

Agenda Item 1A



Proposed SAS, marked with proposed revisions

PROPOSED STATEMENT ON AUDITING STANDARDS

AMENDMENTS TO AU-C SECTIONS 501, 540, AND 620 RELATED TO THE USE OF SPECIALISTS AND THE USE OF PRICING INFORMATION OBTAINED FROM EXTERNAL INFORMATION SOURCES

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

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

NOTE

SAS No. 142, *Audit Evidence*, issued in July 2020, supersedes SAS No. 122, as amended, AU-C section 500 of the same title, and becomes effective for audits of financial statements for periods ending on or after December 15, 2022.

Although SAS No. 142 supersedes AU-C section 500 (codified as AU-C section 500A in *AICPA Professional Standards* until the effective date of SAS No. 142), SAS No. 142 transfers the management's specialist content from AU-C section 500A to AU-C section 501. However, the amendment to AU-C section 501 is only illustrated in appendix B (paragraph .68) of AU-C section 500 until the effective date of SAS No. 142.

This proposed SAS presumes that AU-C section 501 reflects the amendment made by SAS No. 142 and proposes the following amendment as illustrated in the text that follows.

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

[Footnote text not proposed to be amended is omitted for purposes of this amendment.
No proposed amendment to paragraphs .01–.02.]

Objective

.03 The objective of the auditor is to obtain sufficient appropriate audit evidence regarding the

- a. valuation of investments in securities and derivative instruments;
- b. existence and condition of inventory;
- c. completeness of litigation, claims, and assessments involving the entity;
- d. presentation and disclosure of segment information, in accordance with the applicable financial reporting framework; and
- e. ~~use work~~ of management’s specialists.

[No proposed amendment to paragraphs .04–.25]

~~Use *Using the Work of a* Management’s Specialists-Specialist~~

.02 If information to be used as audit evidence has been prepared using the work of a management’s specialist, the auditor should, to the extent necessary, taking into account the significance of that specialist’s work for the auditor’s purposes, **perform the following:** (Ref: par. .A69–.A71)

- a. Evaluate the competence, capabilities, and objectivity of that specialist (Ref: par. .A72–.A78)
- b. Obtain an understanding of the work of that specialist (Ref: par. .A79–.A82)
- c. Evaluate the appropriateness of that specialist’s work as audit evidence for the relevant assertion (Ref: par. .A83–.483)

[No proposed amendment to paragraphs .287–.A428]

~~Use *Using the Work of Management’s Specialists* an External Inventory-Taking Firm~~

.A19 Management may engage specialists **external organizations that** 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, **such external inventory-taking firms are often used by** entities such as retail stores, hospitals, and automobile dealers ~~may use specialists in this manner.~~

.A30 An inventory count performed by **The report of** an external inventory-taking firm engaged as a management specialist **about the work it performed** does not, by itself, provide the auditor with sufficient appropriate audit evidence. **Paragraph .08** ~~The auditor is required by section 500~~ **requires the auditor, if inventory is material to the financial statements,** to perform

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certain procedures if information to be used as audit evidence has been prepared using the work of a management's specialist regarding the existence and condition of inventory.^{fn7} The auditor may, for example, examine the specialist's external inventory-taking firm'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.

^{fn7} Paragraph .08 of section 500 addresses management's specialists.

A.7.1 Although the auditor may adjust the extent of the work on the physical count of inventory because of the work of management's specialist *an external inventory-taking firm*, any restriction imposed on the auditor such that the auditor is unable to perform the procedures that the auditor considers necessary is a scope limitation. In such cases, section 705 requires the auditor to modify the opinion in the auditor's report as a result of the scope limitation.

[No proposed amendment to paragraphs .A3221-.A6970.]

A.7.2 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 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 the evaluation required by AU-C section 500⁵⁰⁰^{fnx}**, but it is not the use of a management's specialist by the entity.

Fnx See paragraph .07 of AU-C section 500, Audit Evidence

A.7.3 The nature, timing, and extent of audit procedures with regard to the requirement in paragraph .26 may be affected by **one or more of 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 (including, when applicable, the organization that employs the individual 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

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- 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 **How** need for more persuasive ~~the~~ evidence with regard to the requirement in paragraph 24 **needs to be, depending upon increases as the**~~

~~— **The significance of the management's specialist's specialist's work**~~

~~— **The, the risk of material misstatement at the relevant assertion level**~~

~~— **The, or the ability of management to affect the specialist's specialist's judgments**~~

~~**The increases; or as the competence, capabilities, and objectivity possessed by the specialist in the particular field decreases.**~~

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[No proposed amendment to paragraphs .A732-.A787.]

.A788 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 and between the entity and the organization that employs the individual specialist*
- Provision of other services

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[No proposed amendment to paragraph .A7980.]

Obtaining an Understanding of the Work of the Management's Specialist (Ref: par. .276b)

.A810 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 .A821-.A823.]

Evaluating the Appropriateness of the Work of the Management's Specialist (Ref: par. .276c)

.A843 AU-C section 540, Auditing Accounting Estimates and Related Disclosures, includes requirements and guidance related to ~~testing~~ accounting estimates, including the selection and application of the methods, significant assumptions, and data used in making the accounting estimate.¹⁴ Considerations when evaluating the appropriateness of the work of the management's specialist as audit evidence for the relevant assertion may include

- 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 significant assumptions, the appropriateness of the assumptions, taking into account the consistency of those assumptions with relevant information and methods, the relevance and reasonableness of those assumptions and methods; and
- if that specialist's work involves the use of methods, the appropriateness of the methods under the circumstances, taking into account the requirements of the applicable financial reporting framework; and
- if that specialist's work involves significant use of source data, including entity produced data, the relevance, ~~completeness,~~ and accuracy reliability of that source data; and
- 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.

¹⁴ Paragraph .21 of section 540.

.A854 *If the work of the management's specialist involves use of significant assumptions ~~and methods, including significant assumptions and methods~~ developed by the management's specialist, ~~considerations~~ evaluating the appropriateness of those assumptions may include taking into account the consistency of those assumptions ~~and methods~~ with information such as the following ~~when relevant~~:*

- 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;

- ~~• the requirements of the applicable financial reporting framework; and~~
- and significant assumptions used in other estimates tested in the entity's financial statements.

~~.A856~~ If the methods of the management's specialist include the use of a proprietary model, the auditor's procedures may include, for example

- ~~• Obtaining an understanding of the model by reviewing descriptions of the model in the specialist's report or equivalent communication;~~
- ~~• obtaining an understanding of the model through such as inquiry of the specialist;~~
- testing controls over the entity's evaluation of the specialist's work;
- testing mathematical accuracy of the calculations under the model, if availablepracticable; or
- 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 .A71.

~~.A867~~ Factors that affect the relevance and reliability of the work of the management's specialist include the following:

- The results of the auditor's procedures over internal or external data, significant assumptions, and methods
- The nature of any restrictions, disclaimers, or limitations in the specialist's report or equivalent communication
- 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

~~.A878~~ 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 following:

- The findings and conclusions of the management's specialist are inconsistent with
 - other information, if any, in the specialist's report, or equivalent communication,
 - other evidence obtained by the auditor, or
 - 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~~*The auditor identified exceptions in performing procedures related to data, significant assumptions, or methods.*
- ~~The auditor has doubts about the competence, capabilities, or objectivity of the management's specialist.~~

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The management's specialist has a conflict of interest relevant to the specialist's work.

[No proposed amendment to paragraphs .A875-.A789, which are renumbered as .A898-.A901. No further amendment to AU-C section 501.]

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Proposed Amendment to AU-C Section 540, Auditing Accounting Estimates and Related Disclosures

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

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

.A107 AU-C section 500 requires the auditor to evaluate information to be used as audit evidence by taking into account, among other things, the relevance and reliability of the information, including its source. The auditor’s evaluation of such information to be used as audit evidence is required to include evaluating whether the information is sufficiently precise and detailed for the auditor’s purposes and obtaining audit evidence about the accuracy and completeness of the information, as necessary. Paragraphs A126 to A129 –provide further guidance related to evaluation of evaluating information from external information sources.

[No proposed amendment to paragraphs .A108–.A125.]

.A126 Information to be used as audit evidence, regarding risks of material misstatement relating to accounting estimates, may have been produced by the entity, prepared using the work of a management’s specialist, or provided by an external information source, including a pricing service. A pricing service is an organization that routinely provides uniform pricing information to users, generally on a subscription basis.

.A127 As explained in AU-C section 500, the reliability of evidence depends on the nature and source of the audit evidence and the circumstances under which it is obtained. Generally, the reliability of audit evidence increases when it is obtained from external parties because the information is less susceptible to management bias.⁵³ Consequently, the nature and extent of the auditor’s further audit procedures to consider the reliability of the information used in making an accounting estimate may vary depending on the nature of these factors. Examples follow:

- When market or industry data, prices, or pricing-related data are obtained from a single external information source specializing in such information, the auditor may seek a price data from an alternative independent source with which to compare.
- ~~[Additional examples intentionally omitted.]~~
- When market or industry data, prices, or pricing-related data are obtained from multiple independent external information sources and points to consensus across those sources, the auditor may need to obtain less evidence about the reliability of the data from an individual source.
- When information obtained from multiple information sources points to divergent market views, the auditor may seek to understand the reasons for the diversity in views. The

⁵³ Paragraph A22 and appendix A, “Considerations Regarding the Use of External Information Sources,” of SAS No. 142, *Audit Evidence*.

diversity may result from the use of different methods, assumptions, or data. For example, one source may be using current prices, and another may be using future prices. When the diversity relates to estimation uncertainty, the auditor is required by paragraph 26b of this SAS to obtain sufficient appropriate audit evidence about whether, in the context of the applicable financial reporting framework, the disclosures in the financial statements that describe the estimation uncertainty are reasonable. In such cases, professional judgment is also important in considering information about the methods, assumptions, or data applied.

- When information obtained from an external information source has been developed by that source using its own models (for example, for a derivative instrument or security, a pricing model or cash flow projection model), SAS No. 142, *Audit Evidence*⁵⁴ provides relevant guidance for the auditor.
- When, for derivative instruments or securities, a pricing source has a relationship with an entity that might impair its objectivity, such as an affiliate or a counterparty involved in selling or structuring the product, the auditor may determine that it is necessary to obtain estimates from more than one pricing source.

A128. For fair value accounting estimates, additional considerations of the relevance and reliability of information obtained from external information sources may include the following:

- a. Whether fair values are based on trades of the same instrument or active market quotations
- b. When the fair values are based on transactions of comparable assets or liabilities, how those transactions are identified and considered comparable
- c. When there are no transactions either for the asset or liability or comparable assets or liabilities, how the information was developed, including whether the inputs developed and used represent the assumptions that market participants would use when pricing the asset or liability, if applicable
- d. ~~When the fair value measurement is based on a broker quote, whether the broker quote~~
 - i. ~~is from a market maker who transacts in the same type of financial instrument,~~
 - ii. ~~is binding or nonbinding, with more weight placed on quotes based on binding offers, and~~
 - iii. ~~reflects market conditions as of the date of the financial statements, when required by the applicable financial reporting framework.~~

Examples of sources relating to (a) and (b) for derivative instruments and securities listed on national exchanges or over-the-counter (OTC) markets include financial publications, the exchanges, NASDAQ, or pricing services based on sources such as those. For derivative instruments and securities, if quoted market prices are not available, estimates of fair value

⁵⁴ Appendix A, "Considerations Regarding the Use of External Information Sources," of SAS No. 142, *Audit Evidence*.

frequently may be obtained from, for example, broker-dealers or other third-party sources, based on proprietary valuation models, or from the entity, based on internally or externally developed valuation models (for example, the Black-Scholes option-pricing model). Examples of broker quotes for certain derivative instruments and securities include quoted market prices obtained from broker-dealers who are market makers in such derivative instruments and securities or through electronic quotation and trading systems for OTC securities. However, using such a price quote to test valuation assertions may require special knowledge to understand the circumstances in which the quote was developed. For example, quotations published by electronic quotation and trading systems for OTC securities may not be based on recent trades and may be only an indication of interest and not an actual price for which a counterparty will purchase or sell the underlying derivative instrument or security. *Appendix C, "Use of Pricing Information From Third Parties as Audit Evidence," provides further guidance on the use of pricing information from third parties, including brokers or dealers, as audit evidence.*

[No proposed amendment to paragraphs .A129-.A153. The proposed amendment to paragraph .A154, Appendix C, changes the title and inserts new content.]

~~.A154 Appendix C — Amendments to Various Sections in SAS No. 122, Statements on Auditing Standards: Clarification and Recodification, as Amended; SAS No. 134, Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements, as Amended; and SAS No. 136, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, as Amended~~ 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. AU-C section 540 provides guidance on complying with AU-C section 500 with respect to information to be used as audit evidence relating to accounting estimates, without regard to the sources of information. As explained in AU-C section 500, the reliability of evidence depends on the nature and source of the audit evidence and the circumstances under which it is obtained. Generally, the reliability of audit evidence increases when it is obtained from external parties because the information is less susceptible to management bias. This appendix provides additional guidance about information used as audit evidence for estimates, when that information is pricing information obtained from external information sources.*
2. *When the auditor uses pricing information from an external information source to develop an independent expectation or evaluates pricing information provided by a third party used by the entity, the requirement in section 500¹ to evaluate information to be used as audit evidence applies. ~~For exchange-traded~~ **Quoted market prices for derivative instruments and securities in active listed on national exchanges or over-the-counter markets.** ~~quoted prices~~*

~~that are obtained from third-party sources, such as financial publications or other, the exchanges, NASDAQ, or pricing services that obtain prices directly from original~~ **based on sources (for example, stock exchanges), may such as these generally provide sufficient appropriate audit evidence of the fair value of the derivative instruments and securities.** The following paragraphs provide guidance for evaluating pricing information from the following sources:

- a. Organizations that routinely provide uniform pricing information to users, generally on a subscription basis (pricing services). Note that when a pricing service is engaged to individually develop a price for a specific financial instrument not routinely priced for its subscribers, the requirements in sections 501 and 620 relating to management's or the auditor's specialist, respectively, apply.
- b. Brokers or dealers

¹ Paragraph .07 of AU-C section 500, Audit Evidence

Using Pricing Information From Pricing Services

3. Appendix A, Considerations Regarding the Use of External Information Sources, of section 500 provides guidance relevant to evaluating the reliability of information from external information sources. The reliability of information to be used as audit evidence depends on the nature and source of the information 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
 - c. Whether the pricing service has a relationship with the entity by which management has the ability to directly or indirectly control or significantly influence the pricing service
4. ~~The procedures performed under section 550, Related Parties, can assist the auditor in determining whether~~ **evaluating the reliability of the audit evidence obtained from the pricing service has a relationship with the entity by which management has taking into account the ability of management to directly or indirectly control or significantly influence the information obtained from the pricing service through relationships between the entity and 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.

5. *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.*
6. *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 transactions of similar financial instruments, how those transactions are identified and considered comparable to the financial instruments being valued*
 - c. *When no recent transactions have occurred for either the financial instrument being valued or similar financial instruments or the price was developed using a nonbinding quote from a broker or dealer, how the fair value was developed, including whether the inputs used represent the assumptions that market participants would use when pricing the financial instruments*
7. *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.*
8. *When financial instruments are similar, and are priced by the pricing service using the same process, procedures related to the information from the pricing service may be performed for financial instruments as a group, rather than for each instrument individually. Considerations for determining the similarity of the financial instruments include the following matters:*
 - *The terms and characteristics of the financial instruments*
 - *The extent to which the fair value of the type of financial instrument is based on inputs that are observable directly or indirectly*
 - *Other factors affecting the valuation of the financial instruments, such as credit or counterparty risk, market risk, and liquidity risk*
9. *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

10. *When pricing information is obtained from multiple pricing services (that is, more than one), less information may be needed about the particular methods and inputs used by the individual pricing services based on **the presence of** factors such as the following:*
- a. *There are recent trades of the financial instrument or of financial instruments substantially similar to the financial instruments being valued.*
 - b. *The type of financial instrument being valued is routinely priced by several (that is, more than two) 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.*
 - d. *The pricing information for the type of financial instrument is generally based on inputs that are observable.*
11. *When one or more of the preceding factors are not present, further audit procedures may be necessary to evaluate 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

12. *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 a 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; **more weight may be placed on quotes based on binding offers**; and*
 - e. *there are any restrictions, limitations, or disclaimers in the broker quote and, if so, their nature.*
13. *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 the auditor may perform include obtaining relevant and reliable pricing information from another pricing source, ~~considering the entity's model and considering any contradictory evidence.~~

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

Unobservable Inputs

15. *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*
 - b. *How management determined its fair value measurement, including whether it appropriately considered the information available*

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

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

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

[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 (including, when applicable, the organization that employs the individual 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 .A11–.A15.]

[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 that*** 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, *in addition to considering information obtained from procedures performed in accordance with AU-C section 550, Related Parties*, 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 employs the individual specialist*
 - iii. Provision of other services *to the entity* 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 *external* specialist might impair the objectivity of ~~the auditor's~~ *that* specialist, the auditor may *perform, or engage another auditor's specialist to perform*, additional procedures with respect to some or all of the assumptions, methods, or findings of the auditor's *external* 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 auditor's external specialist. The need for additional procedures to obtain sufficient appropriate audit evidence increases as the degree of objectivity decreases. For example, if the auditor's external specialist has a low degree of objectivity, it may be necessary for the auditor to perform procedures similar to those used to evaluate the appropriateness of the work of a management's specialist as audit evidence.*^{FN13}

^{FN13} See paragraphs 26 and A69-A83 of AU-C section 501.

[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, ~~including the need for the auditor's internal specialist to apply professional skepticism.~~ **Other matters that could affect the nature, scope, and objectives of the auditor's 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 the following:**
 - **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 auditor's specialist's own assumptions**
 - **Evaluating the methods used by the entity or management's specialist, or using the auditor's specialist's 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; **the risk of material misstatement inherent in the matter to which the specialist's work relates;** 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 .A36--A39.]

.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.*^{fn 16} 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.

^{fn 16} Paragraph .13 of AU-C section 540.

.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 17} 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 17} 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 following:*

- *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 entity and its environment.*
- *The specialist's use of data or significant assumptions is not based on consideration of relevant information available to the specialist.*
- *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, the auditor may decide to refer 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 highlight that the auditor employed or engaged an auditor's specialist). Such a reference does not reduce the auditor's responsibility for the opinion on the financial statements and is, therefore, not inconsistent, in and of itself, with paragraphs .14–.15.^{fn 17}

^{fn17} 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.]