

AU-C Section 620

Using the Work of an Auditor's Specialist

Source: SAS No. 122.

See section 9620 for interpretations of this section.

Effective for audits of financial statements for periods ending on or after December 15, 2012.

Introduction

Scope of This Section

.01 This section addresses the auditor's responsibilities relating to the work of an individual or organization possessing expertise in a field other than accounting or auditing when that work is used to assist the auditor in obtaining sufficient appropriate audit evidence.

.02 This section does not address

- a. situations in which the engagement team includes a member or consults an individual or organization with expertise in a specialized area of accounting or auditing, which are addressed in section 220, *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*, and section 300, *Planning an Audit*,^{1,2} or
- b. the auditor's use of the work of an individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements (a management's specialist), which is addressed in section 500, *Audit Evidence*.³

The Auditor's Responsibility for the Audit Opinion

.03 The auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the auditor's use of the work of an auditor's specialist. Nonetheless, if the auditor using the work of an auditor's specialist, having followed this section, concludes that the work of that specialist is adequate for the auditor's purposes, the auditor may accept that specialist's findings or conclusions in the specialist's field as appropriate audit evidence.

Effective Date

.04 This section is effective for audits of financial statements for periods ending on or after December 15, 2012.

¹ Paragraphs .A10 and .A20–.A22 of section 220, *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*.

² Paragraph .12 of section 300, *Planning an Audit*.

³ Paragraphs .A35–.A49 of section 500, *Audit Evidence*.

Objectives

- .05 The objectives of the auditor are
- to determine whether to use the work of an auditor's specialist and
 - if using the work of an auditor's specialist, to determine whether that work is adequate for the auditor's purposes.

Definitions

.06 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Auditor's specialist. An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. An auditor's specialist may be either an auditor's internal specialist (who is a partner⁴ or staff, including temporary staff, of the auditor's firm or a network firm) or an auditor's external specialist. (Ref: par. .A1–.A4)

Expertise. Skills, knowledge, and experience in a particular field.

Management's specialist. An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements.

Requirements

Determining the Need for an Auditor's Specialist

.07 If expertise in a field other than accounting or auditing is necessary to obtain sufficient appropriate audit evidence, the auditor should determine whether to use the work of an auditor's specialist. (Ref: par. .A5–.A10)

Nature, Timing, and Extent of Audit Procedures

.08 The nature, timing, and extent of the auditor's procedures with respect to the requirements in paragraphs .09–.13 will vary depending on the circumstances. In determining the nature, timing, and extent of those procedures, the auditor should consider matters including (Ref: par. .A11)

- the nature of the matter to which the work of the auditor's specialist relates;
- the risks of material misstatement in the matter to which the work of the auditor's specialist relates;
- the significance of the work of the auditor's specialist in the context of the audit;
- the auditor's knowledge of, and experience with, previous work performed by the auditor's specialist; and
- whether the auditor's specialist is subject to the auditor's firm's quality control policies and procedures. (Ref: par. .A12–.A14)

⁴ *Partner* and *firm* should be read as referring to their governmental equivalents when relevant.

The Competence, Capabilities, and Objectivity of the Auditor's Specialist

.09 The auditor should evaluate whether the auditor's specialist has the necessary competence, capabilities, and objectivity for the auditor's purposes. In the case of an auditor's external specialist, the evaluation of objectivity should include inquiry regarding interests and relationships that may create a threat to the objectivity of the auditor's specialist. (Ref: par. .A15–.A22)

Obtaining an Understanding of the Field of Expertise of the Auditor's Specialist

.10 The auditor should obtain a sufficient understanding of the field of expertise of the auditor's specialist to enable the auditor to (Ref: par. .A23–.A24)

- a. determine the nature, scope, and objectives of the work of the auditor's specialist for the auditor's purposes and
- b. evaluate the adequacy of that work for the auditor's purposes.

Agreement With the Auditor's Specialist

.11 The auditor should agree, in writing when appropriate, with the auditor's specialist regarding (Ref: par. .A25–.A29)

- a. the nature, scope, and objectives of the work of the auditor's specialist; (Ref: par. .A30)
- b. the respective roles and responsibilities of the auditor and the auditor's specialist; (Ref: par. .A31–.A32)
- c. the nature, timing, and extent of communication between the auditor and the auditor's specialist, including the form of any report to be provided by the auditor's specialist; and (Ref: par. .A33)
- d. the need for the auditor's specialist to observe confidentiality requirements. (Ref: par. .A34)

Evaluating the Adequacy of the Work of the Auditor's Specialist

.12 The auditor should evaluate the adequacy of the work of the auditor's specialist for the auditor's purposes, including

- a. the relevance and reasonableness of the findings and conclusions of the auditor's specialist and their consistency with other audit evidence. (Ref: par. .A35–.A37)
- b. If the work of the auditor's specialist involves the use of significant assumptions and methods,
 - i. obtaining an understanding of those assumptions and methods and
 - ii. evaluating the relevance and reasonableness of those assumptions and methods in the circumstances, giving consideration to the rationale and support provided by the specialist, and in relation to the auditor's other findings and conclusions. (Ref: par. .A38–.A40)
- c. If the work of the auditor's specialist involves the use of source data that is significant to the work of the auditor's specialist, the

relevance, completeness, and accuracy of that source data. (Ref: par. .A41–.A42)

.13 If the auditor determines that the work of the auditor's specialist is not adequate for the auditor's purposes, the auditor should (Ref: par. .A43)

- a. agree with the auditor's specialist on the nature and extent of further work to be performed by the auditor's specialist or
- b. perform additional audit procedures appropriate to the circumstances.

Reference to the Auditor's Specialist in the Auditor's Report

.14 The auditor should not refer to the work of an auditor's specialist in an auditor's report containing an unmodified opinion.

.15 If the auditor makes reference to the work of an auditor's external specialist in the auditor's report because such reference is relevant to an understanding of a modification to the auditor's opinion, the auditor should indicate in the auditor's report that such reference does not reduce the auditor's responsibility for that opinion. (Ref: par. .A44)

Application and Other Explanatory Material

Definitions

Auditor's Specialist (Ref: par. .06)

.A1 Expertise in a field other than accounting or auditing may include expertise regarding such matters as the following:

- The valuation of complex financial instruments and nonfinancial assets and liabilities measured at fair value such as land and buildings, plant and machinery, jewelry, works of art, antiques, intangible assets, assets acquired and liabilities assumed in business combinations, and assets that may have been impaired
- The actuarial calculation of liabilities associated with insurance contracts or employee benefit plans
- The estimation of oil and other mineral reserves
- The valuation of environmental liabilities and site cleanup costs
- The interpretation of contracts, laws, and regulations
- The analysis of complex or unusual tax compliance issues
- The determination of physical characteristics relating to quantity on hand or condition (for example, quantity or condition of minerals, or materials stored in stockpiles)

.A2 In many cases, distinguishing between expertise in accounting or auditing and expertise in another field will be straightforward, even when this involves a specialized area of accounting or auditing.⁵ For example, an individual with expertise in applying methods of accounting for deferred income tax can often be easily distinguished from a specialist in taxation law. The former is not a specialist for the purposes of this section because this constitutes

⁵ Paragraphs .A18–.A19 of section 300 address the auditor's determination of the extent of involvement of professionals possessing specialized skills.

accounting expertise; the latter is a specialist for the purposes of this section because this constitutes legal expertise. Similar distinctions also may be able to be made in other areas (for example, between expertise in methods of accounting for financial instruments and expertise in complex modeling for the purpose of valuing financial instruments). However, in some cases, particularly those involving an emerging area of accounting or auditing expertise, distinguishing between specialized areas of accounting or auditing and expertise in another field will be a matter of professional judgment. Applicable professional rules and standards regarding education and competency requirements for accountants and auditors may assist the auditor in exercising that judgment.

.A3 An individual may possess expertise in accounting or auditing, as well as expertise in a field other than accounting or auditing (for example, an actuary also may be an accountant). In that circumstance, the determination of whether that individual is an auditor or an auditor's specialist depends on the nature of the work performed by that individual that the auditor is using for purposes of the audit.

.A4 It is necessary to apply professional judgment when considering how the requirements of this section are affected by the fact that an auditor's specialist may be either an individual or an organization. For example, when evaluating the competence, capabilities, and objectivity of an auditor's specialist, it may be that the specialist is an organization the auditor has previously used, but the auditor has no prior experience with the individual specialist assigned by the organization for the particular engagement, or it may be the reverse (that is, the auditor may be familiar with the work of an individual specialist but not with the organization that specialist has joined). In either case, both the personal attributes of the individual and the managerial attributes of the organization (such as systems of quality control the organization implements) may be relevant to the auditor's evaluation.

Determining the Need for an Auditor's Specialist (Ref: par. .07)

.A5 An auditor's specialist may be needed to assist the auditor in one or more of the following:

- Obtaining an understanding of the entity and its environment, including its internal control
- Identifying and assessing the risks of material misstatement
- Determining and implementing overall responses to assessed risks at the financial statement level
- Designing and performing additional audit procedures to respond to assessed risks at the relevant assertion level, which may comprise tests of controls or substantive procedures
- Evaluating the sufficiency and appropriateness of audit evidence obtained in forming an opinion on the financial statements

.A6 The risks of material misstatement may increase when expertise in a field other than accounting is needed for management to prepare the financial statements, for example, because this may indicate some complexity or because management may not possess knowledge of the field of expertise. If, in preparing the financial statements, management does not possess the necessary expertise, a management's specialist may be used in addressing those risks. Relevant controls, including controls that relate to the work of a management's specialist, if any, also may reduce the risks of material misstatement.

.A7 If the preparation of the financial statements involves the use of expertise in a field other than accounting, the auditor, who is skilled in accounting and auditing, may not possess the necessary expertise to audit those financial statements. The engagement partner is required by section 220 to be satisfied that the engagement team and any external auditor's specialists who are not part of the engagement team, collectively, have the appropriate competence and capabilities to perform the audit engagement.⁶ Further, the auditor is required by section 300 to ascertain the nature, timing, and extent of resources necessary to perform the engagement.⁷ The auditor's determination of whether to use the work of an auditor's specialist, and, if so, when and to what extent, assists the auditor in meeting these requirements. As the audit progresses or as circumstances change, the auditor may need to revise earlier decisions about using the work of an auditor's specialist.

.A8 An auditor who is not a specialist in a relevant field other than accounting or auditing may nevertheless be able to obtain a sufficient understanding of that field to perform the audit without an auditor's specialist. This understanding may be obtained through, for example

- experience in auditing entities that require such expertise in the preparation of their financial statements.
- education or professional development in the particular field. This may include formal courses or discussion with individuals possessing expertise in the relevant field for the purpose of enhancing the auditor's own capacity to deal with matters in that field. Such discussion differs from consultation with an auditor's specialist regarding a specific set of circumstances encountered on the engagement in which that specialist is given all the relevant facts that will enable the specialist to provide informed advice about the particular matter (see section 220).⁸

.A9 In other cases, however, the auditor may determine that it is necessary, or may choose, to use an auditor's specialist to assist in obtaining sufficient appropriate audit evidence. Considerations when deciding whether to use an auditor's specialist may include the following:

- Whether management has used a specialist in preparing the financial statements (see paragraph .A10)
- The nature and significance of the matter, including its complexity
- The risks of material misstatement of the matter
- The expected nature of procedures to respond to identified risks, including the auditor's knowledge of, and experience with, the work of specialists regarding such matters and the availability of alternative sources of audit evidence

.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

⁶ Paragraph .16 of section 220.

⁷ Paragraph .08e of section 300.

⁸ Paragraph .A21 of section 220.

- The extent to which management can exercise control or influence over 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.

Section 500 addresses the effect of the competence, capabilities, and objectivity of management's specialists on the reliability of audit evidence.⁹

Nature, Timing, and Extent of Audit Procedures (Ref: par. .08)

.A11 The following factors may suggest the need for different or more extensive procedures than would otherwise be the case:

- The work of the auditor's specialist relates to a significant finding or issue that involves subjective and complex judgments.
- The auditor has not previously used the work of the auditor's specialist and has no prior knowledge of that specialist's competence, capabilities, and objectivity.
- The auditor's specialist is performing procedures that are integral to the audit rather than being consulted to provide advice on an individual matter.
- The specialist is an auditor's external specialist and is not, therefore, subject to the firm's quality control policies and procedures.

The Auditor's Firm's Quality Control Policies and Procedures (Ref: par. .08e)

.A12 An auditor's internal specialist may be a partner or staff, including temporary staff, of the auditor's firm and, therefore, subject to the quality control policies and procedures of that firm in accordance with QC section 10, *A Firm's System of Quality Control*.¹⁰ An auditor's internal specialist also may be a partner or staff, including temporary staff, of a network firm, which may share common quality control policies and procedures with the auditor's firm.

.A13 In accordance with section 220, engagement teams are entitled to rely on the firm's system of quality control unless the engagement partner determines that it is inappropriate to do so based on information provided by the firm or other parties.¹¹ The extent of that reliance will vary with the circumstances and may affect the nature, timing, and extent of the auditor's procedures with respect to such matters as the following:

- Competence and capabilities through recruitment and training programs.

⁹ Paragraphs .A38–.A44 of section 500.

¹⁰ Paragraph .13 of QC section 10, *A Firm's System of Quality Control*.

¹¹ Paragraph .05 of section 220.

- Objectivity. The auditor's internal specialists are subject to relevant ethical requirements, including those pertaining to independence.
- Agreement with the auditor's specialist.
- The auditor's evaluation of the adequacy of the work of the auditor's specialist. For example, the firm's training programs may provide the auditor's internal specialists with an appropriate understanding of the interrelationship of their expertise with the audit process. Reliance on such training and other firm processes, such as protocols for scoping the work of the auditor's internal specialists, may affect the nature, timing, and extent of the auditor's procedures to evaluate the adequacy of the work of the auditor's specialist.
- Adherence to regulatory and legal requirements through monitoring processes.

Such reliance does not reduce the auditor's responsibility to meet the requirements of this section.

.A14 An auditor's external specialist is not a member of the engagement team and is not subject to quality control policies and procedures in accordance with QC section 10.¹²

The Competence, Capabilities, and Objectivity of the Auditor's Specialist (Ref: par. .09)

.A15 The competence, capabilities, and objectivity of an auditor's specialist are factors that significantly affect whether the work of the auditor's specialist will be adequate for the auditor's purposes. Competence relates to the nature and level of expertise of the auditor's specialist. Capability relates to the ability of the auditor's specialist to exercise that competence in the circumstances of the engagement. Factors that influence capability may include, for example, geographic location and the availability of time and resources. Objectivity relates to the possible effects that bias, conflict of interest, or the influence of others may have on the professional or business judgment of the auditor's specialist.

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

- Personal experience with previous work of that specialist
- Discussions with that specialist
- Discussions with other auditors or others who are familiar with that specialist's work
- Knowledge of that specialist's qualifications, membership in a professional body or industry association, license to practice, or other forms of external recognition
- Published papers or books written by that specialist
- The quality control policies and procedures of the auditor's firm and such other procedures the auditor considers necessary in the circumstances (see paragraphs .A12–.A13).

¹² Paragraph .13 of QC section 10.

.A17 Matters relevant to evaluating the competence, capabilities, and objectivity of the auditor's specialist include whether that specialist's work is subject to technical performance standards or other professional or industry requirements (for example, ethical standards and other membership requirements of a professional body or industry association, accreditation standards of a licensing body, or requirements imposed by law or regulation).

.A18 Other matters that may be relevant include the following:

- The relevance of the competence of the auditor's specialist to the matter for which that specialist's work will be used, including any areas of specialty within that specialist's field. For example, a particular actuary may specialize in property and casualty insurance but have limited expertise regarding pension calculations.
- The competence of the auditor's specialist with respect to relevant accounting and auditing requirements (for example, knowledge of assumptions and methods, including models, when applicable, that are consistent with the applicable financial reporting framework).
- Whether unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures indicate that it may be necessary to reconsider the initial evaluation of the competence, capabilities, and objectivity of the auditor's specialist as the audit progresses.

.A19 A broad range of circumstances may threaten objectivity (for example, self-interest threats, advocacy threats, familiarity threats, self-review threats, and intimidation threats). Safeguards may eliminate or reduce such threats and may be created by external structures (for example, the profession, legislation, or regulation of the auditor's specialist) or by the work environment of the auditor's specialist (for example, quality control policies and procedures). There also may be safeguards specific to the audit engagement.

.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 who has played a significant role in preparing the information that is being audited [that is, if the proposed auditor's specialist is a management's specialist]).

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

- a. inquire of the entity and the auditor's specialist about any known interests or relationships that the entity has with the auditor's external specialist 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

- iii. Provision of other services by the specialist, including by the organization in the case of an external specialist that is an organization

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

.A22 If the auditor believes a relationship between the entity and the auditor's specialist might impair the objectivity of the auditor's specialist, the auditor may perform additional procedures with respect to some or all of the assumptions, methods, or findings of the auditor's specialist to determine that the findings are reasonable or may engage another auditor's specialist for that purpose.

Obtaining an Understanding of the Field of Expertise of the Auditor's Specialist (Ref: par. .10)

.A23 The auditor may obtain an understanding of the field of expertise of the auditor's specialist through the means described in paragraph .A8 or through discussion with the auditor's specialist.

.A24 Aspects of the field of the auditor's specialist relevant to the auditor's understanding may include the following:

- Whether that field of the auditor's specialist has areas of specialty within it that are relevant to the audit (see paragraph .A18)
- Whether any professional or other standards and regulatory or legal requirements apply
- What assumptions and methods, including models, when applicable, are used by the auditor's specialist, and whether they are generally accepted within that field of the auditor's specialist and appropriate for financial reporting purposes
- The nature of internal and external data or information the auditor's specialist uses

Agreement With the Auditor's Specialist (Ref: par. .11)

.A25 The following matters may vary considerably with the circumstances:

- a. The nature, scope, and objectives of the work of the auditor's specialist
- b. The respective roles and responsibilities of the auditor and the auditor's specialist
- c. The nature, timing, and extent of communication between the auditor and the auditor's specialist.

Therefore, it is required that these matters are agreed between the auditor and the auditor's specialist regardless of whether the specialist is an auditor's external specialist or internal specialist.

.A26 The matters noted in paragraph .08 may affect the level of detail and formality of the agreement between the auditor and the auditor's specialist, including whether it is appropriate that the agreement be in writing. For example, the following factors may suggest the need for a more detailed agreement than would otherwise be the case or for the agreement to be in writing:

- The auditor's specialist will have access to sensitive or confidential entity information.

- The respective roles or responsibilities of the auditor and the auditor's specialist are different from those normally expected.
- Multijurisdictional legal or regulatory requirements apply.
- The matter to which the work of the auditor's specialist relates is highly complex.
- The auditor has not previously used work performed by the auditor's specialist.
- The auditor's use of the work of the auditor's specialist and its significance in the context of the audit is extensive.

.A27 In establishing the agreement with the auditor's specialist, an important consideration is whether the work of the auditor's specialist is subject to any reservation, limitation, or restriction and whether this has implications for the auditor.

.A28 The agreement between the auditor and an auditor's external specialist is generally in the form of an engagement letter. The appendix "Considerations for Agreement Between the Auditor and an Auditor's External Specialist" lists matters that the auditor may consider for inclusion in such an engagement letter or in any other form of agreement with an auditor's external specialist.

.A29 When no written agreement exists between the auditor and the auditor's specialist, evidence of the agreement may be included in, for example

- planning memoranda or related working papers, such as the audit program.
- the policies and procedures of the auditor's firm. In the case of an auditor's internal specialist, the established policies and procedures to which the auditor's specialist is subject may include particular policies and procedures regarding the work of the auditor's specialist. The extent of documentation in the auditor's working papers depends on the nature of such policies and procedures. For example, no documentation may be required in the auditor's working papers if the auditor's firm has detailed protocols covering the circumstances in which the work of such an auditor's specialist is used.

Nature, Scope, and Objectives of Work (Ref: par. .11a)

.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.

Respective Roles and Responsibilities (Ref: par. .11b)

.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
- 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

Working Papers

.A32 Agreement on the respective roles and responsibilities of the auditor and the auditor's specialist also may include agreement about access to, and retention of, each other's working papers. When the auditor uses the work of an internal specialist, the working papers of the auditor's specialist form part of the audit documentation. Subject to any agreement to the contrary, the auditor's external specialist's working papers are its own and do not form part of the audit documentation.

Communication (Ref: par. .11c)

.A33 Effective two way communication facilitates the proper integration of the nature, timing, and extent of the procedures of the auditor's specialist with other work on the audit and appropriate modification of the objectives of the auditor's specialist during the course of the audit. For example, when the work of the auditor's specialist relates to the auditor's conclusions regarding a significant risk, both a formal written report at the conclusion of the work of the auditor's specialist and oral reports as the work progresses may be appropriate. Identification of specific partners or staff who will interact with the auditor's specialist and procedures for communication between the auditor's specialist and the entity assist timely and effective communication, particularly on larger engagements.

Confidentiality (Ref: par. .11d)

.A34 It is necessary for the confidentiality provisions of relevant ethical requirements that apply to the auditor also to apply to the auditor's specialist.¹³ Additional requirements may be imposed by law or regulation. The entity also may have requested that specific confidentiality provisions be agreed with the auditor's external specialists.

Evaluating the Adequacy of the Work of the Auditor's Specialist (Ref: par. .12)

.A35 The auditor's evaluation of the competence, capabilities, and objectivity of the auditor's specialist; the auditor's familiarity with the field of expertise of the auditor's specialist; and the nature of the work performed by the auditor's specialist 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.

The Findings and Conclusions of the Auditor's Specialist (Ref: par. .12a)

.A36 Specific procedures to evaluate the adequacy of the work of the auditor's specialist for the auditor's purposes may include the following:

- Making inquiries of the auditor's specialist
- Reviewing the working papers and reports of the auditor's specialist
- Performing corroborative procedures, such as
 - observing the work of the auditor's specialist;

¹³ ET section 1.700.040, *Disclosing Information to a Third-Party Service Provider*. [Footnote revised, January 2015, to reflect conforming changes necessary due to the issuance of the revised AICPA Code of Professional Conduct, effective December 15, 2014.]

- examining published data, such as statistical reports from reputable, authoritative sources;
 - confirming relevant matters with third parties;
 - performing detailed analytical procedures; and
 - reperforming calculations
- Engaging in discussion with another specialist with relevant expertise when, for example, the findings or conclusions of the auditor's specialist are not consistent with other audit evidence
 - Discussing the report of the auditor's specialist with management

.A37 Relevant factors when evaluating the relevance and reasonableness of the findings or conclusions of the auditor's specialist, whether in a report or other form, may include whether they are

- presented in a manner that is consistent with any standards of the profession or industry of the auditor's specialist;
- clearly expressed, including reference to the objectives agreed with the auditor, the scope of the work performed, and standards applied;
- based on an appropriate period and take into account subsequent events, when relevant; and
- based on appropriate consideration of errors or deviations encountered by the auditor's specialist.

Assumptions, Methods, and Source Data

Assumptions and Methods (Ref: par. .12b)

.A38 When the purpose of the work of the auditor's specialist is to evaluate underlying assumptions and methods, including models, when applicable, used by management in developing an accounting estimate, the auditor's procedures are likely to be primarily directed to evaluating whether the auditor's specialist has adequately reviewed those assumptions and methods. When the purpose of the work of the auditor's specialist is to develop an auditor's point estimate or an auditor's range for comparison with management's point estimate, the auditor's procedures may be primarily directed to evaluating the assumptions and methods, including models, when appropriate, used by the auditor's specialist.

.A39 Section 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, discusses the assumptions and methods used by management in making accounting estimates, including the use, in some cases, of highly specialized, entity-developed models.¹⁴ Although that discussion is written in the context of the auditor obtaining sufficient appropriate audit evidence regarding management's assumptions and methods, it also may assist the auditor when evaluating the assumptions and methods of an auditor's specialist.

.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. Factors relevant to the auditor's evaluation of those assumptions and methods include whether they are

¹⁴ Paragraphs .08, .13, and .15 of section 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*.

- 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;¹⁵ and
- consistent with those of management and, if not, the reason for, and effects of, the differences.

Source Data Used by the Auditor's Specialist (Ref: par. .12c)

.A41 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

.A42 In many cases, the auditor may test source data. However, in other cases, when the nature of the source data used by an auditor's specialist is highly technical in relation to the field of the auditor's specialist, that specialist may test the source data. If the auditor's specialist has tested the source data, inquiry of the auditor's specialist by the auditor or supervision or review of the test of the auditor's specialist may be an appropriate way for the auditor to evaluate that data's relevance, completeness, and accuracy.

Inadequate Work (Ref: par. .13)

.A43 If the auditor concludes that the work of the auditor's specialist is not adequate for the auditor's purposes and the auditor cannot resolve the matter through the additional audit procedures required by paragraph .13, which may involve additional work being performed by both the auditor's specialist and the auditor or include employing or engaging another specialist, it may be necessary to express a modified opinion in the auditor's report in accordance with section 705, *Modifications to the Opinion in the Independent Auditor's Report*.

Reference to the Auditor's Specialist in the Auditor's Report (Ref: par. .14–.15)

.A44 It may be appropriate to refer to the auditor's external specialist in an auditor's report containing a modified opinion to explain the nature of the modification. In such circumstances, the auditor may need the permission of the auditor's specialist before making such a reference.

¹⁵ Paragraph .14 of section 540 addresses the auditor's consideration of whether specialized skills or knowledge with regard to one or more aspects of the accounting estimates is required in order to obtain sufficient appropriate audit evidence.

.A45

Appendix—Considerations for Agreement Between the Auditor and an Auditor's External Specialist **(Ref: par. .A28)**

This appendix lists matters that the auditor may consider for inclusion in any agreement with an auditor's external specialist. The following list is illustrative and is not exhaustive; it is intended only to be a guide that may be used in conjunction with the considerations outlined in this section. Whether to include particular matters in the agreement depends on the circumstances of the engagement. The list also may be of assistance in considering the matters to be included in an agreement with an auditor's internal specialist.

Nature, Scope, and Objectives of the Auditor's External Specialist's Work

The following matters are examples of the nature, scope, and objectives of the auditor's external specialist's work:

- The nature and scope of the procedures to be performed by the auditor's external specialist
- The objectives of the auditor's external specialist's work in the context of materiality and risk considerations concerning the matter to which the auditor's external specialist's work relates and, when relevant, the applicable financial reporting framework
- Any relevant technical performance standards or other professional or industry requirements the auditor's external specialist will follow
- The assumptions and methods, including models, when applicable, the auditor's external specialist will use and their authority
- The effective date of, or, when applicable, the testing period for, the subject matter of the auditor's external specialist's work and requirements regarding subsequent events

The Respective Roles and Responsibilities of the Auditor and the Auditor's External Specialist

The following matters are examples of the respective roles and responsibilities of the auditor and the auditor's external specialist:

- Relevant auditing and accounting standards and relevant regulatory or legal requirements
- The consent of the auditor's external specialist to the auditor's intended use of the report of the auditor's specialist, including any reference to it or disclosure of it to others (for example, reference to it in the basis for a modified opinion in the auditor's report, if necessary, or disclosure of it to management or an audit committee)
- The nature and extent of the auditor's review of the auditor's external specialist's work

- Whether the auditor or the auditor's external specialist will test source data
- The auditor's external specialist's access to the entity's records, files, personnel, and specialists engaged by the entity
- Procedures for communication between the auditor's external specialist and the entity
- The auditor's and the auditor's external specialist's access to each other's working papers
- Ownership and control of working papers during and after the engagement, including any file retention requirements
- The auditor's external specialist's responsibility to perform work with due skill and care
- The auditor's external specialist's competence and capability to perform the work
- The expectation that the auditor's external specialist will use all knowledge that the specialist has that is relevant to the audit or, if not, will inform the auditor
- Any restriction on the auditor's external specialist's association with the auditor's report
- Any agreement to inform the auditor's external specialist of the auditor's conclusions concerning the work of the auditor's external specialist

Communications and Reporting

The following matters are examples of communications and reporting:

- Methods and frequency of communications, including the following:
 - How the auditor's external specialist's findings or conclusions will be reported (for example, written report, oral report, ongoing input to the engagement team)
 - Identification of specific persons within the engagement team who will liaise with the auditor's external specialist
- When the auditor's external specialist will complete the work and report findings or conclusions to the auditor
- The auditor's external specialist's responsibility to communicate promptly any potential delay in completing the work and any potential reservation or limitation on the findings and conclusions of the auditor's specialist
- The auditor's external specialist's responsibility to communicate promptly instances in which the entity restricts the access to records, files, personnel of the auditor's external specialist, or management's specialists engaged by the entity
- The auditor's external specialist's responsibility to communicate to the auditor all information that the auditor's external specialist believes may be relevant to the audit, including any changes in circumstances previously communicated

- The auditor's external specialist's responsibility to communicate circumstances that may create threats to the objectivity of the auditor's external specialist and any relevant safeguards that may eliminate or reduce such threats to an acceptable level

Confidentiality

The following matters are examples of confidentiality:

- The need for the auditor's specialist to observe confidentiality requirements, including the following:
 - The confidentiality provisions of relevant ethical requirements that apply to the auditor
 - Additional requirements that may be imposed by law or regulation, if any (for example, specific confidentiality provisions requested by the entity)
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