used by the pricing service may include evaluating how transactions are identified, considered comparable, and used to value the types of financial instruments selected for testing.*
9. *When a pricing service uses the same process to price a group of financial instruments, the audit procedures to evaluate the process may be performed for those financial instruments as a group, rather than for each instrument individually, if the financial instruments are similar in nature. Considerations for determining the similarity of the financial instruments include the matters described in paragraph 2 of this appendix.*
10. *When no recent transactions have occurred for either the financial instrument being valued or similar financial instruments, audit procedures may include evaluating the*

appropriateness of the valuation method and the reasonableness of observable and unobservable inputs used by the pricing service.

Using Pricing Information from Multiple Pricing Services

11. When pricing information is obtained from multiple pricing services, less information may be needed about the particular methods and inputs used by the individual pricing services when the following conditions are met:

- a. There are recent trades of financial instruments substantially similar in structural, contractual and performance features to the financial instruments being valued;*
- b. The type of financial instrument being valued is routinely priced by several pricing services;*
- c. Prices obtained are reasonably consistent across pricing services, taking into account the nature and characteristics of the financial instruments being valued, and market conditions; and*
- d. The pricing information for the type of financial instrument is generally based on inputs that are observable.*

12. When the above conditions are not met, audit procedures may include evaluating the appropriateness of the valuation method and the reasonableness of observable and unobservable inputs for a representative price for the type of financial instrument being valued.

Using Pricing Information from a Broker or Dealer

13. When a fair value measurement is based on a quote from a broker or dealer ("broker quote"), the relevance and reliability of the evidence provided by the broker quote depend on whether:

- a. The broker or dealer has an interest or relationship with the entity by which management has the ability to directly or indirectly control or significantly influence the broker or dealer;*
- b. The broker or dealer making the quote is a market maker that transacts in the same type of financial instrument;*
- c. The broker quote reflects market conditions as of the date of the financial statements;*
- d. The broker quote is binding on the broker or dealer; and*
- e. There are any restrictions, limitations, or disclaimers in the broker quote and, if so, their nature.*

14. Broker quotes generally provide more relevant and reliable evidence when they are timely, binding quotes, without any restrictions, limitations, or disclaimers, from unaffiliated market makers transacting in the same type of financial instrument. If the broker quote

does not provide sufficient appropriate audit evidence, additional procedures to obtain relevant and reliable pricing information from another pricing source may be necessary.

15. *The procedures performed under section 550, Related Parties, can assist the auditor in determining whether the broker or dealer has an interest or relationship with the entity by which management has the ability to directly or indirectly control or significantly influence the broker or dealer.*

Unobservable Inputs

16. *When the valuation of a financial instrument includes unobservable inputs that are significant to the valuation, obtaining an understanding of how unobservable inputs were determined and evaluating the reasonableness of the unobservable inputs may include taking into account the following:*
- a. *Whether modifications made to observable information generally reflect the assumptions that market participants would use when pricing the financial instrument, including assumptions about risk; and*
 - b. *How management determined its fair value measurement, including whether it appropriately considered the information available.*

[Paragraph .A154 is renumbered as .A155 and relabeled as Appendix D. No further amendment to AU-C section 540.]

2. This amendment is effective for audits of financial statements for periods ending on or after December 15, 2023.

Proposed Amendment to AU-C Section 620

AU-C Section 620, *Using the Work of an Auditor's Specialist*

[No proposed amendment to paragraphs .01–.A9.]

.A10 When management uses a management specialist in preparing the financial statements, the auditor's decision on whether to use an auditor's specialist also may be influenced by such factors as the following:

- The nature, scope, and objectives of the work of the management's specialist
- Whether the management's specialist is employed by the entity or is a party engaged by it to provide relevant services
- The extent to which management can exercise control or influence over the *management's specialist, thereby influencing the* work of the management's specialist
- The competence and capabilities of the management's specialist
- Whether the management's specialist is subject to technical performance standards or other professional or industry requirements
- Any controls within the entity over the work of the management's specialist
- The auditor's ability to evaluate the work and findings of the management's specialist without the assistance of an auditor's specialist.

[No proposed amendment to paragraphs .A10–.A15.]

.A16 Information regarding the competence, capabilities, and objectivity of an auditor's specialist may come from a variety of sources, such as the following:

- Personal experience with previous work of that specialist
- Discussions with that specialist
- Discussions with other auditors or others who are familiar with that specialist's work

- Knowledge of that specialist's qualifications, membership in a professional body or industry association, license to practice, or other forms of external recognition
- Published papers or books written by that specialist
- The quality control policies and procedures of the auditor's firm and such other procedures the auditor considers necessary in the circumstances (see [paragraphs .A12–.A13](#)), **including information obtained from procedures performed in accordance with AU-C section 550, Related Parties.**

[No proposed amendment to paragraphs .A17–.A19.]

.A20 The evaluation of the significance of threats to objectivity and of whether a need exists for safeguards may depend upon the role of the auditor's specialist and the significance of the specialist's work in the context of the audit. There may be some circumstances in which safeguards cannot reduce threats to an acceptable level (for example, if a proposed auditor's specialist is an individual **or organization** who has played a significant role in preparing the information that is being audited [that is, if the proposed auditor's specialist is a management's specialist]).

.A21 When evaluating the objectivity of an auditor's external specialist, the auditor may

- a. inquire of the entity and the auditor's specialist about any known interests or relationships that the entity has with the auditor's external specialist (**including, when applicable, the organization that employs the individual specialist**) that may affect that specialist's objectivity or
- b. discuss with that specialist any applicable safeguards, including any professional requirements that apply to that specialist, and evaluate whether the safeguards are adequate to reduce threats to an acceptable level. Interests and relationships that may be relevant to discuss with the auditor's specialist include the following:
 - i. Financial interests
 - ii. Business and personal relationships **between the entity and the individual specialist and between the entity and the organization that the specialist works for**
 - iii. Provision of other services by the specialist, including by the organization in the case of an external specialist that is an organization

In some cases, the auditor may obtain a written representation from the auditor's external specialist about any interests or relationships with the entity of which that specialist is aware.

.A22 If the auditor believes a relationship between the entity and the auditor's specialist might impair the objectivity of the auditor's specialist, the auditor may ***engage another auditor's specialist for that purpose or*** perform additional procedures with respect to some or all of the assumptions, methods, or findings of the auditor's specialist to determine that the findings are reasonable ~~or may engage another auditor's specialist for that purpose~~. ***The nature and extent of the additional procedures depend on the degree of objectivity of the specialist. As the degree of objectivity increases, the evidence needed from additional procedures decreases.***

[No proposed amendment to paragraphs .A23–.A29.]

.A30 It often may be relevant when agreeing on the nature, scope, and objectives of the work of the auditor's specialist to include discussion of any relevant technical performance standards or other professional or industry requirements that the auditor's specialist will follow. ***Other matters that could affect the specialist's work include, as applicable, information about the entity and its environment, the entity's processes for developing the related accounting estimate, the entity's use of specialists in developing the estimate, relevant requirements of the applicable financial reporting framework, and possible accounting and auditing issues.***

.A31 Agreement on the respective roles and responsibilities of the auditor and the auditor's specialist may include the following:

- ~~• Whether the auditor or the auditor's specialist will perform detailed testing of source data~~
- ***The degree of responsibility of the auditor's specialist for:***
 - ***Testing of source data, , for example, testing data produced by the entity, or evaluating the relevance and reliability of data from sources external to the entity***
 - ***Evaluating the significant assumptions used by the entity or management's specialist, or developing the specialist's own assumptions; and***
 - ***Evaluating the methods used by the entity or management's specialist, or using his or her own methods; for example, testing the entity's process used to develop an accounting estimate, including when a management's specialist is involved in developing the estimate, or developing an independent expectation of an estimate***
- Consent for the auditor to discuss the findings or conclusions of the auditor's specialist with the entity and others and to include details of the findings or conclusions of the auditor's specialist in the basis for a modified opinion in the auditor's report, if necessary (see [paragraph .A44](#))

- Any agreement to inform the auditor's specialist of the auditor's conclusions concerning the work of the auditor's specialist

[No proposed amendment to paragraphs .A32–.A34.]

.A35 The auditor's evaluation of the competence, capabilities, and objectivity of the auditor's specialist; the auditor's familiarity with the field of expertise of the auditor's specialist; ~~and~~ the nature of the work performed by the auditor's specialist; **and the significance of the auditor's specialist's work in the context of the audit** affect the nature, timing, and extent of audit procedures to evaluate the adequacy of the work of the auditor's specialist for the auditor's purposes.

[No proposed amendment to paragraphs .A35–.A40.]

.A40 When the work of an auditor's specialist involves the use of significant assumptions and methods, the appropriateness and reasonableness of those assumptions and methods used and their application are the responsibility of the auditor's specialist. ***The auditor is responsible for obtaining an understanding of those assumptions and methods and evaluating the relevance and reasonableness of those assumptions and methods in the circumstances.*** Factors relevant to the auditor's evaluation of those assumptions and methods include whether they are

- generally accepted within the field of the auditor's specialist;
- consistent with the requirements of the applicable financial reporting framework;
- dependent on the use of specialized models; and
- consistent with those of management and, if not, the reason for, and effects of, the differences.

.A41 ***AU-C section 500 discusses the auditor's responsibility to consider the relevance and reliability of information to be used as audit evidence, including its source.***^{fn 16} When the work of an auditor's specialist involves the use of source data that is significant to the work of the auditor's specialist, procedures such as the following may be used to test that data:

- Verifying the origin of the data, including obtaining an understanding of and, when applicable, testing the internal controls over the data and, when relevant, its transmission to the auditor's specialist
- Reviewing the data for completeness and internal consistency

fn 16 Paragraphs .07 and .A12-.A24 of AU-C section 500.

[No proposed amendment to paragraph .A42.]

.A43 *Examples of situations in which the auditor may conclude that the work of the auditor's specialist is not adequate for the auditor's purposes include:*

- *the specialist's work was not performed in accordance with the auditor's instructions;*
- *the specialist's report, or equivalent documentation, contains restrictions, disclaimers, or limitations that affect the auditor's use of the report or work;*
- *the specialist's findings and conclusions are inconsistent with*
 - *the results of the work performed by the specialist,*
 - *other evidence obtained by the auditor, or*
 - *the auditor's understanding of the company and its environment;*
- *the specialist lacks a reasonable basis for data or significant assumptions the specialist used; or*
- *the methods used by the specialist were not appropriate.*

[No proposed amendment to paragraph .A43, which is renumbered as paragraph .A44]

.A45 *When key audit matters are included in the auditor's report, referring to the work of an auditor's specialist in the description of a key audit matter, (for example, in describing the auditor's approach to an accounting estimate that has been identified as having high estimation uncertainty, such as the valuation of complex financial instruments, the auditor may wish to highlight that the auditor employed or engaged an auditor's specialist) does not reduce the auditor's responsibility for the opinion on the financial statements and is therefore not inconsistent with paragraphs .14-.15.^{fn 17}*

fn17x See paragraph .A48 of AU-C section 701, Communicating Key Audit Matters in the Independent Auditor's Report

[No proposed amendment to paragraphs .A44-.A45, which are renumbered as A46-.A47. No further amendments to AU-C section 620.]

3. This amendment is effective for audits of financial statements for periods ending on or after December 15, 2023.

