



Agenda Item 3B

Audit Evidence

Edits to extant requirement are show as follows:

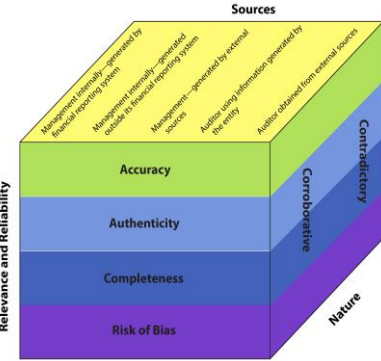
- *Additions*
- *Deletions*
- Grey shading denotes ISA 540 Conforming amendment or management specialists content

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
Introduction			
Scope of This Section			

AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
<p>1. This section explains what constitutes audit evidence in an audit of financial statements and addresses the auditor’s responsibility to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor’s opinion.</p>			

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<p><i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i></p>	<p><i>Application Material</i></p>	<p><i>Conforming Amendments</i></p>	<p><i>Comments</i></p>
<p><u>2. The evaluation of whether relevant information constitutes sufficient appropriate audit evidence is a matter for the auditor’s professional judgment, applying professional skepticism, the degree to which the auditor may draw inappropriate conclusions, the assessment of the risks of material misstatements, and the audit procedures performed. Such evaluation is also affected by the sources, reliability and nature of the information to be used as audit evidence. These factors are depicted as follows:</u></p> 			

AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
<ul style="list-style-type: none"> • 			<p>The Task Force agreed to delete this paragraph because it does not seem to add much incremental information. Audit Evidence is a fundamental standard and affects many other standards.</p>
<p>[Revised, August 2012, to reflect conforming changes necessary due to the issuance of SAS No. 126.]</p>			
<p>Effective Date</p>			
<p>3. This section is effective for audits of financial statements for periods ending on or after December 15, ____.</p>			
<p>Objective</p>			
<p>4. The objective of the auditor is to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.</p>			

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AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
Definitions	Definitions (Ref: par. 5)		
5. For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:			
Accounting records. The entity's internal information underlying the financial statements and disclosures. (Ref: par A1)	A1. Examples of accounting records include the following: <ul style="list-style-type: none"> • the underlying records of initial accounting entries and supporting records, such as checks and records of electronic fund transfers; invoices; contracts; the general and subsidiary ledgers; journal entries; and • supporting records, such as spreadsheets, cost allocations, computations, reconciliations, and disclosures. 		<p>Definition appears to be dated and does not seem to encompass certain matters that could be considered as part of the accounting records, e.g. data. Other terms may be considered such as “information” or “data.”</p> <p>The Task Force suggested moving the examples in the definition to the application material and include some more modern examples.</p>
			<p>The Task Force agreed to delete this definition and the definition of sufficiency. There seems to be misconceptions about the term sufficiency. In some</p>

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Deleted: The records of initial accounting entries and supporting records, such as checks and records of electronic fund transfers; invoices; contracts; the general and subsidiary ledgers; journal entries and other adjustments to the financial statements that are not reflected in journal entries; and records, such as work sheets and spreadsheets, supporting cost allocations, computations, reconciliations, and disclosures.

Deleted: Appropriateness (of audit evidence). The measure of the quality of audit evidence (that is, its relevance and reliability that provides a basis for the conclusions on which the auditor's opinion is based).

AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
			situations, obtaining more information may not necessarily lead to higher quality audit evidence. In addition, the concepts of “sufficiency” and “appropriateness” are fully described later in the standard.
<p>Audit evidence. Information <u>that has been evaluated and</u> used by the auditor in arriving at the conclusions on which the auditor’s opinion is based. (Ref: par A2)</p>	<p>A2. <u>Audit evidence may be obtained through the performance of various audit procedures on information obtained by the auditor. The auditor may perform various procedures using different audit tools and techniques, including audit data analytics, visualization, or artificial intelligence in meeting objectives of the audit procedures.</u></p>		<p>Added examples to illustrate the different forms of audit evidence that an auditor may obtain.</p>
<p>External Information Source. <u>An external individual or organization that provides information that has been used by the entity in preparing the financial statements, or that has been obtained used by the auditor as audit evidence, when such information is suitable for use by a broad range of users. When information has been provided by an individual or organization acting in the</u></p>	<p>A3. <u>External information sources may include pricing services, governmental organizations, central banks or recognized stock exchanges. Examples of information that may be obtained from external information sources include:</u></p> <ul style="list-style-type: none"> <u>• Prices and pricing related data;</u> 		<p>Definition and related application material is from ISA 540 (revised) as a conforming amendment to ISA 540.</p> <p>The Task Force expressed concern about this definition. Is this definition necessary in view of the new framework</p>

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AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
<p>capacity of a management’s specialist, service organization¹³, or auditor’s specialist¹⁴ the individual or organization is not considered an external information source with respect to that particular information. (Ref: par A3–A6)</p>	<ul style="list-style-type: none"> • <u>Macro-economic data, such as historical and forecast unemployment rates and economic growth rates, or census data;</u> • <u>Credit history data;</u> • <u>Industry specific data, such as an index of reclamation costs for certain extractive industries, or viewership information or ratings used to determine advertising revenue in the entertainment industry; and</u> • <u>Mortality tables used to determine liabilities in the life insurance and pension sectors.</u> 		<p>which would require the auditor to apply the criteria in evaluating the audit evidence regardless of its source. This seems to be overly prescriptive. What about in situations when the auditor obtains information for an external source? Also, the Task Force has concern about the documentation requirements around such criteria, that is the auditor would have to document that the information used is ‘suitable for use by a broad range of users.’</p>
	<p><u>A4. A particular set of information is more likely to be suitable for use by a broad range of users and less likely to be subject to influence by any particular user if the external individual or organization provides it to the public for free, or makes it available to a wide range of users in return for payment of a fee. Judgment may be required in determining whether the information is</u></p>		

AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<p><u>suitable for use by a broad range of users, taking into account the ability of the entity to influence the external information source.</u></p>		
	<p><u>A5. An external individual or organization cannot, in respect of any particular set of information, be both an external information source and a management's expert, or service organization or auditor's expert.</u></p>		
	<p><u>A6. However, an external individual or organization may, for example, be acting as a management's expert when providing a particular set of information, but may be acting as an external information source when providing a different set of information. In some circumstances, professional judgment may be needed to determine whether an external individual or organization is acting as an external information source or as a management's expert with respect to a particular set of information. In other circumstances, the distinction may be clear. For example:</u></p> <ul style="list-style-type: none"> • <u>An external individual or</u> 		

AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<p>organization may be providing information about real estate prices that is suitable for use by a broad range of users, for example, information made generally available pertaining to a geographical region, and be determined to be an external information source with respect to that set of information. The same external organization may also be acting as a management's or auditor's expert in providing commissioned valuations, with respect to the entity's real estate portfolio specifically tailored for the entity's facts and circumstances.</p> <ul style="list-style-type: none"> Some actuarial organizations publish mortality tables for general use which, when used by an entity, would generally be considered to be information from an external information source. The same actuarial organization may also be a management's expert with respect to different information 		

AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<p>tailored to the specific circumstances of the entity to help management determine the pension liability for several of the entity's pension plans.</p> <ul style="list-style-type: none"> An external individual or organization may possess expertise in the application of models to estimate the fair value of securities for which there is no observable market. If the external individual or organization applies that expertise in making an estimate specifically for the entity and that work is used by management in preparing its financial statements, the external individual or organization is likely to be a management's expert with respect to that information. If, on the other hand, that external individual or organization merely provides, to the public, prices or pricing-related data regarding private transactions, and the entity uses that information in its own 		

AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<p>estimation methods, the external individual or organization is likely to be an external information source with respect to such information.</p> <ul style="list-style-type: none"> An external individual or organization may publish information, suitable for a broad range of users, about risks or conditions in an industry. If used by an entity in preparing its risk disclosures (for example in compliance with IFRS 7¹⁵), such information would ordinarily be considered to be information from an external information source. However, if the same type of information has been specifically commissioned by the entity to use its expertise to develop information about those risks, tailored to the entity's circumstances, the external individual or organization is likely to be acting as a management's expert. 		

AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<ul style="list-style-type: none"> • An external individual or organization may apply its expertise in providing information about current and future market trends, which it makes available to, and is suitable for use by, a broad range of users. If used by the entity to help make decisions about assumptions to be used in making accounting estimates, such information is likely to be considered to be information from an external information source. If the same type of information has been commissioned by the entity to address current and future trends relevant to the entity's specific facts and circumstances, the external individual or organization is likely to be acting as a management's expert. 		
<p>Internal information. All of the information developed or maintained by</p>	<p>A7. Audit evidence may be obtained from information that is contained in the accounting records underlying the financial statements and</p>		<p>The Task Force believes that a definition of Internal Information is necessary to</p>

AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
the entity, including accounting records. (Ref: par A7-0)	information obtained from other sources. An example of information obtained from other internal sources is marketing information used as an assumption in making an accounting estimate for a warranty provision.		complement the definition of External Information.
	Internal information (within or outside the general ledger and subsidiary ledgers); <u>a. may be in electronic or paper form. An example of internal information in electronic form is a shared digital ledger such as blockchain; or</u> <u>b. may be stored by the entity locally within its manual or automated information systems or may be stored in a network of hosted remote servers (the “Cloud”).</u>		
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			Task Force to consider moving this definition and extant paragraph AU-C 500.08 and A35-A49 to AU-C 620. This content just does not fit here and many of the

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AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
the entity in preparing the financial statements.			<p>considerations are the similar to considerations when using an auditor’s specialist.</p> <p>If we don’t move to 620, then we need to find a way to separately address this topic in 500 (separate section or something like that).</p>
Requirements			
Sufficient Appropriate Audit Evidence	Sufficient Appropriate Audit Evidence (Ref: par. 6)		
<p><u>6.</u> The auditor should obtain appropriate audit evidence that is sufficient to reduce audit risk to an acceptably low level. In doing so, the auditor should consider the relevance of the information and the reliability, sources, and nature of the audit evidence as set out in paragraphs 7-14 of this standard. (Ref: par. A8-A15)</p>	<p><u>A8.</u> The relevance and reliability of audit evidence are integral factors in evaluating the appropriateness of audit evidence. In making this evaluation, the auditor is only required to evaluate information that has been assessed as relevant by the auditor.</p>		
	<p><u>A9.</u> Appropriate audit evidence is sufficient when an experienced auditor</p>		

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 Authenticity ¶
 Precision, and ¶
 Risk of bias. ¶

the auditor’s assessment of the risks of misstatement (the higher the assessed risks, the more audit evidence is likely to be required), and also by the quality of such audit evidence (the higher the quality, the less may be required). However, obtaining more audit evidence may not compensate for its poor quality..

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AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<p><u>would be persuaded to draw conclusions based on consideration of the audit evidence. However, obtaining more audit evidence may not compensate for lack of appropriate audit evidence.</u></p>		
	<p><u>A10. The reliability of the audit evidence is affected, individually or in combination, by the following factors:</u></p> <ul style="list-style-type: none"> • <u>Accuracy</u> • <u>Authenticity</u> • <u>Completeness, and</u> • <u>Risk of bias</u> 		
	<p><u>A11. The consideration of the factors in paragraph A10 is affected by the risk of the auditor drawing an incorrect conclusion, the assessment of the risk of material misstatement, and the application of professional skepticism.</u></p>		
	<p><u>A12. The appropriateness of the audit evidence obtained is affected by whether the information is sufficiently precise or detailed for the auditor's purposes.</u></p>		

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<#>.A5 . *Appropriateness* is the measure of the quality of audit evidence (that is, its relevance and reliability in providing support for the conclusions on which the auditor's opinion is based). ...

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AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<p>A13. Audit evidence is necessary to <u>provide a basis for</u> auditor’s opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed <u>on relevant information obtained</u> during the course of the audit. <u>Audit evidence may</u> also include information obtained from other sources, such as previous audits (provided that the auditor has determined whether changes have occurred since the previous audits that may affect its relevance to the current audit ^{fn 1}), or a firm’s quality control procedures for client acceptance and continuance. In addition to other sources inside and outside the entity, the entity’s accounting records are an important source of audit evidence. Also, information that may be used as audit evidence may have been prepared using the work of management’s specialist.</p>		

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^{fn 1} Paragraph .10 of section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*.

AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	A14. Forming the auditor’s opinion consists of obtaining and evaluating audit evidence.		
	A15. As explained in section 200, reasonable assurance is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (that is, the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level. ^{fn 3}		
<u>Relevance</u>	<u>Relevance (Ref: par. 7)</u>		
<u>7. The auditor should consider the relevance of the information to be used as audit evidence. (Ref: par. A16–A21)</u>	<u>A16. The following are factors that may affect, individually or in combination, the relevance of information to be used as audit evidence:</u> <u>a. The objective of the audit procedures performed.</u>		This requirement was taken from extant section 500, but it is being set up as part of the framework to evaluate the audit evidence. The Task Force decided to separate the requirement of relevance and reliability. This

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^{fn 3} Paragraph .06 of section 200.

AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<p><u>including the direction of testing</u></p> <p><u>b. The management assertion(s) to which the information relates</u></p> <p><u>c. The appropriateness of the period of time to which the information relates</u></p>		<p>is because in order for the information to be evaluated whether is sufficient and appropriate it would have to be relevant.</p>
	<p><u>A17. Relevance relates to the logical connection with, or bearing upon, the purpose of the audit procedure and, when appropriate, the assertion under consideration. For example, the data or information related to salary may be relevant in making an accounting estimate for a bonus accrual. The relevance of information to be used as audit evidence also may be affected by the direction of testing. For example, if the purpose of an audit procedure is to test for overstatement in the existence or valuation of accounts payable, testing the recorded accounts payable may be a relevant audit procedure. On the other hand, when testing for completeness in the existence or valuation of accounts payable, testing</u></p>		<p>The Task Force noted that this paragraph should provide an example other than the direction of testing.</p> <p>Edited understatement to completeness to be more accurate. A recorded liability can also be understated.</p>

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AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	the recorded accounts payable would not be relevant, but testing such information as subsequent disbursements, unpaid invoices, suppliers' statements, and unmatched receiving reports may be relevant.		
	A18. Information may result in audit evidence that is relevant to certain assertions but not others. For example, information related to the collection of receivables after the period-end may provide audit evidence regarding existence and valuation of receivables and revenue but not necessarily cutoff.		The Task force expressed concern about the term "is not a substitute" because it is too definitive. There might be cases where the audit evidence obtained for an assertion could be used for another assertion.
	A19. Some documents, whether in paper or electronic form, represent direct audit evidence of the existence of an asset (for example, a document constituting a financial instrument such as a stock, bond, or a digital wallet containing cryptocurrencies). Inspection of such documents may not necessarily provide audit evidence about ownership or value		Moved from Audit Procedures
	A20. Inspection of tangible assets may provide reliable audit evidence with respect to their existence but not		

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AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<p>necessarily about the entity’s rights and obligations or the valuation of the assets. Inspection of individual inventory items may accompany the observation of inventory counting. For example, when observing an inventory count, the auditor may inspect individual inventory items (such as opening containers included in the inventory count to determine whether they are full or empty) to verify their existence.</p>		
	<p>A21. External confirmation procedures frequently are relevant when addressing assertions associated with certain account balances and their elements. However, external confirmations need not be restricted to account balances only. For example, the auditor may request confirmation of the terms of agreements or transactions an entity has with third parties; the confirmation request may be designed to ask if any modifications have been made to the agreement and, if so, their relevant details. External confirmation procedures also are used to obtain audit evidence about the</p>		

AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	absence of certain conditions (for example, the absence of a side agreement that may influence revenue recognition).		
Audit Procedures for Obtaining Audit Evidence	Audit Procedures for Obtaining Audit Evidence (Ref: par. 8)		
8. When evaluating whether sufficient appropriate audit evidence has been obtained, the auditor should consider the nature, timing, and extent of the audit procedures performed in obtaining the audit evidence. (Ref: par. A22–A44)	A22. As required by and explained further in section 315 and section 330, audit evidence to draw reasonable conclusions on which to base the auditor’s opinion is obtained by performing the following: ^{fn 6 fn 7}		The assignment of procedures into discrete classifications no longer seems to be a good working model. Also, the classifications suggest a sequential order which may no longer be valid, e.g. risk assessment procedures then further audit procedures. With more modern techniques such as ADA, the lines are
	<ul style="list-style-type: none"> a. Risk assessment procedures b. Further audit procedures, which comprise 		

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^{fn 6} Paragraphs .05–.06 of section 315.

^{fn 7} Paragraphs .06–.07 of section 330.

AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<ul style="list-style-type: none"> i. tests of controls, when required by the AU-C sections or when the auditor has chosen to do so, and ii. substantive procedures, which include tests of details and substantive analytical procedures. 		<p>being blurred. The application material should explain that a procedure or technique can achieve more than one objective.</p> <p>A suggestion might be to retain the classifications but overlay a framework to focus on the quality of audit evidence that would allow more flexibility in using the different types of audit procedures and that suggests that the objectives of each classification might be achieved simultaneously through a single ADA technique.</p> <p>The guidance should be clear that drawing reasonable conclusions should not be based on performing audit procedures but rather it should be focused on the attributes of the audit evidence.</p>

AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
			<p>The task force discussed that the issues here have an effect on AU-C 330.18.</p> <p>The task force continues to discuss whether the discrete classifications of the audit procedures and whether are still needed in the standard.</p>
	<p><u>A23. The nature, timing, and extent of the audit procedures performed by the auditor influences the persuasiveness of the audit evidence obtained by the auditor. For example, inspection and observation provides more persuasive audit evidence than inquiry about its existence.</u></p>		
	<p><u>A24. The auditor may achieve the objective of more than one type of audit procedure (for example, as both a risk assessment and further audit procedure) and may accomplish the objectives of both types of procedures simultaneously, including achieving such objectives through the use of automated tools and techniques.</u></p>		<p>The Task Force suggested adding application material to emphasize that ADA are not audit procedures. Rather, they are techniques that the auditor may use in carrying the audit procedures.</p>

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AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<p><u>A25.</u> <u>An example of automated tools and techniques are audit data analytics which are described as the analysis of patterns, identification of anomalies, or extraction of other useful information in data underlying or related to the subject matter of an audit through analysis, modeling, or visualization for performing the audit.</u></p>		<p>The Task Force discussed whether to include an explanation of audit data analytics. We have included the definition from the Guide to Audit Data Analytics for discussion purposes (edited slightly).</p>
	<p><u>A26.</u> <u>Data is the information that is combined and summarized based on relevance to information requirements. Data can be obtained through direct observation or from a party external to the entity. Information obtained by applying analytical or interpretive techniques to data is referred to as audit data analytics when such techniques have a sound theoretical basis and therefore less need for judgment. Otherwise, such information is an assumption.</u></p>		<p>This explanation was taken from paragraph A4 of the revised ISA 540. The intent is to provide a better linkage between audit data analytics and data.</p> <p>Explanation of data was taken from COSO_(page 106).</p>
	<p><u>A27.</u> <u>The audit procedures described in paragraphs A32-A44 may be used as risk assessment procedures, tests of controls, or substantive procedures, depending on the context in which they</u></p>		

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AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	are applied by the auditor.		
	A28. The nature and timing of the audit procedures to be used may be affected by the fact that some of the information may be available only in electronic form or only at certain points or periods in time.		
	<p>A29. Certain electronic information may not be available after a specified period of time (for example, if files are changed and if backup files do not exist). Accordingly, the auditor may find it necessary, as a result of data retention policies, to request retention of some information for the performance of audit procedures at a later point in time or to perform audit procedures at a time when the information is available.</p> <p><u>Some electronic information (for example, information in blockchain) can be tested on a continuous basis during the audit. In such cases, auditors may develop procedures utilizing more automated tools and techniques, audit data analytics, or artificial intelligence, to obtain audit evidence about</u></p>		<p>Emerging technologies pose issues around retention of audit evidence. For example, with artificial intelligence, the audit evidence might not be capable of reconstruction.</p> <p>This is particularly important in auditing complex accounting estimates.</p> <p>The Task Force noted that it should be made clear that electronic evidence is at the same level as paper evidence</p> <p>The task force discussed the audit documentation of using Data Analytics, for example, is the auditor required to document every iteration of Data Analytics?</p>

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<#>.A12 The nature and timing of the audit procedures to be used may be affected by the fact that some of the accounting data and other information may be available only in electronic form or only at certain points or periods in time. For example, source documents, such as purchase orders and invoices, may exist only in electronic form when an entity uses electronic commerce or may be discarded after scanning when an entity uses image processing systems to facilitate storage and reference. Some sources of electronic or digitized information (for example, a public or private blockchain) may provide a central location from which the auditor may obtain audit evidence. Auditors may develop procedures to obtain audit evidence directly from such sources. ¶

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AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	transactions, including more routine transactions, on a more real-time basis.		
	A30. Audit procedures to obtain audit evidence can include inspection, observation, confirmation, recalculation, reperformance, and analytical procedures, often in some combination, in addition to inquiry. Audit data analytics may be used as a technique by which these procedures are performed. Although inquiry may provide important audit evidence and may even produce appropriate evidence of a misstatement, inquiry alone of management ordinarily does not provide sufficient appropriate audit evidence.		
	A31. Inspection involves examining records or documents, whether internal or external, in paper form, electronic form, or other media or a physical examination of an asset. Such information may include websites, databases, digital ledgers, or other information sources, depending on their nature and source and, in the case of internal records and documents, the		

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AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	effectiveness of the controls over their production. An example of inspection used as a test of controls is inspection of records for evidence of authorization which can be performed manually or through automated techniques.		
	A32. Inspection of information may provide audit evidence of varying degrees of relevance and reliability. Inspection procedures may involve the use of automated techniques, for example, text recognition programs used to examine large populations of documents such as contracts that may achieve the audit objectives or for the purpose of identifying items for further audit considerations.		Added a specific example of using ADAs as an inspection procedure.
			Moved to relevance and reliability section.
	A33. Observation consists of looking at a process or procedure being performed by others (for example, the auditor’s observation of inventory counting by the entity’s personnel or		Incorporated examples of automation.

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.A15 Some documents represent direct audit evidence of the existence of an asset (for example, a document constituting a financial instrument such as a stock or bond). Inspection of such documents may not necessarily provide audit evidence about ownership or value. ...

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AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	the performance of control activities),		
	<p>A34. <u>Automated tools or techniques such as a camera accessed remotely may aid the auditor in performing an observation procedure, such as management's physical inventory count. Similar tools may also aid the auditor in performing inspection procedures, such as the auditor's independent physical inventory count.</u></p>		
	<p>A35. Observation provides audit evidence about the performance of a process or procedure but is limited to the point in time at which the observation takes place and by the fact that the act of being observed may affect how the process or procedure is performed. <u>Section 501, Audit Evidence—Specific Considerations for Selected Items</u>, addresses the observation of the counting of inventory.^{fn 9}</p>		

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^{fn 9} Paragraphs 11–15 of section 501, *Audit Evidence—Specific Considerations for Selected Items*.

AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<p>A36. An external confirmation represents audit evidence obtained by the auditor as a direct response known <u>knowingly provided to the auditor by</u> a third party (the confirming party) in paper form, <u>orally</u>, or by electronic or other medium.. See <u>section 505, External Confirmations</u>, for further guidance.</p>	<p>AU-C 505</p> <p>06 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:</p> <p>External confirmation. Audit evidence obtained as a direct written response to the auditor from a third party (the confirming party), either in paper form or by electronic or other medium (for ex-ample, through the auditor’s direct access to information held by a third party). (Ref: par. .A1)</p> <p>When a Written Response to a Positive Confirmation Request Is Necessary to Obtain Sufficient Appropriate Audit Evidence</p>	<p>The Task Force discussed deleting ‘written’ as a pre-condition of being a confirmation. This is because often an auditor may access an external feed (for example, a bank feed). If the bank provides the auditor with access as result of the auditor’s request, and the auditor downloads the such feed, the download may be considered an external confirmation. However, this would require a conforming amendment to AU-C 505.</p>

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AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
		<p>.13 If the auditor has determined that a written response to a positive confirmation request is necessary to obtain sufficient appropriate audit evidence, alternative audit procedures will not provide the audit evidence the auditor requires...</p> <p>.A27 An oral response to a confirmation request does not meet the definition of an <i>external confirmation</i> because it is not a direct written response to the auditor. Provided that the auditor has not concluded that a direct written response to a positive confirmation is necessary to obtain sufficient appropriate audit evidence,...</p> <p><i>When a Written Response to a Positive Confirmation Request Is Necessary to Obtain Sufficient Appropriate</i></p>	

AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
		<p>Audit Evidence (Ref: par. 13)</p> <p>.A29 When the auditor has determined that a written response is necessary to obtain sufficient appropriate audit evidence ...</p>	
	<p>A37. Recalculation consists of testing the mathematical accuracy of information. Recalculation may be performed manually or through automated techniques.</p> <p>Through the use of automated techniques, auditors may be able to perform recalculation procedures on 100 percent of a population, for example, recalculating the gross margin for each product sold for an entity's product line.</p>		<p>Added a specific example of using ADAs as a recalculation procedure.</p>
	<p>A38. Reperformance involves the independent execution of procedures or controls that were originally performed as part of the entity's</p>		<p>Added a specific example of using ADAs as an reperformance procedure.</p>

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AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<p>internal control. <u>Through the use of automated techniques, such as audit data analytics, auditors may be able to reperform a control activity such as the use of sequential numbering of sales invoices for the year and determine whether any gaps in numbering or duplicates occurred to determine whether the control activity was effective in assuring completeness of the invoices issued during the period covered.</u></p>		
	<p>A39. <u>Section 520 addresses the auditor’s use of analytical procedures as a means for obtaining audit evidence. Audit data analytics are a technique by which the auditor may perform analytical procedures. For example, the auditor’s performance of a regression analysis may provide appropriate audit evidence with respect to the occurrence, completeness, accuracy, or cut off of a company’s revenue transactions.</u></p>	<p>AU-C 520 .04 Analytical procedures. Evaluations of financial information through analysis of plausible relationships among both financial and nonfinancial data. Analytical procedures also encompass such investigation, as is necessary, of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.</p>	<p>The Task Force suggested deleting the term ‘financial’ because is too limiting. The evaluation may consist of nonfinancial information as well. This will require an amendment to AU-C 520.</p>

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- Deleted:** Analytical procedures consist of evaluations of financial information through analysis of plausible relationships among both financial and nonfinancial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations and relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount that exhibit characteristics of risk of material misstatement. See [section 520](#) for further guidance.
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AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<p><u>A40. Automated tools and techniques such as audit data analytics may be used to perform a risk assessment procedure or as a substantive procedure, or both concurrently. For example, audit data analytic techniques may be used to identify relevant characteristics of an entire population of transactions and at the same time, to identify any transactions not meeting predefined expectations about what would be a “normal” transaction and thus carry a higher risk of material misstatement (that is, “outliers”). In this scenario, the identification of relevant characteristics of an entire population of transactions and almost simultaneous identification of outliers on which to perform further audit procedures may constitute a risk assessment procedure.</u></p>		<p>Application material added to recognize that ADAs may be performed as a risk assessment procedure or a substantive procedure, as defined in section 315 and section 520. However, the auditor may obtain audit evidence in situations that go beyond a risk assessment procedure and do not meet the criteria under section 520.</p>
	<p><u>A41. In the scenario described, the auditor may also consider the data analytic technique as a substantive analytical procedure with respect to information obtained about those transactions in the population falling</u></p>		

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AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<p>within the predefined expectations.¹ Thus, the data analytic may serve almost simultaneously as both a risk assessment procedure and a further audit procedure (that is, a substantive analytic procedure).</p>		
	<p>A42. <i>Scanning</i> is a type of analytical procedure involving the auditor’s exercise of professional judgment to review accounting data to identify significant or unusual items to test. This may include the identification of unusual individual items within account balances or other data through the reading or analysis of, for example, entries in transaction listings, subsidiary ledgers, general ledger control accounts, adjusting entries, suspense accounts, reconciliations, and other detailed reports. Scanning may include searching for large or unusual items in the accounting records (for example, nonstandard journal entries), as well as in transaction data (for example, suspense accounts and adjusting journal entries) for</p>		<p>The Task Force suggests replacing the term ‘testing’ because it may imply performing more detailed tests than it is intended.</p>

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¹ See paragraph 5c of AU-C section 520, *Analytical Procedures*.

AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<p>indications of misstatements that have occurred. Electronic audit procedures may assist the auditor in identifying unusual items. When the auditor selects items that exhibit characteristics of risk of material misstatement by scanning, the auditor obtains audit evidence about those items. The auditor’s scanning also provides audit evidence about the items not exhibiting characteristics of risks of material misstatements because the auditor has exercised professional judgment to determine that the items not selected are less likely to be misstated. The auditor may use automated tools or techniques to perform a scanning procedure. For example, the auditor might download an entire population of transactions to a spreadsheet software program and then use formulas embedded in the software to extract only those transactions meeting the auditor’s criteria for a transaction being unusual.</p>		
	<p>A43. Inquiry consists of seeking information of knowledgeable persons, both financial and nonfinancial, within</p>		<p>The Task Force believes that is difficult to distinguish the level of formality of inquiries</p>

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AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	the entity or outside the entity. Inquiry is used extensively throughout the audit, in addition to other audit procedures. Evaluating responses to inquiries is an integral part of the inquiry process.		and thus decided to delete the sentence.
	A44. Responses to inquiries may provide the auditor with <u>audit evidence</u> not previously possessed or with corroborative audit evidence. Alternatively, responses might provide information that differs significantly from other <u>audit evidence</u> that the auditor has obtained (for example, <u>audit evidence</u> regarding the possibility of management override of controls). In some cases, responses to inquiries provide a basis for the auditor to modify or perform additional audit procedures.		
Information to Be Used as Audit Evidence	<u>Information to Be Used as Audit Evidence (Ref: par.9)</u>		
<u>9. The auditor should consider the sources of information to be used as audit evidence. (Ref: par.A45–A54)</u>	<u>A45. Sources of audit evidence include information:</u> <u>a. Generated internally by management from the financial</u>		New requirement paragraph to set the specific element within the framework dealing with the sources of audit evidence.

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AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<p><u>reporting system.</u></p> <p><u>b. Generated internally by management from sources outside its financial reporting system.</u></p> <p><u>c. Obtained by management from external sources.</u></p> <p><u>d. Generated by the auditor using information generated by the entity, and</u></p> <p><u>e. Obtained by the auditor from external sources</u></p>		Application material was formerly paragraph A7
	<u>Sources</u>		
	<u>A46. The auditor’s consideration of sufficient appropriate audit evidence can be enhanced by the use of automated tools and techniques such as audit data analytics that may enable the auditor to aggregate and evaluate information obtained from multiple sources.</u>		
	<u>A47. Regardless of its source, the reliability of audit evidence is affected by the following attributes:</u>		

AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	a. Accuracy b. Authenticity c. Completeness d. Risk of bias		
	<p>A48. By performing audit procedures, the auditor may determine that the accounting records are internally consistent and agree to the financial statements. However, accounting records alone do not provide sufficient appropriate audit evidence on which to base an audit opinion on the financial statements.</p>		
	<p>A49. The auditor is required by paragraph 7 to consider the relevance and reliability of information obtained from an external information source that is to be used as audit evidence, regardless of whether that information has been used by the entity in preparing the financial statements or obtained by the auditor. For information obtained from an external information source, that consideration may, in certain cases, include audit evidence about the external information source or the preparation of the information by the</p>		<p>This paragraph was taken from ISA 540 conforming amendment.</p> <p>The Task Force noted that some of this content is applicable more broadly than just external informational sources.</p>

Deleted: Some audit evidence is obtained by performing audit procedures to test the accounting records (for example, through analysis and review, by reperforming procedures followed in the financial reporting process, and by reconciling related types and applications of the same information). Through the performance of such

AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<p><u>external information source, obtained through designing and performing further audit procedures in accordance with ISA 330 or, where applicable, ISA 540 (Revised).</u></p>		
	<p><u>A50. Obtaining an understanding of why management or, when applicable, a management’s expert uses an external information source, and how the relevance and reliability of the information was considered (including its accuracy and completeness), may help to inform the auditor’s consideration of the relevance and reliability of that information.</u></p>		
	<p><u>A51. The following factors may be important when considering the relevance and reliability of information obtained from an external information source, including its accuracy and completeness, taking into account that some of these factors may only be relevant when the information has been used by management in preparing the financial statements or has been obtained by the auditor:</u></p> <ul style="list-style-type: none"> • <u>The nature and authority of</u> 		<p>This paragraph was taken from ISA 540 conforming amendment.</p> <p>The Task Force noted that some of this content is applicable more broadly than just external informational sources.</p>

AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<p>the external information source. For example, a central bank or government statistics office with a legislative mandate to provide industry information to the public is likely to be an authority for certain types of information:</p> <ul style="list-style-type: none"> • The ability to influence the information obtained through relationships between the entity and the information source; • The competence and reputation of the external information source with respect to the information, including whether, in the auditor’s professional judgment, the information is routinely provided by a source with a track record of providing reliable information; • Past experience of the 		

AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<p><u>auditor with the reliability of the information provided by the external information source:</u></p> <ul style="list-style-type: none"> • <u>Evidence of general market acceptance by users of the relevance and/or reliability of information from an external information source for a similar purpose to that for which the information has been used by management or the auditor:</u> • <u>Whether the entity has in place controls to address the relevance and reliability of the information obtained and used:</u> • <u>Whether the external information source accumulates overall market information or engages directly in “setting” market transactions:</u> • <u>Whether the information is suitable for use in the manner in which it is being used and:</u> 		

AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<p>if applicable, was developed taking into account the applicable financial reporting framework:</p> <ul style="list-style-type: none"> • Alternative information that may contradict the information used; • The nature and extent of disclaimers or other restrictive language relating to the information obtained; • Information about the methods used in preparing the information, how the methods are being applied including, where applicable, how models have been used in such application, and the controls over the methods; and • When available, information relevant to considering the appropriateness of assumptions and other data applied by the external information sources in developing the information 		

AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<p style="text-align: center;"><u>obtained.</u></p> <p><u>A52. The nature and extent of the auditor’s consideration takes into account the assessed risks of material misstatement at the assertion level to which the use of the external information is relevant, the degree to which the use of that information is relevant to the reasons for the assessed risks of material misstatement and the possibility that the information from the external information source may not be reliable (for example, whether it is from a credible source). Based on the auditor’s consideration of the matters described in paragraph A33B, the auditor may determine that further understanding of the entity and its environment, including its internal control, is needed, in accordance with ISA 315, or that further audit procedures, in accordance with ISA 33027, and ISA 540 (Revised)28 when applicable, are appropriate in the circumstances, to respond to the assessed risks of material misstatement related to the use of information from an external information source. Such</u></p>		

AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<p><u>procedures may include:</u></p> <ul style="list-style-type: none"> • <u>Performing a comparison of information obtained from the external information source with information obtained from an alternative independent information source.</u> • <u>When relevant to considering management's use of an external information source, obtaining an understanding of controls management has in place to consider the reliability of the information from external information sources, and potentially testing the operating effectiveness of such controls.</u> • <u>Performing procedures to obtain information from the external information source to understand its processes, techniques, and assumptions, for the purposes of identifying, understanding</u> 		

AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<p style="color: blue; text-decoration: underline;">and, when relevant, testing the operating effectiveness of its controls.</p>		
	<p style="color: blue; text-decoration: underline;">A53. In some situations, there may be only one provider of certain information, for example, information from a central bank or government, such as an inflation rate, or a single recognized industry body. In such cases, the auditor’s determination of the nature and extent of audit procedures that may be appropriate in the circumstances is influenced by the nature and credibility of the source of the information, the assessed risks of material misstatement to which that external information is relevant, and the degree to which the use of that information is relevant to the reasons for the assessed risk of material misstatement. For example, when the information is from a credible authoritative source, the extent of the auditor’s further audit procedures may be less extensive, such as corroborating the information to the source’s website or published information. In other cases, if a source is not assessed as credible, the auditor may determine</p>		<p>This paragraph was taken from ISA 540 conforming amendment.</p> <p>The Task Force noted that some of this content is applicable more broadly than just external informational sources.</p>

AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<p><u>that more extensive procedures are appropriate and, in the absence of any alternative independent information source against which to compare, may consider whether performing procedures to obtain information from the external information source, when practical, is appropriate in order to obtain sufficient appropriate audit evidence.</u></p>		
	<p><u>A54. When the auditor does not have a sufficient basis with which to consider the relevance and reliability of information from an external information source, the auditor may have a limitation on scope if sufficient appropriate audit evidence cannot be obtained through alternative procedures. Any imposed limitation on scope is evaluated in accordance with the requirements of ISA 705 (Revised).</u></p>		
	<p><u>A55. Some sources of electronic information (for example, a blockchain) may provide a central location from which the auditor may obtain audit evidence. Auditors may develop procedures to obtain audit</u></p>		

AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	evidence directly from such sources		
Reliability	Reliability (Ref: par.10)		
<p>10. The auditor should consider the reliability of the information to be used as audit evidence, including information obtained from an external information source, (Ref: par. Error! Reference source not found.-A63)</p>	<p>A56. The reliability of information to be used as audit evidence and, therefore, of the audit evidence itself is influenced by its source and nature and the circumstances under which the audit evidence is obtained, including the controls over its preparation and maintenance.</p>		<p>The Task Force deleted the phrase “when relevant” at the end of the first sentence because the condition does not make sense in this context.</p> <p>The text about generalizations was deleted because the generalization are now embedded within the new framework.</p>
	<ul style="list-style-type: none"> • [redacted] 		<p>The Task Force suggests deleting this sub paragraph. This is true but the auditor may audit 100% of the population. In that case, audit evidence may more reliable because the auditor examines 100%.</p>
	<ul style="list-style-type: none"> • [redacted] 		
	<ul style="list-style-type: none"> • [redacted] 		<p>The Task Force deleted the examples because is not really</p>

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<#> the relevance and reliability of information from external information may on the information used is in ¶

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Deleted: Audit evidence in documentary form, whether paper, electronic, or other medium, is more reliable than evidence obtained orally (for example, a contemporaneously written record of a meeting is more reliable than a subsequent oral representation of the matters discussed).

AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
			necessary. The statement goes without saying.
	<ul style="list-style-type: none"> • _____ 		

	Accuracy and Completeness		
	<p>A57. Obtaining audit evidence about the accuracy and completeness of such information may be accomplished concurrently with the actual audit procedure applied to the information when obtaining such audit evidence is an integral part of the audit procedure itself. In other situations, the auditor may have obtained audit evidence of the accuracy and completeness of such information by testing controls over the preparation and maintenance of the information. In some situations, however, the auditor may determine that additional audit procedures are needed.</p>		

Deleted: Audit evidence provided by original documents (, electronic,) is more reliable than audit evidence provided by copies (whether photocopies, facsimiles, or documents that have been filmed, digitized, or otherwise transformed into electronic form, the reliability of which may depend on the controls over their preparation and maintenance).

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AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<p>A58. In order for the auditor to obtain reliable audit evidence, information produced by <u>any source, whether internal or external and</u>, including any management’s specialist, that is used for performing audit procedures needs to be sufficiently complete and accurate. For example, the effectiveness of an audit procedure, such as applying standard prices to records of sales volume to develop an expectation of sales revenue, is affected by the accuracy of the price information and the completeness and accuracy of the sales volume data. Similarly, if the auditor intends to test a population (for example, payments) for a certain characteristic (for example, authorization), the results of the test will be less reliable if the population from which items are selected for testing is not complete.</p>		
	<p>A59. In some cases, the auditor may intend to use information produced by the entity for other audit purposes. For example, the auditor may intend to use the entity’s performance measures for</p>		

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AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<p>the purpose of analytical procedures or use the entity’s information produced for monitoring activities such as reports of the internal audit function. In such cases, the appropriateness of the audit evidence obtained is affected by whether the information is sufficiently precise or detailed for the auditor’s purposes. For example, performance measures used by management may not be precise enough to detect material misstatements.</p>		
	<p>Authenticity</p>		
	<p>A60. Section 240. Consideration of Fraud in a Financial Statement Audit, addresses circumstances in which the auditor has reason to believe that a document or data may not be authentic or may have been modified without that modification having been disclosed to the auditor.^{fn 11}</p>		

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^{fn 11} Paragraph .A11 of section 240, *Consideration of Fraud in a Financial Statement Audit*.

AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<p>A61. <u>Information in its original form is more likely to be authentic than audit evidence that has been transformed into another medium (for example, documents that have been filmed, scanned, or otherwise in electronic form, the reliability of which may depend on the controls over their preparation and maintenance).</u></p>		
	<p><u>Risk of Bias</u></p>		
	<p>A62. <u>When considering the risk of bias of audit evidence, its source needs to be considered. There may be a greater risk that the audit evidence is biased towards confirming management assertions when the information is generated by management from internal sources. Even when audit evidence is obtained by management from external sources, a risk of bias may exist as management might select a source known to be favorably biased toward corroborating its assertions. Audit evidence with a higher risk of bias is considered less</u></p>		

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AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	reliable than audit evidence where this risk of bias is lower.		
	A63. Section 520 provides further guidance regarding the reliability of data used for purposes of designing analytical procedures as substantive procedures. ^{fn 10}		
11. 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, (Ref: par. A64–A78)	Reliability of Information Produced by a Management’s Specialist (Ref: par. 11) A64. The preparation of an entity’s financial statements may require expertise in a field other than accounting or auditing, such as actuarial calculations, valuations, or engineering data. The entity uses a management’s specialist in these fields to obtain the needed expertise to prepare the financial statements. Failure to do so when such expertise is necessary increases the risks of material misstatement and may be a		Task force to consider moving this definition and extant paragraph AU-C 500.08 and A35-A49 to AU-C 620. This content just does not fit here and many of the considerations are the similar to considerations when using an auditor’s specialist. If we <u>do not</u> move to 620, then we need to find a way to separately address this topic in 500 (separate section of something like that).

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^{fn 10} [Paragraph 5](#) of section 520, *Analytical Procedures*.

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AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	significant deficiency or material weakness. ^{fn 12}		The Task Force will continue to track the PCAOB project.
	<p>A65. When information to be used as audit evidence has been prepared using the work of a management’s specialist, the requirement in paragraph 11 applies. For example, an individual or organization may possess expertise in the application of models to estimate the fair value of securities for which no observable market exists. If the individual or organization applies that expertise in making an estimate which the entity uses in preparing its financial statements, the individual or organization is a management’s specialist and paragraph 11 applies. If, on the other hand, that individual or organization merely provides price data regarding private transactions not otherwise available to the entity which the entity uses in its own estimation</p>		

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^{fn 12} See section 265, *Communicating Internal Control Related Matters Identified in an Audit*, for further guidance.

AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<p>methods, such information, if used as audit evidence, is subject to paragraph 11, but it is not the use of a management’s specialist by the entity.</p>		
	<p>A66. The nature, timing, and extent of audit procedures with regard to the requirement in paragraph 11 may be affected by such matters as the following:</p> <ul style="list-style-type: none"> • The nature and complexity of the matter to which the management’s specialist relates • The risks of material misstatement of the matter • The availability of alternative sources of audit evidence • The nature, scope, and objectives of the work of the management’s specialist • Whether the management’s specialist is employed by the 		

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AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<p>entity or is a party engaged by it to provide relevant services</p> <ul style="list-style-type: none"> • The extent to which management can exercise control or influence over the work of the management’s specialist • Whether the management’s specialist is subject to technical performance standards or other professional or industry requirements • The nature and extent of any controls within the entity over the work of the management’s specialist • The auditor’s knowledge and experience of the field of expertise management’s specialist • The auditor’s previous experience of the work of that specialist 		

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
<p>a. evaluate the competence, capabilities, and objectivity of that specialist; (Ref: par. A67–A73)</p>	<p><i>The Competence, Capabilities, and Objectivity of a Management’s Specialist (Ref: par. 11a)</i></p> <p>A67. Competence relates to the nature and level of expertise of the management’s specialist. Capability relates to the ability of the management’s specialist to exercise that competence in the circumstances. 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 management’s specialist. The competence, capabilities, and objectivity of a management’s specialist, and any controls within the entity over that specialist’s work, are important factors with regard to the reliability of any information produced by a management’s specialist.</p>		

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AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<p>A68. Information regarding the competence, capabilities, and objectivity of a management's specialist may come from a variety of sources, such as the following:</p> <ul style="list-style-type: none"> • Personal experience with previous work of that specialist • Discussions with that specialist • Discussions with 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 <p>An auditor's specialist, if any, that assists the auditor in obtaining sufficient appropriate audit evidence</p>		

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AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	with respect to information produced by the management’s specialist		
	<p>A69. Matters relevant to evaluating the competence, capabilities, and objectivity of a management’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.</p>		
	<p>A70. Other matters that may be relevant include</p> <ul style="list-style-type: none"> • the relevance of the capabilities and competence of the management’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 		

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AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<p>specialize in property and casualty insurance but have limited expertise regarding pension calculations.</p> <ul style="list-style-type: none"> • the competence of the management’s specialist with respect to relevant accounting 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 management’s specialist as the audit progresses. 		

AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<p>A71. 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 reduce such threats and may be created either by external structures (for example, the profession, legislation, or regulation of the management’s specialist) or by the work of the management’s specialist environment (for example, quality control policies and procedures).</p>		
	<p>A72. Although safeguards cannot eliminate all threats to the objectivity of a management’s specialist, threats such as intimidation threats may be of less significance to a specialist engaged by the entity than to a specialist employed by the entity, and the effectiveness of safeguards such as quality control policies and procedures may be greater. Because the threat to objectivity created by being an employee of the entity will always be present, a specialist employed by the entity cannot ordinarily be regarded as being more likely to be objective than</p>		

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AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	other employees of the entity.		
	<p>A73. When evaluating the objectivity of a specialist engaged by the entity, it may be relevant to discuss with management and that specialist any interests and relationships that may create threats to the specialist's objectivity and any applicable safeguards, including any professional requirements that apply to the specialist, and to evaluate whether the safeguards are adequate. Interests and relationships creating threats may include the following:</p> <ul style="list-style-type: none"> • Financial interests • Business and personal relationships • Provision of other services 		
<p>b. obtain an understanding of the work of that specialist; and (Ref: par. A74–A77)</p>	<p><i>Obtaining an Understanding of the Work of the Management's Specialist</i> (Ref: par. 11b)</p> <p>A74. An understanding of the work of the management's specialist</p>		

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AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<p>includes an understanding of the relevant field of expertise. An understanding of the relevant field of expertise may be obtained in conjunction with the auditor's determination of whether the auditor has the expertise to evaluate the work of the management's specialist, or whether the auditor needs an auditor's specialist for this purpose. ^{fn 13}</p>		
	<p>A75. Aspects of the field of the management's specialist relevant to the auditor's understanding may include</p> <ul style="list-style-type: none"> • whether that specialist's field has areas of specialty within it that are relevant to the audit. • whether any professional or other standards and regulatory or legal requirements apply. • what assumptions and methods are used by the management's 		

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^{fn 13} Paragraph .07 of section 620, *Using the Work of an Auditor's Specialist*.

AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<p>specialist and whether they are generally accepted within that specialist’s field and appropriate for financial reporting purposes.</p> <p>the nature of internal and external data or information the management’s specialist uses.</p>		
	<p>A76. In the case of a management’s specialist engaged by the entity, there will ordinarily be an engagement letter or other written form of agreement between the entity and that specialist. Evaluating that agreement when obtaining an understanding of the work of the management’s specialist may assist the auditor in determining for the auditor’s purposes the appropriateness of</p> <ul style="list-style-type: none"> • the nature, scope, and objectives of that specialist’s work; 		

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AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<ul style="list-style-type: none"> • the respective roles and responsibilities of management and that specialist; and <p>the nature, timing, and extent of communication between management and that specialist, including the form of any report to be provided by that specialist.</p>		
	<p>A77. In the case of a management’s specialist employed by the entity, it is less likely that there will be a written agreement of this kind. Inquiry of the specialist and other members of management may be the most appropriate way for the auditor to obtain the necessary understanding.</p>		
<p>c. evaluate the appropriateness of that specialist’s work as audit evidence for the relevant assertion. (Ref: par. A78.)</p>	<p><i>Evaluating the Appropriateness of the Work of the Management’s Specialist</i> (Ref: par. 11c)</p> <p>A78. Considerations when evaluating the appropriateness of the work of the management’s specialist as audit evidence for the relevant assertion may include</p>		

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AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<ul style="list-style-type: none"> • the relevance and reasonableness of that specialist’s findings or conclusions, their consistency with other audit evidence, and whether they have been appropriately reflected in the financial statements; • if that specialist’s work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods; and <p>if that specialist’s work involves significant use of source data, the relevance, completeness, and accuracy of that source data.</p>		
▼			Moved up above as part of the new framework
↪			Moved up above as part of the new framework

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AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
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▼			Section moved to the reliability section
<u>Nature of Information To Be Used for as Audit Evidence</u>	<u>Nature of Information To Be Used as Audit Evidence</u> (Ref: <u>par. 12-13</u>),		
<u>12. The auditor should consider information in a manner that is not biased towards audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. (Ref: par. A79-A82)</u>	<u>A79. The auditor has no responsibility to perform audit procedures to seek contradictory information.</u>		New requirement paragraph to set the specific element within the framework dealing with the nature of audit evidence, that is corroborative or contradictory.
<u>13. The auditor should consider contradictory information when that information comes to the auditor's attention through audit procedures performed.</u>	<u>A80. The level of assurance obtained involves consideration of audit evidence that both corroborates management's assertions and audit evidence that contradicts management's assertions.</u> For example, corroborating information obtained from a source independent of the entity may increase the assurance that the auditor obtains from audit evidence that is generated internally, such as evidence existing within the		

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AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	accounting records, minutes of meetings, or a management representation.		
	<p>A81. <u>Audit evidence that contradicts management's assertions may influence the auditor's evaluation of whether sufficient appropriate audit evidence has been obtained even in situations when the source of that contradictory audit evidence is less reliable than the source of audit evidence supporting management's assertions. However, the auditor does not consider contradictory audit evidence in isolation, but rather it is part of the auditor's consideration of the audit evidence obtained with respect to that management's assertion taken as a whole.</u></p>		
	<p>A82. Obtaining audit evidence from different sources or of a different nature may indicate that an individual item of audit evidence is not reliable, such as when audit evidence obtained from one source is inconsistent with</p>		

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AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	<p>that obtained from another. This may be the case when, for example, <u>an external confirmation is inconsistent with the terms of a debt obligation.</u> Section 230, <i>Audit Documentation</i>, includes a specific documentation requirement if the auditor identified information that is inconsistent with the auditor’s final conclusion regarding a significant finding or issue.^{fn 14}</p>		
<p>14. If</p> <p><i>a.</i> audit evidence obtained from one source is inconsistent with that obtained from another or</p> <p><i>b.</i> the auditor has doubts about the reliability of information to be used as audit evidence,</p> <p>the auditor should determine what modifications or additions to audit procedures are necessary to resolve the matter and should consider the effect of</p>	<p>A83. <u>The nature of audit evidence is an important consideration in evaluating information and it is comprised of information that:</u></p> <p><i>a.</i> <u>supports and corroborates management’s assertions, or</u></p> <p><i>b.</i> <u>contradicts such assertions.</u></p> <p><u>In some cases, the absence of information (for example, the auditor’s inability to obtain audit evidence about financial support by third parties or the entity’s owner-manager’s intent to</u></p>		<p>Formerly paragraph 10 in extant AU-C 500. Retain this requirement in some form and work in professional skepticism in this requirement</p>

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^{fn 14} Paragraph .12 of section 230, *Audit Documentation*.

AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
the matter, if any, on other aspects of the audit. (Ref: par. A83–A84)	provide the necessary financial support in cases when such intent is necessary to support management’s assertion about the entity’s ability to continue as a going concern for a reasonable period of time) is used by the auditor and, therefore, also constitutes audit evidence. ^{fn 2}		
	A84. Although corroboration of evidence obtained through inquiry is often of particular importance, in the case of inquiries about management intent, the information available to support management’s intent may be limited. The exercise of professional skepticism is particularly important when corroborative audit evidence is limited to inquiry. In these cases, understanding management’s past history of carrying out its stated intentions, management’s stated reasons for choosing a particular course of action, and management’s		Moved from Audit Procedures section.

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^{fn 2} Paragraph .A32 of section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*.

AU-C 500 Table Proposed Standard – Marked from Extant
ASB Meeting, October 15-17, 2018

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Conforming Amendments</i>	<i>Comments</i>
	ability to pursue a specific course of action may provide relevant information to corroborate the evidence obtained through inquiry		
Evaluating Sufficient Appropriate Audit Evidence	Evaluating Sufficient Appropriate Audit Evidence (Ref: par. 15)		
15. The auditor should evaluate whether appropriate audit evidence has been obtained that is sufficient to persuade an experienced auditor to draw reasonable conclusions based on the audit evidence obtained. (Ref: par. A85)	A85. The auditor’s evaluation is not a formulaic exercise, but rather is a multi-dimensional assessment dependent on the degree to which an attribute(s) of audit evidence influences the auditor’s evaluation. See the illustration in paragraph 2 that depicts the relationship of the various factors that affect the evaluation of audit evidence.		

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