

Agenda Item 1C



Table of Comments: General, Questions 1 & 2

Section	Name	Par.	Comment	Response
AU-C 501	03 TIC	NA	TIC appreciates the Board proposal to no longer refer to using the work of an external inventory-taking firm as using the work of a management's specialist. Following TICs review of the remaining extant guidance in AU-C section 501, there was curiosity as to whether additional types of specialists should be addressed (as part of a future project).	Noted for future
AU-C 501	08 FICPA	All	Clarifications and changes made throughout the Proposed SAS relating to AU-C Section 501 for consistency with other standards and to emphasize the relationship of a specialist to management are, in the belief of the Committee, appropriate, necessary, and appreciated. The Committee believes the designation of an "External Inventory-Taking Firm" (paragraphs .A19-.A20) is more appropriate in today's specialist environment than discussing "...specialists have expertise in the taking of physical inventories..." Additionally, the Committee believes the proposed additional Application Material in paragraphs .A84-.A87 will assist the auditor in linking procedures relating to estimates to procedures relating to evaluating the work performed by management's specialist.	Supportive
AU-C 501	10 GT	A19	We recommend that the Board clarify paragraph A19 to discuss that a specialist may still be needed for the valuation of certain inventory (for example, raw materials that contain precious metals and are valued based on the amount of precious metals within those materials), but an entity used solely for counting inventory (that is, determining inventory existence) is not a specialist, as that term is defined.	No change; par. 20 refers to existence and condition.
501	18 PwC	A19	We do not object to the ASB's decision to no longer refer to using the work of an external inventory-taking firm as using the work of management's specialist, and believe	No change; amendments clarify what was

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			<p>the change is consistent with the distinction drawn in paragraph A71 of AU-C section 501. We propose the following modifications to further clarify the updates:</p> <p>Identification/definition of “inventory-taking firm” - As it relates to the scope of this intended guidance, we believe that a distinction should be made to identify the type of work performed by an “inventory-taking firm” and management’s specialist to remind auditors that there may be instances when management’s specialists are used in the context of other relevant assertions related to inventory (e.g., valuation) and, in those circumstances, the requirement in paragraph 26 of AU-C section 501 applies.</p>	there and this would go beyond that.
AU-C 501	16 EY	A21	<p>A21. We recommend the following revision to conform with the proposed amendments to paragraphs A19-A20:</p> <p><i>A21. Although the auditor may adjust the extent of the work on the physical count of inventory because of the work of an external inventory-taking firm management’s specialist, 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.</i></p>	Agree, change made.
501	18 PwC	A30	<p>Consistency of referencing to “inventory-taking firm” in AU-C section 501 - We believe a further conforming change is needed to extant paragraph A30 for consistency as follows:</p> <p>“Although the auditor may adjust the extent of the work on the physical count of inventory because of the work of management’s specialist <u>the external inventory-taking firm</u>, 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.”</p>	Agree, change made
AU-C 501	04 FMSB import	A71	To improve the readability of AU-C 501.A71, we propose indenting the last two bullets with a different bullet format as they are to be read in conjunction with the preceding bullet. The current presentation makes it appear like they are stand-alone items.	Fixed

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AU-C 501	06 Jose Chacon	A71	<p>A71 A clear statement is made to state that one or more of the items to follow may affect audit procedures thus the addition of “one or more” seems relevant. The language added is adequate to the nature, timing and extend of audit procedures which is affected by these as well. It provides more details on the nature of the management specialist work.</p> <p>However, the last bullet point should be removed and/or added as a separate item. This is because it seems to be diverting from the main point.</p>	Agree, change proposed
540	09 Deloitte	A71	<p>Related to the application material in paragraph A71, rather than “being one of the factors” that affects the nature, timing, and extent of audit procedures, we believe “the need for more or less persuasive evidence” is based upon (1) the significance of the specialist’s work; (2) risk of material misstatement; (3) management’s ability to affect the specialist’s judgments; and (4) the specialist’s competence, capabilities, and objectivity. Therefore, we recommend that these factors (the last three bullet points in paragraph A71) should be presented as a separate paragraph, as noted below.</p> <p>.A71 The nature, timing, and extent of audit procedures with regard to the requirement in paragraph .26 may be affected by one or more of the following:</p> <ul style="list-style-type: none"> • ... • The need for more persuasive evidence with regard to the requirement in paragraph .26 increases • As the signifcance of the management’s specialist’s work, the risk of material misstatement, or the ability of management to affect the specialist’s judgments increases • As the competence, capabilities, and objectivity possessed by the specialist in the particular field decreases 	Agree, change proposed

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			<u>The need for more persuasive evidence with regard to the requirement in paragraph .26 increases as the significance of the management’s 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.</u>	
AU-C 501	10 GT	A71	We note that the three bullets proposed at the bottom of the list within paragraph A71 do not appear to flow as standalone considerations. These three items appear to relate to the persuasiveness of evidence needed, and we believe they may be better suited incorporated into the lead-in to the list or as a separate application paragraph.	Agree, change proposed
AU-C 501	15 NSAA	A71	The last three bullet points added to AU-C 501.A71 are grammatically inconsistent with the others, and do not appear to add any unique factor to consider in the auditor’s analysis. Rather, these factors are the subject of the extant guidance. If the explanation is needed for context (i.e., “increases” or “decreases”), it could be added in paragraph form after the list.	Agree, change proposed
AU-C 501	13 BDO	A71	In addition to the suggested edits shown below, we suggest indenting the last two bullets in paragraph A71 as they relate to previous bullet in this paragraph as shown below. a. The need for more persuasive evidence with regard to the requirement in paragraph .26 increases: • As as the significance of the management’s specialist’s work, the risk of material misstatement, or the ability of management to affect the specialist’s judgments increases; or As as the competence, capabilities, and objectivity possessed by the specialist in the particular field decreases.	See proposed revision
AU-C 501	14 RSM US	A71	<i>Paragraph .A71</i>	Agree, change proposed

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			<p>The Exposure Draft proposes to add three bullet points at the end of paragraph .A71 in AU-C section 501. We agree that the concepts within those three bullet points regarding the persuasiveness of evidence needed should be included as guidance in AU-C section 501. However, we do not believe it is appropriate to include those concepts individually as separate bullet points in paragraph .A71 because (a) the guidance within those three bullet points is better communicated together with more explanation as one concept, instead of three separate bullet points; and (b) the construct of those three bullet points is different than that of the existing bullet points, and therefore the language in the bullet points does not follow understandably from the lead-in sentence of paragraph .A71. Therefore, we suggest removing the last three bullet points from the end of paragraph .A71 and adding this paragraph following the bulleted list:</p> <p style="padding-left: 40px;">The necessary evidence to evaluate the competence, capabilities and objectivity of a management’s specialist in paragraph .26 depends on (a) the significance of the specialist's work to the auditor's conclusion regarding the relevant assertion, (b) the risk of material misstatement of the relevant assertion, and (c) the ability of management to affect the specialist’s judgments. As the significance of the specialist's work, risk of material misstatement, or ability of management to affect the specialist’s judgments increases, the persuasiveness of the evidence the auditor obtains for those evaluations also increases.</p>	
AU-C 501	16 EY	A71	<p>A71 We believe the following proposed amendment should be in a separate paragraph with the reflected sub-bullets:</p> <p style="padding-left: 40px;"><i>The need for more persuasive evidence with regard to the requirement in paragraph .26 increases:</i></p> <ul style="list-style-type: none"> ● <i>As the significance of the work of the management’s specialist, the risk of material misstatement, or the ability of management to affect the specialist's judgments increases</i> <p style="padding-left: 40px;"><i>As the competence, capabilities, and objectivity possessed by the specialist in the particular field decreases</i></p>	Agree, change proposed
501	18 PwC	A73	<p>Consideration of reputation/standing of the specialist in a particular field - Paragraph A3 of AS 1105 requires the auditor to consider the reputation and standing of the specialist in the particular field when evaluating their knowledge, skill, and ability. In</p>	Reputation and standing would be addressed in

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			identifying procedures that may be relevant to assessing the competence, capabilities, and objectivity of management’s specialist, paragraph A73 of AU-C section 501 does not specifically address consideration of “the reputation and standing of the specialist in the particular field.” We suggest that this be added as an additional point of consideration in paragraph A73 of AU-C section 501.	“discussions with others who are familiar with that specialist’s work”
AU-C 501	18 PwC	A80	Further, proposed modifications to paragraph A80 of AU-C section 501 may contradict requirements otherwise set forth in AU-C section 540 (specifically, paragraph 13). The proposed wording suggests that obtaining an understanding of the assumptions and methods used by management’s specialist is optional based on the use of the phrase “may include” when introducing the considerations. We believed clarification is needed to specify that the requirements in AU-C section 540 apply, regardless of whether management or management’s specialist is performing the work. For example, footnote 6 to paragraph A8 of AS 1105 states “For purposes of identifying significant assumptions, the company's assumptions include assumptions developed by a company's specialist.”	New par. A84 addresses section 540 requirements. See proposed revision to par. A80
AU-C 501	06 Jose Chacon	A80	.A80 Added text does not seem necessary as it is basically stating the same.This is the added text:what assumptions and methods are used by the management’s specialist andwhether they are generally accepted within that specialist’s field and appropriateappropriately applied under the applicable financial reporting framework forfinancial reporting purposes.New language is not concise. Should be revised and written follows.what assumptions and methods are used by the management’s specialist andwhether they are generally accepted within that specialist’s field and appropriateappropriately applied under to the applicable financial reporting framework forfinancial reporting purposes. This is the added text: <ul style="list-style-type: none"> • 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. New language is not concise. Should be revised and written follows.	Change proposed to be more consistent with AS 1108, par. 8c

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			<ul style="list-style-type: none"> 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 to the applicable financial reporting framework for financial reporting purposes. 	
AU-C 501	09 Deloitte	26. A83	<p>PCAOB AS 1105, <i>Audit Evidence</i>, specifically requires the auditor to evaluate methods, data, and significant assumptions used by a management's specialist when evaluating the work of a management's specialist to be used as audit evidence. This is in addition to the similar requirement included in PCAOB AS 2501, <i>Auditing Accounting Estimates, Including Fair Value Measurements</i>, that is applicable when auditing any accounting estimate. On the other hand, the proposed SAS does not specifically state the requirement for the auditor to evaluate methods, data, and significant assumptions when evaluating the work of a management's specialist to be used as audit evidence; rather, it assumes that the auditor will extend the requirement from AU-C section 540, <i>Auditing Accounting Estimates and Related Disclosures</i>, when applying paragraph 26 of AU-C section 501. We believe the auditor's responsibility to evaluate the methods, data, and significant assumptions used by a management's specialist should be explicitly stated in paragraph 26 of the proposed SAS to clearly set expectations on audit execution when using a management's specialist and to avoid circumstances where an auditor may overlook the requirement stated in AU-C section 540 and over-rely on the fact that the information came from a management's specialist.</p> <p>In addition, we believe other associated edits should be made to application paragraph A83 in the proposed SAS for consistency with PCAOB AS 1105 and to provide additional clarity regarding the evaluation of the method, data, and relevant assumptions used by a management's specialist to assist the auditors in connecting the requirements set forth in AU-C section 540 paragraphs .21–.24 to circumstances when management uses a management's specialist in supporting their accounting estimate.</p> <p>We believe the changes suggested below to both the requirements and application material in the proposed SAS are not divergences from the ISAs; rather, we believe they</p>	See changes proposed to par. 80, 83-84, 86

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			<p>add clarity to establish that requirements for auditing accounting estimates are not overlooked by the auditors when evaluating information obtained from a management’s specialist. However, if the recommendation below for changes to the requirement in paragraph 26 is not adopted, consider instead including a reference within paragraph 26 to AU-C section 540 paragraphs .21–.24 to emphasize that, regardless of whether information to be used as audit evidence is prepared by management or a management’s specialist, the auditor is responsible for evaluating the methods, data, and significant assumptions used to support an accounting estimate recorded by management.</p> <p>26. 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)</p> <ul style="list-style-type: none"> c. Evaluate the competence, capabilities, and objectivity of that specialist (Ref: par. .A72–.A78) d. Obtain an understanding of the work of that specialist (Ref: par. .A79–.A82) e. Evaluate the appropriateness of that specialist’s work as audit evidence for the relevant assertion, including the data, significant assumptions, and methods used by the specialist (Ref: par. .A83) <p>.A83 Considerations when evaluating the appropriateness of the work of the management’s specialist as audit evidence for the relevant assertion may include</p> <ul style="list-style-type: none"> • <u>if that specialist’s work involves significant use of data, the relevance and reliability of the information.</u> • <u>if that specialist’s work involves use of significant assumptions, the appropriateness of the assumptions, taking into account</u> 	

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			<p>the consistency of those assumptions with relevant information.</p> <ul style="list-style-type: none"> • <u>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.</u> • 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. 	
AU-C 501	10 GT	A83	<p>We believe the proposed changes to paragraph A83 eliminate the notion of relevance and reasonableness of significant assumptions and methods, which we do not agree with. We recommend the first bullet read “if that specialist’s work involves the 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.” Further, we believe the last bullet should be reinstated to read “if that specialist’s work involves the significant use of source data, whether produced by the entity or by the specialist, the relevance, completeness, and accuracy of that source data.”</p>	<p>See changes proposed to par. 80, 83-84, 86</p>
AU-C 501	15 NSAA	A83	<p>We prefer the extant guidance in AU-C 501.A83 to the proposed change. The extant guidance is more detailed as to the specific factors an auditor would consider regarding the appropriateness of the work of a management’s specialist as audit evidence. This specificity is appropriate for application material and is helpful in describing the aspects of an auditor’s judgment for this area. We find in practice that the reasonableness of assumptions and methods, and the accuracy of source data used, are relevant factors that need to be specifically considered by the auditor to arrive at an appropriate judgment on use of management’s specialist. Maintaining the extant factors would also connect this consideration to the proposed guidance in paragraph A84.</p>	<p>See changes proposed to par. 80, 83-84, 86</p>

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AU-C 501	16 EY	A83	<p>A83 We recommend retaining the following consideration (fourth bullet below) when evaluating the appropriateness of the work of the management’s specialist as audit evidence for the relevant assertion to reinforce the importance of evaluating source data and to be consistent with paragraph A41 of AU-C section 620.</p> <p><i>.A83 Considerations when evaluating the appropriateness of the work of the management’s specialist as audit evidence for the relevant assertion may include:</i></p> <ul style="list-style-type: none"> • <i>if that specialist’s work involves use of significant assumptions, the consistency of those assumptions with relevant information.</i> • <i>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.</i> • <i>if that specialist’s work involves significant assumptions and methods, the relevance and reasonableness of those assumptions and methods; and</i> <p><u>if that specialist’s work involves significant use of source data, the relevance, completeness, and accuracy of that source data.</u></p>	See changes proposed to par. 80, 83-84, 86
AU-C 501	17 KPMG	A83	<p>Paragraphs A130 and A131 of AU-C section 540 are clear that the requirements in paragraphs 21-29 of that SAS apply if the auditor is using the work of management’s specialist as audit evidence. A reference to paragraph 26c of AU-C section 501 is contained in paragraph A131 of AU-C section 540. However, we recommend including corresponding references from AU-C section 501 to AU-C section 540.</p> <p>These revisions would reduce the risk that an auditor might apply the guidance in paragraphs A83 to A87 of AU-C section 501 without considering the requirements of AU-C section 540 related to methods, significant assumptions and data, including considerations when elements of the estimate were developed by management rather than the specialist. For example, paragraph A83 says that evaluating the appropriateness of the work of management’s specialist includes consistency of assumptions used by the specialist with relevant information, but does not call out methods and data used by the specialist or provide direction on how to evaluate them.</p> <p>An alternate drafting approach would be to combine paragraphs A83 and A86 into one comprehensive paragraph that would more completely address all elements of an</p>	See changes proposed to par. 80, 83-84, 86

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			estimate, including methods and data, used in the work of a management’s specialist. Such paragraph would also provide the necessary context to the application material in paragraph A85 which focuses on proprietary models used by management’s specialists. Evaluation of such models is just one aspect of evaluating the method(s) used by a specialist.	
501	17 KPMG	A83	Additionally, the referenced paragraphs in AU-C section 501 should be checked for completeness relative to the renumbered paragraphs. We believe paragraphs A83 to A87 are intended to be referenced after paragraph 26c (currently only A83 appears in the Exposure Draft).	See changes proposed to par. 80, 83-84, 86
501	18 PwC	A83	Evaluating the appropriateness of the specialist’s work - Proposed updates to paragraphs A83 and A84 of AU-C section 501 include reference to procedures performed in evaluating significant assumptions developed by management’s specialist. We believe that further alignment of these matters with the requirements set forth in AU-C section 540 (perhaps through reference to the requirements in AU-C section 540) is important. For example, proposed paragraph A83 of AU-C section 501 removes reference to the evaluation of the relevance and reasonableness of assumptions and the completeness and accuracy of source data. We acknowledge the link in proposed paragraph A84 of AU-C section 501; however, this is specific to significant assumptions, and does not address methods and source data. These matters are specifically identified in paragraph A8 of AS 1105 and serve to effectively link the requirements to those in AS 2501.	See changes proposed to par. 80, 83-84, 86
AU-C 501	06 Jose Chacon	A84	.A84 Here we have a clear view of how there is a need for additional language since most if not all the yet is new. One thing that seems to be missing though is that there is no clear view of the assumptions that may not be covered here. Also whether or not there is a limitation on the number of assumptions that should be of interest to the auditor. For the new language added everything else seems clear enough.	No change
AU-C 501	16 EY	A85	A85 We recommend the following revisions to the list of procedures that may be performed if the methods used by management’s specialist involve the use of proprietary models:	Agree, change proposed

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			<p><i>.A85 If the management’s specialist’s methods include the use of a proprietary model, the auditor’s procedures may include, for example</i></p> <ul style="list-style-type: none"> <input type="checkbox"/> <i>reviewing descriptions of the model in the specialist’s report or equivalent communication;</i> <input type="checkbox"/> <i>obtaining an understanding of the model through inquiry of the specialist;</i> <input type="checkbox"/> <i>testing controls over the entity’s evaluation of the specialist’s work;</i> <input type="checkbox"/> <i>testing mathematical accuracy of the calculations under the model (if available); or assessing the inputs to and output from the model, which may involve using an alternative model for comparison.</i> 	
AU-C 501	10 GT	A86	In paragraph A86, we are concerned that the reference to “data” is too general. We recommend referring to “internal or external data.” This clarification would also make paragraph A86 consistent with paragraph A80.	Change proposed
AU-C 501	06 Jose Chacon	A87	.A87 In reference to the additional procedures that may be necessary this part offers the auditor with an optional path if that happens to be the case. Gives examples of situations in which additional procedures may be necessary. The added language however limits the examples to only five situations. It would be better if additional examples commonly known are added here.	No change
AU-C 501	14 RSM US	A87	<p><i>Paragraph .A87</i></p> <p>Proposed new paragraph .A87 of AU-C section 501 includes, among others, the following two examples of situations in which 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:</p> <ul style="list-style-type: none"> a. The auditor has doubts about the management’s specialist's competence, capabilities, or objectivity. b. The management’s specialist has a conflict of interest relevant to the specialist's work. 	Agree, “objectivity” was added to bullet by ASB, it isn’t in equivalent AS bullet.

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			We believe the content of the last bullet point is duplicative with the word “objectivity” in the preceding bullet point. We therefore suggest the last bullet point of proposed new paragraph .A87 be deleted in its entirety.	
540				
AU-C 540	10 GT	A129	We note that paragraph A129 refers to “Appendix D,” but that paragraph A154 is labeled “Appendix C.” We recommend updating the reference in paragraph A129 to state “Appendix C.” The remaining bullets refer to paragraphs within Appendix C.	Fixed
540	17 KPMG	A107	.A107 of AU-C section 540 (SAS No. 143)Relevance and Reliability of the Data (Ref: par. 24c) 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. <u>Paragraphs A126 to A129 provide further guidance related to evaluation of information from external information sources.</u>	Ok, change proposed
540	17 KPMG	A126	Other Considerations Relating to Audit Evidence (Ref: par. 2430) Move the reference to the new Appendix D into A126 as that paragraph provides better context for paragraphs A127-A129. .A126 of AU-C section 540 (SAS No. 143) 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, <u>including a pricing service or a broker or dealer. A pricing service is an organization that routinely provides uniform pricing information to users, generally on</u>	Ok, change proposed

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			<p><u>a subscription basis. Appendix D, "Use of Pricing Information from Third Parties as Audit Evidence," provides special considerations applicable to pricing information obtained from pricing services and brokers or dealers.</u></p>	
540	17 KPMG	A126	<p>Application material related to external information sources (A127-A129) that is used as audit evidence is to be considered whether the external information source is used by the auditor or by management, as indicated by A126. Paragraph A107 is referenced to the requirement related to data contained in paragraph 24. Changing the placement of the reference to the application guidance from paragraph 30 to paragraph 24 (with a corresponding modification to the section header preceding paragraph A126 - see below) clarifies that such guidance is applicable to evaluating the relevance and reliability of data.</p> <p>.30 of AU-C section 540 (SAS No. 143) When using the work of a management's specialist (Ref: par. A13026-A132)</p>	No change; this is not related to the proposed amendments.
540	17 KPMG	A127	<p><i>External Information Sources</i></p> <p>.A127 of AU-C section 540 (in SAS No. 143)</p> <p>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. 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:</p> <ul style="list-style-type: none"> • When market or industry data, prices, or pricing-related data <u>is</u> obtained from a single external information source specializing in such information, the auditor may seek <u>data a price</u> from an alternative independent source with which to compare. • [additional examples intentionally omitted] 	Change proposed

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			<p>More precise content is included in the proposed Appendix D, as exposed. Deletions and modifications reduce potential issues of understandability.</p> <p>The application material included in the appendix is how relevance and reliability is established for pricing information from third parties. Deletion in the first bullet is appropriate as it would not be sufficient to compare pricing information to an alternative independent source. The remaining bullets are consistent with the proposed Appendix D.</p>	
540	17 KPMG	A128	<p>A128, AU-C section 540 (in SAS No. 143)</p> <p>For fair value accounting estimates, additional considerations of the relevance and reliability of information obtained from external information sources may include the following:</p> <p style="text-align: center;">...</p> <p>d. When the fair value measurement is based on a broker quote, whether the broker quote</p> <p style="padding-left: 40px;">i. is from a market maker who transacts in the same type of financial instrument,</p> <p style="padding-left: 40px;">ii. is binding or nonbinding, with more weight placed on quotes based on binding offers, and</p> <p style="padding-left: 40px;">iii. reflects market conditions as of the date of the financial statements, when required by the applicable financial reporting framework.</p> <p><u>Examples of external information sources relating to (a) and (b) ...</u></p> <p>Deletions proposed to avoid overlap and inconsistencies with the application material in the proposed Appendix D. The content in the appendix is more detailed than this paragraph.</p>	Change proposed; TF doesn't believe material is inconsistent but agrees with putting all guidance on broker-dealers in one place.
540	17 KPMG	A129	<p>.A129 of AU-C section 540, as proposed in the Amendments Exposure Draft</p> <p>... Brokers often provide only limited information about their inputs and assumptions when providing broker-indicative quotes for individual securities. Appendix D, "Use of</p>	Change proposed

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			<p>Pricing Information From Third Parties as Audit Evidence, provides further guidance on the use of pricing information from third parties as audit evidence. AU-C section 500 provides guidance with respect to restrictions placed by the external information source on the provision of supporting information.</p> <p>Move reference to the proposed Appendix D to paragraph A126 as explained above.</p>	
540	16 EY	App par. 1	However, if the ASB decides to keep the proposed guidance in Appendix C to AU-C 540, we recommend that paragraph 1 state that this appendix provides additional guidance on pricing information obtained from external information sources and should be read in conjunction with AU-C 500 since it does not include all of the factors that need to be considered when evaluating the reliability of audit evidence from external information sources.	No change proposed; par. 1 explains the relationship between AU-C 500 and AU-C 540.
540	13 BDO	2	Par. 2 We recommend further clarifying to the application material in the proposed appendix to state that the pricing information obtained from websites that publish, for the general public, prices for exchange-traded securities in active markets are not considered “pricing services” as described in paragraph 2.a. The pricing information obtained from such external information sources are to be evaluated in accordance with AU-C section 500, and may include among other things, determining whether such websites obtain the prices directly from original sources (for example, stock exchanges).	No change
AU-C 540	06 Jose Chacon	2	2. It is not clear whether there is only two sources of pricing information. Additional details or further clarification should be added.	No change
540	18 PwC	App 2	Distinguishing between pricing information from third parties and the use of management’s specialist - Paragraph A3 of Appendix A of AS 2501, <i>Auditing Accounting Estimates, Including Fair Value Measurements</i> , includes a reminder that the requirements in Appendix A of AS 1105 for an auditor using the work of a company's specialist or AS 1210, <i>Using the Work of an Auditor-Engaged Specialist</i> , for an auditor using the work of an auditor-engaged specialist, apply when a pricing service is engaged to individually develop a price for a specific financial instrument not routinely priced for	Change proposed

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			its subscribers. We believe the ASB should consider whether similar language referring to AU-C section 501, <i>Audit Evidence—Specific Considerations for Selected Items</i> , and AU-C section 620, <i>Using the Work of an Auditor’s Specialist</i> , would be an appropriate footnote to paragraph 2 of proposed Appendix C, to complement the discussion in Appendix A of section AU-C section 500 that pricing services may not be external information sources in certain circumstances.	
540	18 PwC	App 2	<p>The following are drafting suggestions to align language in proposed Appendix C of AU-C section 540 with AU-C section 500:</p> <p style="margin-left: 40px;">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, <u>such information is considered information to be used as audit evidence and the requirement in paragraph 7 of the auditor is required, in accordance with AU-C section 500 applies, to evaluate whether the pricing information provides sufficient appropriate evidence to respond to the risks of material misstatement, taking into account the relevance and reliability of the information, including its source.</u> The following paragraphs <u>provide guidance for considering address</u> pricing information from the following sources:</p> <ul style="list-style-type: none"> • Organizations that routinely provide uniform pricing information to users, generally on a subscription basis (pricing services) • Brokers or dealers 	Change proposed
540	17 KPMG	App 2	<p>.A154 Paragraph 2 of Appendix D, as proposed in the Amendments Exposure Draft</p> <p>... taking into account the relevance and reliability of the information, including its source. <u>The auditor's further audit procedures include procedures to evaluate whether</u></p>	See above.

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			<p><u>the methods, significant assumptions, or data used are appropriate in the context of the applicable financial reporting framework.</u> The following paragraphs address pricing information from the following sources: ...</p> <p>Connect to the underlying requirement, which is reflected in references found in paragraph 27 and paragraph 30 to paragraphs 22-24. Pricing information from third parties is data, and the proposed Appendix D provides guidance relating to how to consider the underlying methods and assumptions used by pricing services.</p>	
540	18 PwC	App 3	<p>The following are drafting suggestions to align language in proposed Appendix C of AU-C section 540 with AU-C section 500:</p> <p>3. The reliability of <u>information to be used as</u> audit evidence depends on the nature and source of the <u>information</u> evidence and the circumstances under which it is obtained.... [Note: This would likely require a conforming change to AU-C section 500.]</p>	Change proposed
540	18 PwC	App 3	<p>Paragraph 1 of proposed Appendix C to AU-C section 540 appropriately highlights the overall linkage to AU-C section 500. However, we believe this linkage could be enhanced by also noting that the guidance relating to external information sources in Appendix A of AU-C section 500 may be relevant when considering pricing information from third parties. For example, reference could be made in paragraph 3 of proposed Appendix C to the fact that Appendix A of AU-C section 500 provides overall guidance relevant to evaluating the reliability of information from external information sources, followed by the statement that “The following factors affect the reliability of pricing information provided by a pricing service...” Similar modifications could be made to paragraph 12 for brokers or dealers.</p>	Change proposed
AU-C 540	10 GT	3, 4, 12, 14	<p>In paragraphs 3, 4, 12a, and 14, we note that the Board included the phrase “an interest in” to the guidance related to considering relationships between the pricing service or broker-dealer and the entity. This language is inconsistent with AU-C section 550 and also does not appear in the PCAOB standard. It is unclear what the Board’s intention was in including this language, and we recommend removing it because the notion of “relationships” is broad enough to capture any such interests, and a pricing service or broker-dealer is not a specialist.</p>	Change proposed,

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Section	Name	Par.	Comment	Response
540	18 PwC	3-4, 12, 14	Description of “relationship” to the pricing service or broker or dealer - A number of paragraphs in proposed Appendix C to AU-C section 540 (e.g., paragraphs 3, 4, 12, and 14) refer to whether the pricing service or broker or dealer has an “interest in” or “relationship with” the entity by which management has the ability to directly or indirectly control or significantly influence the third-party pricing source. We believe this change was intended to align with guidance in extant AU-C section 500 in relation to the objectivity of management’s specialist, but note the PCAOB’s focus is on the third party pricing source’s relationship to the entity. In our view, it is unclear how a pricing service or broker or dealer might have an interest in an entity and suggest that this additional language be deleted, as the principle of understanding the relationship is sufficient and aligned with the PCAOB language in the context of third-party pricing sources.	Change proposed, see above.
540	16 EY	4-5	A154 par. 4-5 We believe the guidance in the proposed amendments related to procedures performed under section 550, <i>Related Parties</i> , and the effect of changes between interim and period end dates are considerations that are not specific to pricing information obtained from external information sources. We believe this guidance is also applicable when evaluating the relevance and reliability of any audit evidence obtained from external information sources, and we recommend including this guidance in AU-C section 500 Appendix A.	No change
540	18 PwC	App 6	The following are drafting suggestions to align language in proposed Appendix C of AU-C section 540 with AU-C section 500: 6. The relevance of <u>the information to be used as audit evidence relates to the logical connection with, or bearing upon, the auditor’s purpose, including refers</u> to its relationship to the assertion or to the objective of the control being tested... [Edits to align with the guidance in paragraph .A19 of AU-C section 500.]	No change proposed. Proposed sentence is very long and existing sentence is not incorrect.
540	17 KPMG	App 7	.A154 Paragraph 7 of Appendix D, as proposed in the Amendments Exposure Draft ... When the fair values are based on transactions of similar financial instruments, <u>additional</u> audit procedures to evaluate the process used by the pricing service may	No change proposed. Users are unlikely to believe that the

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Section	Name	Par.	Comment	Response
			<p>include evaluating how transactions are identified, considered comparable, and used to value the types of financial instruments selected for testing.</p> <p>Clarify that these procedures are incremental to paragraphs 3-6 of the proposed Appendix D.</p>	<p>procedures in par. 7 are alternatives to par. 3-6.</p>
540	16 EY	8	<p>A154 par. 8</p> <p>We recommend moving this paragraph to the beginning of the appendix, similar to the placement of similar guidance in AS 2501, since these risk assessment considerations are foundational in nature. We also recommend revising the paragraph to state that the considerations are relevant when identifying and assessing risks of material misstatement related to the fair value measurement of financial instruments.</p>	<p>No change; par. 8 logically follows par. 7</p>
540	17 KPMG	8-9	<p>Paragraph 8 (change to paragraph 9); Paragraph 9 (change to paragraph 8)</p> <p>...changing the order of current paragraph 8 so that it follows current paragraph 9 indicates that the grouping concept may apply to all kinds of securities.</p>	<p>No change proposed; rationale is not persuasive.</p>
540	17 KPMG	App 8	<p>.A154 Paragraph 8 of Appendix D, as proposed in the Amendments Exposure Draft</p> <p>When the financial instruments that compose the group 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. ...</p> <p>Delete reference to “the group” as the text that follows describes a group, which is determined as the result of analysis.</p>	<p>Change proposed</p>
540	17 KPMG	App 9	<p>.A154 Paragraph 9 of Appendix D, as proposed in the Exposure Draft</p> <p>When no recent transactions have occurred for either the financial instrument being valued or similar financial instruments, <u>additional</u> audit procedures may include evaluating the appropriateness of the valuation method and the reasonableness of observable and unobservable inputs used by the pricing service.</p>	<p>No change proposed. Users are unlikely to believe that the procedures in par.</p>

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Section	Name	Par.	Comment	Response
			Clarify that these procedures are incremental to paragraphs 3-6 of the proposed Appendix D.	9 are alternatives to par. 3-6.
AU-C 540	06 Jose Chacon	9	<p>-9. Topics covered seem relevant to the area of pricing information. Details provided are very well organized and allow auditors to use these as reference. However there seems to be not many details in some of the areas covered. For instance, the fair value section regarding financial instruments.</p> <p>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.</p> <p>Another part that may need further clarification is part 9. Here, there are details provided about how to proceed when recent transactions have occurred but there are not further examples which may be needed to used as reference.</p> <p>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.</p>	No change
AU-C 540	10 GT	10	While we recognize paragraph 10 is part of the application guidance, we are concerned with the prescriptiveness of the parenthetical phrase “more than two” in 10b. We believe it is possible, in this scenario, for two pricing services to provide the auditor with sufficient appropriate audit evidence. Therefore, we recommend deleting the parenthetical phrase referring to “more than two.” We also suggest referring to “multiple” in lieu of “several.”	No change

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Section	Name	Par.	Comment	Response
540	13 BDO	10	<p>Par. 10 We suggest further clarifying the use of the terms “multiple” and “several” pricing services within paragraph 10 of the proposed appendix.</p> <p>Specifically, in the context of the PCAOB auditing standards, page A3-52 of Appendix 3 “Additional Discussion of AS 2501 (Revised) and Amendments” to PCAOB Release No. 2018-005 states that the term “several” is used to clarify that, “<i>pricing information <u>is to be obtained</u> from more than two pricing services, all of which routinely price the instruments</i>”.</p> <p>With respect to paragraph 10.b. in the proposed appendix to AU-C 540, we suggest that the Board further clarify whether the auditor is expected to obtain pricing information from a third pricing source to demonstrate the availability of such information for a particular type of financial instrument, or if it would be appropriate to document such considerations based on the auditor’s experience and knowledge of the type of financial instrument without necessarily obtaining the information.</p> <p>We believe adding this clarification can avoid any unintended consequences associated with the perceived necessity to obtain additional pricing information and incur additional costs associated with the auditor’s use of additional pricing services.</p>	
540	13 BDO	10-11	<p>Par. 10 and 11</p> <p>We find the language used in paragraph .A8 of PCAOB AS 2501 to provide a clearer linkage between: (a) the auditor’s consideration of the listed factors within the paragraph; and (b) how such considerations inform the auditor’s decision to perform further procedures to evaluate the appropriateness of the valuation method and the reasonableness of observable and unobservable inputs used by the pricing service.</p> <p>As noted within paragraph .A8 of PCAOB AS 2501, “<i><u>w]hen the above conditions are not met</u>, the auditor should perform additional audit procedures, including 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.</i>”</p> <p>The corresponding application guidance in paragraph 11 of the proposed appendix states “<i>[b]ased on the evaluation of the preceding factors, audit procedures may include</i></p>	Change proposed

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Section	Name	Par.	Comment	Response
			<p><i>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.</i>" This paragraph may be interpreted in a manner that some degree of further audit procedures is necessary regardless of the outcome of the auditor's consideration of the listed factors, which may not be the intent.</p> <p>We recommend clarifying paragraph 11 as follows:</p> <p>Based on the evaluation of the preceding factors When one or more of the preceding factors are not present, further audit procedures may be necessary include to evaluating 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.</p>	
540	18 PwC	App 10-11	<p>Evaluation of the reliability of pricing information received from multiple pricing services - The relationship between paragraphs 10 and 11 of proposed Appendix C is not clear. The intent of the PCAOB's requirement from which paragraph 10 is drawn is to establish factors related to situations in which there is reasonably consistent pricing information available from several sources with ample observable inputs, therefore allowing the auditor to obtain less information (or less evidence) about the particular methods and inputs used by the individual pricing services. When all the factors are met, the auditor likely does not need to perform additional procedures related to the methods and inputs used by the pricing services. On the other hand, when the factors in paragraph 10 are not met, more information (and therefore more persuasive evidence) is needed. We believe paragraph 11 should be amended as follows to compare and contrast these scenarios: "<u>When one or more of the factors in paragraph 10 are not met, additional</u> audit procedures may include..."</p>	See above
AU-C 540	10 GT	11	<p>We recommend revising paragraph 11 to begin "Based on the consideration of the preceding factors..." We believe paragraph 10 does not call for an evaluation, and therefore paragraph 11, as proposed, mischaracterizes the guidance.</p>	See above

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Section	Name	Par.	Comment	Response
AU-C 540	06 Jose Chacon	12-14	<p>Using Pricing Information From Multiple Pricing Services</p> <p>12-14 There should be more examples and perhaps additional dependencies for the relevance and reliability if the evidence provided by the broker. More details on the broker quotes may also be useful but not essential. Guidance added in general seems clear enough.</p> <p>Whether or not there is any previous business relationship between broker or dealer and the auditor.</p> <p>Whether or not the reputation of the broker or dealer has been previously compromised.</p> <p>Whether or not the provided quote shows major discrepancies when compared to others.</p>	No change
540	18 PwC	App 12-13	Note: We considered whether similar changes should be made to paragraphs 12 and 13 of proposed Appendix C in relation to broker quotes, but do not believe this is necessary since the broker quote represents the information to be used as audit evidence.	Noted
AU-C 540	10 GT	13	With regard to paragraph 13, binding broker quotes may be rare. This paragraph implies that a nonbinding broker quote does not provide sufficient appropriate audit evidence, while also implying that additional procedures may include obtaining relevant and reliable pricing information from another pricing source, which may also be nonbinding. Accordingly, it may be helpful to provide guidance related to the additional procedures that an auditor may need to perform, such as considering the entity's model or contradictory evidence.	Change proposed
620				
620	18 PwC	A16	Evaluation of competence, capabilities, and objectivity - The proposed addition to paragraph A16 of AU-C section 620 specifies that the practitioner may consider procedures performed in connection with AU-C 550, <i>Related Parties</i> , in evaluating the competence, capabilities, and objectivity of an auditor's specialist. We believe that such information would likely only be relevant in the context of an auditor's external specialist and would be best placed as an example in paragraph A21 of AU-C section 620.	Agree, change proposed

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Section	Name	Par.	Comment	Response
620	18 PwC	A22	Auditor’s response based on the evaluation of the objectivity of an auditor’s external specialist - Paragraph 11 of AS 1210 states that “if the specialist has a low degree of objectivity, the auditor should apply the procedures for evaluating the work of a company’s specialist.” We believe that similar guidance at the end of paragraph A22 of AU-C section 620 would make it clear what types of “additional procedures” may need to be performed with respect to some or all of the assumptions, methods, or findings of the auditor’s specialist.	Change proposed
620	17 KPMG	A30	A30 to AU-C section 620 in Amendments Exposure Draft 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, <u>including the need for the auditor’s employed specialist to apply professional skepticism</u> . Other matters Extend the concept of objectivity from paragraph 9 of AU-C section 620 and include a reminder within the agreement with the auditor’s specialist. The inserted text is limited to specialists employed by the auditor who are expected to be more familiar with the professional standards and concepts of auditing, including the concept of professional skepticism.	Change proposed, using term “auditor’s <i>internal</i> specialist”.
620	18 PwC	A31	Scope of the specialist’s work - As part of informing the specialist about matters that could affect the specialist’s work, paragraph C4 of AS 1201 references agreement on “the need to apply professional skepticism” for auditor-employed specialists. We believe a similar reminder should be included in paragraph A31 of AU-C section 620.	See above
620	17 KPMG	A35	A35 to AU-C section 620 in Amendments Exposure Draft 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; <u>the risk of material misstatement inherent in the specialist’s work</u> ; 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	Disagree. Concept is covered implicitly by “the significance of the auditor’s specialists work in

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Section	Name	Par.	Comment	Response
			<p>procedures to evaluate the adequacy of the work of the auditor’s specialist for the auditor’s purposes.</p> <p>For consistency with paragraph 8 of AU-C section 620.</p>	<p>the context of the audit” in A35. (Also, suggested edit should refer to “the matter to which the specialist’s work relates”)</p>
620	18 PwC	A40	<p>Relevance and reasonableness of assumptions - A proposed addition to paragraph A40 of AU-C section 620 states “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.” As this is a requirement, we believe that reference should be made to the standard from which this requirement arises (specifically, paragraph 13 of AU-C section 540).</p>	<p>Change proposed; added footnote</p>