



Agenda Item 3B

Audit Evidence

Edits to extant requirement are show as follows:

- *Additions*
- ~~Deletions~~
- Grey shading denotes ISA 540 Conforming amendment

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>	<i>Comments</i>
Introduction		
Scope of This Section	Scope of This Section (Ref: par. 1)	
1. This section explains what constitutes audit evidence in an audit of financial statements and addresses the auditor's responsibility and provides a framework to design and perform audit procedures to obtain sufficient appropriate audit evidence evaluate audit evidence obtained. Other sections address the auditor's responsibilities to identify and assess the		

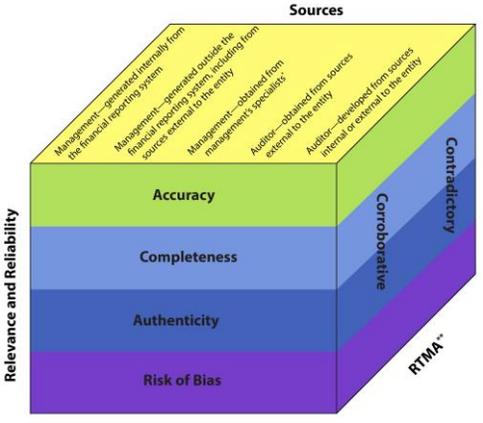
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<p>risks of material misstatement,¹ design and implement responses to the risks of material misstatement identified and assessed,² and form an opinion on the financial statements.³</p>		
<p>2. The evaluation of whether information constitutes sufficient appropriate audit evidence is a matter for the auditor’s professional judgment and involves applying professional skepticism, the degree to which the auditor may draw inappropriate conclusions, considering the assessment of the risks of material misstatements, and the audit procedures performed. Such evaluation is affected by the sources, relevance and reliability and the relationship to management’s assertion of the information to be used as audit evidence. The framework to evaluate audit evidence is depicted as follows:</p>	<p>A1. The auditor’s evaluation is not a formulaic exercise, but rather is a multi-dimensional assessment dependent on the degree to which attributes of audit evidence influences the auditor’s evaluation.</p>	

¹ AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*

² AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*

³ AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*

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 <p><u>*See AU-C section 501, Audit Evidence—Specific Considerations for Selected Items</u></p> <p><u>** Denotes “relationship to management assertion.”</u></p> <p><u>(Ref: par A1)</u></p>		
<p>02 This section is applicable to all the audit evidence obtained during the course of the audit. Other AU-C sections address</p> <ul style="list-style-type: none"> specific aspects of the audit (for example, section 315, <i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</i>); 		<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>

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<ul style="list-style-type: none"> • the audit evidence to be obtained regarding a particular topic (for example, section 570, The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern); • specific procedures to obtain audit evidence (for example, section 520, Analytical Procedures); and • the evaluation of whether sufficient appropriate audit evidence has been obtained (for example, section 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards, and section 330, Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained) 		
<p>[Revised, August 2012, to reflect conforming changes necessary due to the issuance of SAS No. 126.]</p>		
<p>Effective Date</p>		
<p>2.3.03 This section is effective for audits of financial statements for periods ending on or after December 15, 2012 2020.</p>		

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Objective		
3.4.04 The objective of the auditor auditor is to design and perform audit procedures that enable the auditor to obtain evaluate whether sufficient appropriate audit evidence information obtained is sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion for the auditor's purposes.		ASB directed the Task Force to sharpen the objective to focus on obtaining and evaluating audit evidence.
Definitions	<u>Definitions (Ref: par. 5)</u>	
4.5 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:		
Accounting records. 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		The task force agreed to include a new definition of internal information. The ASB found having both definitions of “accounting records” and “internal information” confusing and circular. The Task Force moved the examples of accounting records to application material

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		related to the definition of Internal Information.
<p>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).</p>		<p>The Task Force decided to delete the definition of “appropriateness” and the definition of “sufficiency.” There seems to be misconceptions about the term “sufficiency.” In addition, the concepts of “sufficiency” and “appropriateness” are fully described later in the standard. The Task Force added a definition of the term “Sufficient Appropriate Audit Evidence.”</p>
<p>Audit evidence. Information <u>that has been</u> used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information (Ref: par A2-A3).</p>	<p>A1.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><u>A3.</u> <u>In some cases, the absence of information is used by the auditor and, therefore, also constitutes audit</u></p>	

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	<p>evidence.⁴For example, when considering whether contradictory information may exist regarding the entity's recorded provision for returned goods, the auditor could consider the absence of negative content on social media regarding the product in question as evidence supporting management's recorded amount.</p>	
<p>External Information. All of the information obtained external to the entity, including information from external sources. (Ref: par. A4)</p>	<p>A4.External information includes information generated by the auditor from external sources.</p>	<p>The Task Force proposes to include this definition because is a broader concept than the definition of external information source.</p>
<p>External Information Source. An external individual or organization that provides information that has been used by the entity in preparing the financial statements, or that has been used has been obtained been obtained 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 capacity of management's expertspecialist, service organization⁵, or auditor's expertspecialist⁶ the individual or organization is not considered an external information source with respect to that particular information. (Ref: par A5–A7)</p>	<p>A2,A5.External information sources may include pricing services, governmental organizations, central banks, orrecognized stock exchanges, media, or academic journals. Examples of information that may be obtained from external information sources include:</p> <ul style="list-style-type: none"> • Prices and pricing related data; • Macro-economic data, such as historical and forecast unemployment rates and economic growth rates, or census data; 	<p>Definition and related application material is from ISA 540 (revised) as a conforming amendment to ISA 540. (Paragraph A1B)</p> <p>The ASB agreed to incorporate these conforming amendments in the proposed standard.</p>

⁴ Paragraph .A32 of section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*.

⁵ AU-C section 402, *Audit Considerations Relating to an Entity Using a Service Organization*.

⁶ AU-C section 620, *Using the Work of an Auditor's Specialist*.

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	<ul style="list-style-type: none"> • Credit history data; • 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 • Mortality tables used to determine liabilities in the life insurance and pension sectors. • Documents or records in websites, databases, or distributed ledgers. 	
	<p>A3-A6. An external individual or organization cannot, in respect of any particular set of information, be both:</p> <ul style="list-style-type: none"> • an external information source and a management’s expert, or • service organization or auditor’s expertspecialist. 	<p>Taken from conforming amendments to ISA 540 paragraph A1C). Paragraph edited into bullet form.</p>
	<p>A4-A7. However, an external individual or organization may, for example, be acting as a management’s expert specialist 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</p>	<p>Taken from conforming amendments to ISA 540 paragraph A1Ca). Paragraph edited into bullet form.</p>

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	<p>management’s expert with respect to a particular set of information. In other circumstances, the distinction may be clear. For example:</p> <ul style="list-style-type: none"> • An external individual or 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-specialist in providing commissioned valuations, with respect to the entity’s real estate portfolio specifically tailored for the entity’s facts and circumstances. • 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-specialist with respect to different information tailored to the specific circumstances of the entity to help management determine the pension liability for several of the entity’s pension plans. • An external individual or organization may 	

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	<p>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 <u>specialist</u> 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 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 FASB Accounting Standards Codification 275, Risk and Uncertainties) IFRS 7, such information would ordinarily be considered to be information from an external information source. However, 	

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	<p>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 expertspecialist.</p> <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 expertspecialist. 	
<p><u>Internal information.</u> All of the information developed or maintained by the entity, including accounting records. (Ref. par A8_A11)</p>	<p><u>A8. Audit evidence may be obtained from information that is contained in the accounting records underlying the financial statements and information obtained from other internal sources.</u></p>	<p>The Task Force believes that a definition of Internal Information is necessary to complement the definition of External Information.</p>

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	<p><u>A9.Examples of accounting records include the following:</u></p> <ul style="list-style-type: none"> • <u>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</u> • <u>supporting records, such as spreadsheets, cost allocations, computations, reconciliations, and disclosures.</u> 	<p>Taken from the extant definition of accounting records and moved here as application material to the definition of Internal Information.</p>
	<p><u>A10.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.</u></p>	
	<p><u>A5-A11.Internal information (within or outside the general ledger and subsidiary ledgers);</u></p> <p><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></p> <p><u>.b may be stored by the entity locally within its information systems or may be stored in a network of hosted remote servers (the “Cloud”).</u></p>	

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<p>Sufficient Appropriate Audit Evidence. <u>Appropriate audit evidence that is sufficient to persuade an experienced auditor to draw conclusions based on consideration of the audit evidence.</u></p>		<p>New definition added by the Task Force in response to the ASB comment about the deletion of sufficiency and appropriateness.</p>
<p>Management’s specialist. An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements.</p>		<p>The ASB decided to move the definition of “management specialist” and extant paragraph AU-C 500.08 and A35-A49 to AU-C 620 or to a separate standard. This content just does not fit here and many of the considerations are the similar to considerations when using an auditor’s specialist. The ASB agreed.</p>
<p>Sufficiency (of audit evidence). The measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor’s assessment of the risks of material misstatement and also by the quality of such audit evidence.</p>		

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Requirements		
Sufficient Appropriate Audit Evidence	Sufficient Appropriate Audit Evidence (Ref: par. 6)	
<p>6. The auditor should design and perform audit procedures that are appropriate in circumstances for the purpose of obtaining sufficient appropriate audit evidence that is sufficient to reduce audit risk to an acceptably low level. In doing so, the auditor should evaluate the audit evidence by considering its relevance and reliability, sources, and the relationship to management assertions of the audit evidence as set out in paragraphs 7-9 of this standard. (Ref: par. A12-A16)</p>	<p>A6-A12.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. ⁷</p>	
	<p>A13.The auditor is required to consider the relevance, reliability and reliability, sources, and the relationship to management assertions of information, unless such information is clearly not relevant for the auditor's</p>	<p>The Task Force articulation is based on the premise that evaluating each attribute of audit evidence would</p>

⁷ [Paragraph .06 of section 200.](#)

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	purposes.	create inordinate work effort documentation requirement and would create the impression that each attribute would be required to be evaluated in isolation.
	A14. Appropriate audit evidence is sufficient when an experienced auditor 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.	Question for the ASB: Instead of using “experienced auditor,” should the standard refer to “knowledgeable person.”
	A15. Audit evidence obtained is affected by whether the information is sufficiently precise or detailed for the auditor’s purposes.	
.06-	A7, A16, A1 Audit evidence is necessary to support provide a basis for the auditor’s opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed on relevant information obtained during the course of the audit. It may, however, 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	

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	<p>relevance to the current audit^{¶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. Audit evidence comprises both information that supports and corroborates management's assertions and any information that contradicts such assertions. In addition, in some cases, the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor and, therefore, also constitutes audit evidence^{¶2}.</p>	
	<p>Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence. Audit procedures to obtain audit evidence can include inspection, observation, confirmation, recalculation, reperformance, and analytical procedures, often in some combination, in addition to inquiry. Although inquiry may provide important audit evidence and may even produce evidence of a misstatement, inquiry alone ordinarily does not</p>	

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

^{¶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*.

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	<p>provide sufficient audit evidence of the absence of a material misstatement at the assertion level, nor is inquiry alone sufficient to test the operating effectiveness of controls.</p>	
	<p>A4The sufficiency and appropriateness of audit evidence are interrelated. <i>Sufficiency</i> is the measure of the quantity of audit evidence. The quantity of audit evidence needed is affected by 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.</p>	
	<p>A5<i>Appropriateness</i> 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). The reliability of evidence is influenced by its source and nature and is dependent on the individual circumstances under which it is obtained.</p>	
	<p>A6Section 330 requires the auditor to conclude whether sufficient appropriate audit evidence has</p>	

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	<p>been obtained.^{fn+4} Whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level and, thereby, enable the auditor to draw reasonable conclusions on which to base the auditor's opinion, is a matter of professional judgment. Section 200 contains discussion of relevant factors when the auditor exercises professional judgment regarding whether sufficient appropriate audit evidence has been obtained.^{fn+5}</p>	
Information to Be Used as Audit Evidence	<u>Information to Be Used as Audit Evidence</u>	
	<u>Relevance</u>	
<p>7. In evaluating audit evidence in accordance with paragraph 666, When designing and performing audit procedures, the the auditor should consider consider the relevance and reliability of the information to be used as audit evidence. (Ref: par. A17–A35)</p>	<p>A17, A28The rR<u>relevance of the information</u> 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 <u>also</u> 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</p>	<p>The Task Force noted that this paragraph should provide an example other than the direction of testing. Edited understatement to completeness to be more accurate. A recorded liability can also be understated.</p>

^{fn+4} Paragraph 28 of section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*.

^{fn+5} Paragraphs A49–A54 of section 200.

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	<p>or valuation of accounts payable, testing the recorded accounts payable may be provide relevant audit procedure evidence. On the other hand, when testing for the understatement completeness in the existence or valuation of accounts payable, testing the recorded accounts payable would not be provide relevant audit evidence, but testing such information as subsequent disbursements, unpaid invoices, suppliers' statements, and unmatched receiving reports may be provide relevant audit evidence.</p>	
	<p>A8, A18, A29 Information. A given set of audit procedures may result in audit evidence that is relevant to certain assertions but not others. For example, information inspection of documents 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. Similarly, obtaining audit evidence regarding a particular assertion (for example, the existence of inventory) is not a substitute for obtaining audit evidence regarding another assertion (for example, the valuation of that inventory). On the other hand, audit evidence from different sources or of a different nature may often be relevant to the same assertion.</p>	<p>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.</p>
	<p>A30 Tests of controls are designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at</p>	

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	<p>the assertion level. Designing tests of controls to obtain relevant audit evidence includes identifying conditions (characteristics or attributes) that indicate performance of a control and identifying deviation conditions that indicate departures from adequate performance. The presence or absence of those conditions can then be tested by the auditor.</p>	
	<p>A31—Substantive procedures are designed to detect material misstatements at the assertion level. They comprise tests of details and substantive analytical procedures. Designing substantive procedures includes identifying conditions relevant to the purpose of the test that constitute a misstatement in the relevant assertion.</p>	
	<p>A19.<u>The following are factors that may affect, individually or in combination, the relevance of information to be used as audit evidence:</u></p> <ul style="list-style-type: none"> a.<u>The objective of the audit procedures performed, including the direction of testing</u> b.<u>The management assertion(s) to which the information relates</u> c.<u>The appropriateness of the period of time to which the information relates</u> 	<p>This requirement was taken from extant section 500, but it is being set up as part of the framework to evaluate the audit evidence.</p> <p>The Task Force decided to separate the requirement of relevance and reliability. This is because in order for the information to be evaluated whether is</p>

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		sufficient and appropriate it would have to be relevant.
	A9.A20. Some documents information, whether in paper or electronic form, represent provides direct audit evidence of the existence of an asset (for example, a document constituting a financial instrument such as a stock, or bond, or a public key of a cryptocurrency in a blockchain); however, inspection of such documents may not necessarily provide audit evidence about ownership or value.	Moved from Audit Procedures
	A10.A21. Inspection of tangible assets may provide reliable relevant audit evidence with respect to their existence but not 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 obtain information relevant to their existence.	
	A11.A22. External confirmation procedures frequently may are provide relevant information 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	

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	<p>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 absence of certain conditions (for example, the absence of a side agreement that may influence revenue recognition).</p>	
	<p>A23.The consideration of the reliability of audit evidence is affected by the auditor’s professional judgment and application of professional skepticism, considering the degree to which the auditor may draw inappropriate conclusions, the assessment of the risks of material misstatements, and the audit procedures performed.</p>	
	<p>A24.Section 520 provides further guidance regarding the reliability of data used for purposes of designing analytical procedures as substantive procedures.⁸</p>	
	<p>Reliability</p>	
	<p>A25.The reliability of the audit evidence is affected to varying degrees, individually or in combination, by the following attributes:</p> <ul style="list-style-type: none"> • Accuracy • Completeness 	

⁸ Paragraph 5 of section 520, *Analytical Procedures*.

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	<ul style="list-style-type: none"> • Authenticity, and • Risk of biasSufficiency is the measure of the quantity persuasiveness of audit evidence. 	
	<p>A26.The reliability of information to be used as audit evidence and, therefore, of the audit evidence itself is influenced by its source and nature. The nature of the audit evidence refers to whether the audit evidence is in written or electronic form, oral, contemporaneous, etc., and the circumstances under which it is obtained, including the controls over its preparation and maintenance, when relevant. Therefore, generalizations about the reliability of various kinds of audit evidence are subject to important exceptions. Even when information to be used as audit evidence is obtained from sources external to the entity, eircumstances may exist that could affect its reliability. Information obtained from an independent external source may not be reliable, for example, if the source is not knowledgeable or a management specialist lacks objectivity. While recognizing that exceptions may exist, the following generalizations about the reliability of audit evidence may be useful:</p>	
	<p style="text-align: center;">i. The reliability of audit evidence is increased when it is obtained from independent sources outside the entity.</p>	
	<p>A27.The reliability of audit evidence, whether internal or external, that is generated internally is increased</p>	<p>The ASB decided to retain this paragraph as it</p>

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	when the related controls, including those over its preparation and maintenance, imposed by the entity are effective.	provides useful guidance. The Task Force will consider adding examples to illustrate this guidance.
	<ul style="list-style-type: none"> • Audit evidence obtained directly by the auditor (for example, observation of the application of a control) is more reliable than audit evidence obtained indirectly or by inference (for example, inquiry about the application of a control). 	
	<ul style="list-style-type: none"> • 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). 	The Task Force deleted the examples because is not really necessary. The statement goes without saying.
	<ul style="list-style-type: none"> • The reliability of <u>information</u> is influenced by its source and nature and is dependent on the individual circumstances under which it is obtained <u>information</u> 	
	<ul style="list-style-type: none"> • Audit evidence provided by original documents is more reliable than audit evidence provided by photocopies, facsimiles, or documents that have been filmed, digitized, or otherwise transformed into electronic form, the 	

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	reliability of which may depend on the controls over their preparation and maintenance.	
	<u>Accuracy and Completeness</u>	
	A28, A51 Obtaining audit evidence about the accuracy and or 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 some situations, the auditor may have obtained audit evidence of about the accuracy and completeness of such information by testing controls over the preparation and maintenance of the information. In some other situations, however, the auditor may determine that additional audit procedures <u>to address accuracy or completeness of the information</u> are needed.	
	<i><u>Information Produced by the Entity and Used for the Auditor's Purposes (Ref: par. .09a-b)</u></i> A29, A50 In order for the auditor to obtain reliable audit evidence, information produced by from the entity <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	

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	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.	
	A30.I.A52 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 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 (that is, accurate) for the auditor’s purposes. For example, performance measures used by management may not be precise enough to detect material misstatements.	
	Authenticity	
	A31 .Section 240. <i>Consideration of Fraud in a Financial Statement Audit</i> , 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	

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	disclosed to the auditor. ⁹	
	A32. 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 scanned, or otherwise transformed to electronic form, the reliability of which may depend on the controls over their preparation and maintenance).	
	Risk of Bias	
	A33. 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 suitable for use by a broad range of users, taking into account the ability of the entity to influence the external information source.	This paragraph was taken from ISA 540 conforming amendment (paragraph A1Aa).
	A34. A greater risk of bias may exist in the following circumstances: a. Management is biased in generating information from internal sources. b. management is biased in selecting information from an external source	

⁹ Paragraph .A11 of section 240, *Consideration of Fraud in a Financial Statement Audit*.

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	<p><u>known to be favorably biased toward corroborating management’s assertions or information.</u></p> <p><u>c. management unknowingly uses information from an external information source that is biased in generating information, or</u></p> <p><u>d. the auditor’s consideration is inhibited by tendencies in judgment that lead to bias and weaken professional skepticism, such as the following:</u></p> <p><u>i. Availability bias, which involves considering information that is easily retrievable from memory as being more likely, more relevant, and more important for a judgment.</u></p> <p><u>ii. Confirmation bias, which involves seeking, and treating as more persuasive, information that is consistent with initial beliefs or preferences.</u></p> <p><u>iii. Overconfidence bias, which involves overestimating one’s own abilities to perform tasks or to make accurate assessments of risk or other judgments and decisions.</u></p> <p><u>iv. Anchoring bias, which involves</u></p>	

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	making assessments by starting from an initial numerical value and then adjusting insufficiently away from that initial value in forming a final judgment.	
	A35. Information with a higher risk of bias is considered less reliable than audit evidence where the risk of bias is lower.	
	A33 Section 520 provides further guidance regarding the reliability of data used for purposes of designing analytical procedures as substantive procedures.^{fn 10}	Moved to analytical review in audit procedures section.
	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 705 (Revised).	
<u>Sources</u>	<u>Sources (Ref: par. 888)</u>	
8. In evaluating audit evidence in accordance with paragraph 6, the auditor should consider the sources of	A36. The nature and extent of the auditor's consideration takes into account the assessed risks of	New requirement paragraph to set the

^{fn 10} ~~Paragraph .05 Paragraph 5 of section 520, Analytical Procedures.~~

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<p>information to be used as audit evidence. (Ref: par.A36-A44A44A45)</p>	<p>material misstatement at the assertion level to which the use of the 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).</p>	<p>specific attribute within the framework dealing with the sources of audit evidence.</p> <p>Paragraph A39 was taken from conforming amendments to ISA 540 (paragraph A33e, in part).</p> <p>The term “external” deleted to make broader than just external information</p>
	<p>A37.Information to be used as audit evidence may be derived individually or in combination from the following sources:</p> <ul style="list-style-type: none"> .a Management—generated internally from the financial reporting system, .b Management—generated outside the financial reporting system, including from sources external to the entity, .c Management—obtained from management’s specialists.¹⁰ .d Auditor—obtained from sources external to 	

¹⁰ See AU-C section 501.

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	<p style="text-align: center;"><u>the entity, or</u> <u>.e. Auditor—developed from sources internal or external to the entity</u></p>	
	<p><u>A38. As explained in paragraph A37, information to be used as audit evidence by the auditor may be derived individually or in combination from the sources of information described therein. For example, in making an accounting estimate for an accumulated pension obligation, management may use information or data generated internally by the financial reporting systems; information or data generated externally of the financial reporting system (including information or data and assumptions from external sources); and information or data obtained from a management’s specialist. Similarly, an auditor may obtain information or data to be used as audit evidence originating from multiple sources, for example, in performing a regression analysis to test revenue recorded, the auditor may obtain information or data that takes into account operating data, changes in operations, and changes in economic conditions.</u></p>	
	<p><u>A39. Audit evidence may 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 audit¹¹ or a firm’s quality control procedures for client acceptance</u></p>	

¹¹ Paragraph .10 of section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*.

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	<u>and continuance.</u>	
	<u>A40. The auditor’s consideration of the information to be used as 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 consider information obtained from multiple sources.</u>	
	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 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.	The task force decided that this application material belongs as part of the conclusion in AUC section 330 because it refers to audit procedures.
	<u>A41. 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:</u>	This paragraph was taken from ISA 540 conforming amendment (paragraph A33b). The Task Force noted that some of this content is applicable more

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	<p><u>a</u> audit evidence about the external information source or the preparation of the information by the external information source, <u>or</u></p> <p><u>b</u> obtained through designing and performing further audit procedures in accordance with <u>ISA-AU-C section 330</u> or, where applicable, <u>ISA-AU-C section 540 (Revised)</u>.</p>	broadly than just external informational sources.
	<p><u>A12:A42</u>.Obtaining an understanding of why management or, when applicable, a management's <u>expert-specialist</u> 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.</p>	This paragraph was taken from ISA 540 conforming amendment (paragraph A33c).
	<p><u>A13:A43</u>.The following factors may be important when considering the relevance and reliability of information obtained from an external information source, including its <u>accuracy and completeness</u><u>and whether it is sufficiently accurate and complete</u>, 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:</p> <ul style="list-style-type: none"> • The nature and authority of the external information source. For example, a central bank or government statistics office with a legislative mandate to provide industry 	This paragraph was taken from ISA 540 conforming amendment (paragraph A33d).

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	<p>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 auditor with the reliability of the information provided by the external information source; • 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; • Whether the entity has in place controls to address the relevance and reliability of the information obtained and used; • Whether the external information source accumulates overall market information or engages directly in “setting” market 	

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	<p>transactions;</p> <ul style="list-style-type: none"> • Whether the information is suitable for use in the manner in which it is being used and, if applicable, was developed taking into account the applicable financial reporting framework; • Alternative information that may contradict the information used; • The nature and extent of disclaimers or other restrictive language relating to the information obtained;¹² • 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 obtained. 	
	<ul style="list-style-type: none"> • 	<p>The Task Force decided to delete this paragraph because it is consistent</p>

¹² See paragraphs .A56–.A62 of AU-C section, *Audit Evidence—Specific Considerations for Selected Items*.

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		with the objective of this proposed standard, that is to evaluate sufficient appropriate audit evidence. The objective is not to design alternative procedures when the information does not rise to the level of sufficient appropriate audit evidence.
	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	This paragraph was taken from ISA 540 conforming amendment, (paragraph A33f). Task force decided that this is already covered in paragraph A42.

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	<p>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.</p>	
		<p>This paragraph was taken from ISA 540 conforming amendment, (paragraph A33f).</p> <p>The Task Force decided to delete this paragraph because this proposed standard is not about making conclusions about the audit evidence.</p>
	<p>A14.A44.Some sources of electronic information (for example, a record maintained in the blockchain) may provide a central location from which the auditor may obtain audit evidence.</p>	
<p>12.08 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. A35-A37)</p>	<p>Reliability of Information Produced by a Management's Specialist (Ref: par. .08)</p> <p>A15..A35The preparation of an entity's financial statements may require expertise in a field other than accounting or auditing, such as actuarial calculations,</p>	<p>The ASB decided to move extant paragraph AU-C 500.08 and A35-A49 to AU-C 620 or to a separate standard. This content just does not fit</p>

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	<p>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 significant deficiency or material weakness.^{fn-12}</p>	<p>here and many of the considerations are the similar to considerations when using an auditor's specialist. The ASB agreed.</p>
	<p>.A36When information to be used as audit evidence has been prepared using the work of a management's specialist, the requirement in paragraph .08 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 .08 applies. If, on the other hand, that individual or organization merely provides price data regarding private transactions not otherwise available to the entity which the entity uses in its own estimation methods, such information, if used as audit evidence, is subject to</p>	

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

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	<p>paragraph .07, but it is not the use of a management's specialist by the entity.</p>	
	<p>.A37The nature, timing, and extent of audit procedures with regard to the requirement in paragraph .08 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 entity or is a party engaged by it to provide relevant services 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 	

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	<p>The nature and extent of any controls within the entity over the work of the management's specialist</p> <p>The auditor's knowledge and experience of the field of expertise management's specialist</p> <p>The auditor's previous experience of the work of that specialist</p>	
<p>a. — evaluate the competence, capabilities, and objectivity of that specialist; (Ref: par. .A38 .A44)</p>	<p><i>The Competence, Capabilities, and Objectivity of a Management's Specialist (Ref: par. .08a)</i></p> <p>.A38Competence 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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	<p>A16.A39Information 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 with respect to information produced by the management's specialist</p>	
	<p>A40Matters 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</p>	

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	<p>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>.A41Other matters that may be relevant include</p> <p>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 specialize in property and casualty insurance but have limited expertise regarding pension calculations.</p> <p>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.</p> <p>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</p>	

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	the management's specialist as the audit progresses.	
	A42A 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).	
	A43Although 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 other employees of the entity.	
	A44When 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	

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	<p>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. .A45 .A48</p>	<p><i>Obtaining an Understanding of the Work of the Management's Specialist (Ref: par. .08b)</i></p> <p>.A45 An understanding of the work of the management's specialist 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>	

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

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	<p>A17..A46Aspects 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 specialist and whether they are generally accepted within that specialist’s field and appropriate for financial reporting purposes. <p>the nature of internal and external data or information the management’s specialist uses.</p>	
	<p>A18..A47In 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>	

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	<ul style="list-style-type: none"> • the nature, scope, and objectives of that specialist's work; • 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>A48In 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>e. evaluate the appropriateness of that specialist's work as audit evidence for the relevant assertion. (Ref: par. .A49)</p>	<p>Evaluating the Appropriateness of the Work of the Management's Specialist (Ref: par. .08c)</p> <p>A19..A49Considerations when evaluating the appropriateness of the work of the management's specialist as audit evidence for the relevant assertion may include</p> <ul style="list-style-type: none"> • the relevance and reasonableness of that specialist's findings or conclusions, their consistency with other audit evidence, and 	

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	<p style="color: blue;">whether they have been appropriately reflected in the financial statements;</p> <ul style="list-style-type: none"> • if that specialist’s work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods; and <p style="color: blue;">if that specialist’s work involves significant use of source data, the relevance, completeness, and accuracy of that source data.</p>	
<p>.09 The auditor should evaluate whether, the information is sufficiently reliable for the auditor’s purposes, including, as necessary, in the following circumstances:</p>		<p>Moved up above as part of the new framework</p>
<p>a. Obtaining audit evidence about the accuracy and completeness of the information (Ref: par. .A50–.A51)</p>		<p>Moved up above as part of the new framework</p>
<p>b. Evaluating whether the information is sufficiently precise and detailed for the auditor’s purposes (Ref: par. .A52)</p>		

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Inconsistency in, or Doubts Over Reliability of, Audit Evidence		Section moved to the reliability section
<u><i>Relationship to Management's Assertion of the Information To Be Used for as Audit Evidence</i></u>	<u><i>Relationship to Management's Assertion of Information Produced by the Entity and Used for the Auditor's Purposes To Be Used as Audit Evidence (Ref: 9)</i></u>	
9. In evaluating audit evidence in accordance with paragraph 6, the auditor should consider the relationship of information to management's assertions regardless of whether it appears to corroborate or contradict the assertions in the financial statements. (Ref: par. A45A45A46 A47)	<u>A45.AU-C section 330 requires that the auditor that in forming a conclusion about whether sufficient appropriate audit evidence has been obtained, the auditor should consider all relevant audit evidence, regardless of whether it appears to corroborate or contradict the assertions in the financial statements.¹³</u>	New requirement paragraph to set the specific attribute within the framework dealing with the nature of audit evidence, that is corroborative or contradictory.
	A20.A46.A8More The level of assurance obtained involves consideration of audit evidence that both corroborates management's assertions and audit evidence that contradicts management's assertions, from consistent audit evidence obtained from different sources or of a different nature than from items of audit evidence considered individually. 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	

¹³ paragraph 28 of AU-C section 330.

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	the accounting records, minutes of meetings, or a management representation.	
	A21-A47. <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>	
<u>Inconsistency of Audit Evidence</u>	<u>Inconsistency of Audit Evidence (Ref: par. 10)</u>	
<p>5.10. <u>If</u></p> <p>.a <u>a-</u> audit evidence obtained from one source is inconsistent with that obtained from another or</p> <p>.b <u>b-</u> 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 <u>obtain sufficient appropriate audit evidence</u> and should consider the effect of the matter, if any, on other aspects of the audit. (Ref: par. A48-A49)</p>	<p>Inconsistency in, or Doubts Over Reliability of, Audit Evidence (Ref: par. 10)</p> <p>A22-A48, A53 <u>Obtaining a</u> <u>Audit evidence obtained</u> from different sources or <u>that is</u> 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 that obtained from another. This may be the case when, for example, responses to inquiries of management, internal audit, and others <u>an external confirmation are is</u> inconsistent or when responses to inquiries of those charged with governance made to corroborate the responses to inquiries of management are inconsistent with the</p>	

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	<p>response by management with the terms of a debt obligation. Section 230, <i>Audit Documentation</i>, includes a specific documentation requirement if the auditor identifies information that is inconsistent with the auditor’s final conclusion regarding a significant finding or issue.¹⁴</p>	
	<p>A23, A49. 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. <u>The exercise of professional skepticism is particularly important when corroborative audit evidence is limited to inquiry.</u> 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 ability to pursue a specific course of action may provide relevant information to corroborate the evidence obtained through inquiry <u>if it is not inconsistent.</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>
<p><u>Audit Procedures for Obtaining Audit Evidence</u></p>	<p>Audit Procedures for Obtaining Audit Evidence (Ref: par. 11)</p>	
<p>6.11. <u>When evaluating whether sufficient appropriate audit evidence has been obtained, the auditor should consider the nature, timing, and extent</u></p>	<p>A24, A50, A10As required by and explained further in section 315 and section 330, audit evidence to draw</p>	<p>The assignment of procedures into discrete classifications no longer</p>

¹⁴ Paragraph .12 of section 230, *Audit Documentation*

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<p>of the audit procedures performed in obtaining the audit evidence. (Ref: par. A50-A76)</p>	<p>reasonable conclusions on which to base the auditor’s opinion is obtained by performing the following:^{15 16}</p> <ul style="list-style-type: none"> a. Risk assessment procedures b. Further audit procedures, which comprise <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>seems to be a good working model.</p> <p>Also, the classifications suggest a sequential order which may no longer be valid, e.g. risk assessment procedures then further audit procedures.</p> <p>With more modern techniques such as ADA, the lines are 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</p>

¹⁵ Paragraphs .05–.06 of section 315.

¹⁶ Paragraphs .06–.07 of section 330.

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		<p>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> <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>A25, A51. 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 or observation</u></p>	

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	<u>provides more persuasive audit evidence than inquiry about existence.</u>	
	<u>A26.A52. In some instances, 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>	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.
	<u>A27.A53. 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>	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).
	<u>A28.A54. The auditor may use automated tools and techniques such as, audit data analytics, to process, organize, structure, or present data in a given context to generate useful information that may become audit evidence.</u>	

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	<p>A.11The audit procedures described in paragraphs A.50A.55 that follow may be used as risk assessment procedures, tests of controls, or substantive procedures, depending on the context in which they are applied by the auditor. As explained in section 330, audit evidence obtained from previous audits may, in certain circumstances, provide appropriate audit evidence, provided that the auditor has determined whether changes have occurred since the previous audit that may affect its relevance to the current audit. <small>fn-8</small></p>	<p>Already addressed in before.</p>
	<p>A.29A.55. 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>	
	<p>A.12The 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</p>	<p>Already addressed in before.</p>

fn-8 Paragraph .A38 of section 330.

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	<p>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.</p>	
	<p>A56, A13 Certain electronic information may not be retrievable 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 an entity's 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>A30, A57. Some electronic information (for example, records maintained on the blockchain) is available on a continuous basis during the audit. In such cases, auditors may develop procedures utilizing automated tools and techniques such as, audit data analytics, or artificial intelligence to obtain audit evidence about transactions, including more routine transactions, on a more real-time basis.</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. 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</p>

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		of using Data Analytics, for example, is the auditor required to document every iteration of Data Analytics?
	<p>A31, A58. Audit procedures to obtain audit evidence can include inspection, observation, confirmation, recalculation, reperformance, and analytical procedures, often in some combination, in addition to inquiry. <u>Audit data analytics may be used as a technique by which these procedures are performed.</u> Although inquiry may provide important audit evidence and may even produce <u>appropriate</u> evidence of a misstatement, inquiry <u>of management</u> alone ordinarily does not provide sufficient <u>appropriate</u> audit evidence <u>of the absence of a material misstatement at the assertion level, nor would inquiry alone provide sufficient appropriate audit evidence with regard to the operating effectiveness of controls</u></p>	Taken from extant paragraph A2.
	<p>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. <i>Inspection</i></p> <p>A32, A59, A14 <u>Inspection of records and documents provides audit evidence of varying degrees of reliability, depending on their nature and source and, in the case of internal records and documents, the effectiveness of the controls over their production. An</u></p>	

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	example of inspection used as a test of controls is inspection of records for evidence of authorization <u>which can be performed manually or through automated techniques.</u>	
	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.	
	A33, A60. 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. In addition, inspecting an executed contract may provide audit evidence relevant to the entity's application of accounting policies, such as revenue recognition	Added a specific example of using ADAs as an inspection procedure.
	A16 Inspection of tangible assets may provide reliable audit evidence with respect to their existence but not 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	Moved to relevance and reliability section.

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	inventory items (such as opening containers included in the inventory count to determine whether they are full or empty) to verify their existence.	
	<p><i>Observation</i></p> <p>A34, A61, A17 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 the performance of control activities).</p>	Incorporated examples of automation.
	A35, A62. Automated tools or techniques such as a camera accessed remotely (for example, a camera mounted on a drone) 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.	
	<p>A36, A63. 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. Section 501, <i>Audit Evidence—Specific Considerations for Selected Items</i>, addresses the observation of the counting of inventory.¹⁷</p>	

¹⁷ Paragraphs 11–15 of section 501, *Audit Evidence—Specific Considerations for Selected Items*.

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	<p><i>External Confirmation</i></p> <p>A37, A64, A18 An external confirmation represents audit evidence obtained by the auditor as a direct written response known <u>knowingly provided to the auditor</u> the auditor from <u>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>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>
	<p><i>Recalculation</i></p> <p>A65, A19 Recalculation consists of checking <u>testing</u> the mathematical accuracy of information documents or records. Recalculation may be performed manually or electronically <u>through automated techniques</u>.</p> <p>A38, A66 <u>Through the use of automated techniques auditors may be able to perform recalculation</u></p>	

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	<p><u>procedures on 100 percent of a population, for example, recalculating the gross margin for each product sold for an entity's product line.</u></p>	
	<p><i>Reperformance</i></p> <p>A39, A67, A20 Reperformance involves the independent execution of procedures or controls that were originally performed as part of the entity's internal control. <u>re a control activity such as the use of sequential numbering of s determinewhether any gaps in numbering or — occurreddetermine whether the control activity was effective in assuring</u></p>	<p>Added a specific example of using ADAs as an reperformance procedure.</p>
	<p><i>Analytical Procedures</i></p> <p>A40, A68, A21 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 amountthat exhibit characteristics of risk of material misstatement. See <u>section 520</u> for further guidance. Section 520 addresses the auditor's use of analytical procedures as a means for obtaining audit evidence. <u>Audit data analytics are a technique by which the</u></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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	<p><u>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><u>A41A69. Automated tools and techniques such as audit data analytics may be used to perform a risk assessment procedure, a substantive procedure, or in some circumstances, both concurrently.</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>A70. As a risk assessment procedure, an audit data analytics technique may be used to visualize transactional detail. For example, a visualization may be prepared to depict the composition of a population to understand the volume and dollar value of items in the population. While this may be a useful technique in obtaining audit evidence about the identification and assessment of the risks of material, it may not be</u></p>	

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	<u>sufficiently precise in obtaining audit evidence to respond to the assessed risks of material misstatement.</u>	
	<u>A71.As explained in paragraph A69, an auditor may perform an audit data analytic technique as both a risk assessment procedure and a substantive procedure 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 that have a higher risk of material misstatement. In this circumstance, the identification of relevant characteristics of an entire population of transactions and almost simultaneous identification of items that exhibit a higher risk of material misstatement on which to perform further audit procedures may constitute a risk assessment procedure.</u>	
	<u>A42-A72.In the example set out in paragraph A71, the auditor may also determine that the audit data analytics technique performed also meets the objective of a substantive procedure with respect to information obtained about those transactions in the population falling within the predefined expectations if the auditor deems the audit data analytic sufficiently precise to respond to the assessed risks of material misstatement.¹⁸ Thus, the data analytic may serve as both a risk assessment procedure and a further audit procedure (that is, a substantive analytic procedure).</u>	

¹⁸ See paragraph 5c of AU-C section 520, *Analytical Procedures*.

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	<p><u>A73.</u>The auditor may obtain evidence about the effectiveness of the entity’s internal control through the use of automated techniques, such as audit data analytics. For example, through the use of audit data analytics, the auditor may be able to obtain evidence about the effectiveness of a control 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 test of control was effective in assuring completeness of the invoices issued during the period covered.</p>	
	<p>A43, A74, A22 Scanning 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 indications of misstatements that have occurred. Electronic audit procedures may assist the auditor in identifying unusual items. When the auditor selects items for testingthat exhibit characteristics of risk of</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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	<p><u>material misstatement</u> by scanning and those items are tested, the auditor obtains audit evidence about those items. The auditor’s scanning also may provide <u>some</u> audit evidence about the items not selected for testing <u>exhibiting characteristics of risks of material misstatements</u> because the auditor has exercised professional judgment to determine that the items not selected are less likely to be misstated. <u>The auditor may use automated tools or techniques to perform a scanning procedure. For example, the auditor might access an entire population of transactions within a 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.</u></p>	
	<p><i>Inquiry</i></p> <p>A44:A75, A23 Inquiry consists of seeking information of knowledgeable persons, both financial and nonfinancial, within the entity or outside the entity. Inquiry is used extensively throughout the audit, in addition to other audit procedures. Inquiries may range from formal written inquiries to informal oral inquiries. Evaluating responses to inquiries is an integral part of the inquiry process.</p>	<p>The Task Force believes that is difficult to distinguish the level of formality of inquiries and thus decided to delete the sentence.</p>
	<p>A45:A76, A24 Responses to inquiries may provide the auditor with information <u>audit evidence</u> not previously possessed or with corroborative audit evidence. Alternatively, responses might provide information</p>	

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	that differs significantly from other information-audit evidence that the auditor has obtained (for example, information-audit evidence 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.	

~~A46:A77.~~

**Appendix—Amendments to Sections in Statement on Auditing Standards No. 122,
Statements on Auditing Standards: Clarification and Recodification, as Amended**

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

**AU-C Section 200, Overall Objectives of the Independent Auditor and the Conduct of
an Audit in Accordance With Generally Accepted Auditing Standards**

[No amendment to paragraphs .01–.A24.]

.A25 The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary. Nevertheless, the auditor is required to consider the reliability of information to be used as audit evidence.^{fn 9} In cases of doubt about the reliability of information or indications of possible fraud (for example, if conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document may have been falsified), GAAS require that the auditor investigate further and determine what modifications or additions to audit procedures are necessary to resolve the matter.^{fn 10}

^{fn 9} Paragraphs ~~.07–.09~~ of section 500, *Audit Evidence*.

^{fn 10} Paragraph ~~40 II~~ of section 500 and paragraphs .10–.11 and .16 of section 505, *External Confirmations*.

[No amendment to paragraphs .A26–.A32.]

.A33 The sufficiency and appropriateness of audit evidence are interrelated. ***Appropriate audit evidence is sufficient when an experienced auditor would be persuaded to draw conclusions based on consideration of the audit evidence.*** ~~The quantity of audit evidence needed is affected by 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).~~ Obtaining more audit evidence, however, may not compensate for its poor quality. Obtaining more audit evidence, however, may not compensate for its poor quality.

[No amendment to paragraphs .A34–.A75.]

.A76The auditor is required by paragraph .23b to use the objectives stated in the relevant AU-C sections to evaluate whether sufficient appropriate audit evidence has been

obtained in the context of the overall objectives of the auditor. If, as a result, the auditor concludes that ~~sufficient appropriate~~ the audit evidence *has not been obtained* ~~is not sufficient and appropriate~~, then the auditor may follow one or more of the following approaches to meeting the requirement of paragraph .23b:

- Evaluate whether further ~~relevant~~ audit evidence has been, or will be, obtained as a result of complying with other AU-C sections
- Extend the work performed in applying one or more requirements
- Perform other procedures judged by the auditor to be necessary in the circumstances

When none of the preceding is expected to be practical or possible in the circumstances, the auditor will not be able to obtain sufficient appropriate audit evidence and is required by GAAS to determine the effect on the auditor's report or on the auditor's ability to complete the engagement.

AU-C Section 230, *Audit Documentation*

[No amendment to paragraphs .01–.05.]

.06 For purposes of GAAS, the following terms have the meanings attributed as follows:

Audit documentation. The record of audit procedures performed, ~~relevant~~ audit evidence obtained, and conclusions the auditor reached (terms such as *working papers* or *workpapers* are also sometimes used)...

AU-C Section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*

[No amendment to paragraphs .01–.A79.]

.A80 *Audit evidence for elements of the control environment.* ~~Relevant~~ **Audit evidence related to elements of the control environment** may be obtained through a combination of inquiries and other risk assessment procedures, such as corroborating inquiries through observation or inspection of documents. For example, through inquiries of management and employees, the auditor may obtain an understanding of how management communicates to employees management's views on business practices and ethical behavior. The auditor may then determine whether relevant controls have been implemented by considering, for example, whether management has a written code of conduct and whether it acts in a manner that supports the code.

AU-C Section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*

[No amendment to paragraphs .01–.27.]

.28 The auditor should conclude whether sufficient appropriate audit evidence has been obtained. In forming a conclusion, the auditor should consider all ~~relevant~~ audit evidence, regardless of whether it appears to corroborate or contradict the assertions in the financial statements.

[No amendment to paragraphs .29–.A4.]

.A5 The nature of an audit procedure refers to its purpose (test of controls or substantive procedure) and its type (inspection, observation, inquiry, confirmation, recalculation, reperformance, or analytical procedure). See section 500, *Audit Evidence*, which provides further application guidance about audit procedures.^{in 7} The nature of the audit procedures is most important in responding to the assessed risks.

^{in 7} Paragraphs ~~.A10–.A26~~ **A65–.A80** of section 500, *Audit Evidence*.

[No amendment to paragraphs .A5–.A16.]

A17. 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 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.

[No amendment to paragraphs .A18–.A47.]

.A48 The nature of the risk and assertion is relevant to the design of tests of details. For example, tests of details related to the existence or occurrence assertion may involve selecting from items contained in a financial statement amount and obtaining ~~relevant~~ **sufficient appropriate** audit evidence. On the other hand, tests of details related to the completeness assertion may involve selecting from items that are expected to be included in the relevant financial statement amount and investigating whether they are included.

For example, the auditor might inspect subsequent cash disbursements and compare them with the recorded accounts payable to determine whether any purchases had been omitted from accounts payable.

[No amendment to paragraphs .A49–.A50.]

.A51 External confirmation procedures frequently may be relevant when addressing assertions associated with account balances and their elements but need not be restricted to these items. For example, the auditor may request external confirmation of the terms of agreements, contracts, or transactions between an entity and other parties. External confirmation procedures also may be performed to obtain audit evidence about the absence of certain conditions. For example, a request may specifically seek confirmation that no "side agreement" exists that may be relevant to an entity's revenue cut-off assertion. Other situations in which external confirmation procedures may provide ~~relevant~~ audit evidence in responding to assessed risks of material misstatement include the following:

- Bank balances and other information relevant to banking relationships
- Inventories held by third parties at bonded warehouses for processing or on consignment
- Property title deeds held by lawyers or financiers for safe custody or as security
- Investments held for safekeeping by third parties or purchased from stockbrokers but not delivered at the balance sheet date
- Amounts due to lenders, including relevant terms of repayment and restrictive covenants
- Accounts payable balances and terms

.A52 Although external confirmations may provide ~~relevant~~ *sufficient appropriate* audit evidence relating to certain assertions, some assertions exist for which external confirmations *would not* provide ~~less relevant~~ *sufficient appropriate* audit evidence. For example, external confirmations *may not* provide ~~less relevant~~ *sufficient appropriate* audit evidence relating to the recoverability of accounts receivable balances ~~than they do of their existence.~~

[No amendment to paragraphs .A53–.A72.]

.A74 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.

AU-C Section 9500, Audit Evidence: Auditing Interpretations of Section 500

[No amendment to paragraphs .01–.10.] Footnote 7 intentionally omitted]

.11 *Interpretation*—Section 230, *Audit Documentation*, defines *audit documentation* as the record of audit procedures performed, ~~relevant~~ audit evidence obtained, and conclusions the auditor reached. The auditor is required to prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand...

AU-C Section 505, *External Confirmations*

[No amendment to paragraph .01]

~~.02 Section 500 indicates that the reliability of audit evidence is influenced by its source and nature and is dependent on the individual circumstances under which it is obtained.~~^{fn}

~~Section 500 also includes the following generalizations applicable to audit evidence:~~^{fn 2}

- ~~• Audit evidence is more reliable when it is obtained from independent sources outside the entity.~~
- ~~• Audit evidence obtained directly by the auditor is more reliable than audit evidence obtained indirectly or by inference.~~
- ~~• Audit evidence is more reliable when it exists in documentary form, whether paper, electronic, or other medium.~~

~~Accordingly,~~ Depending on the circumstances of the audit, audit evidence in the form of external confirmations received directly by the auditor from confirming parties may be more reliable than evidence generated internally by the entity. This section is intended to assist the auditor in designing and performing external confirmation procedures to obtain ~~relevant and reliable~~ audit evidence. ***Section 500 provides requirements and application material to assist the auditor in evaluating whether the audit evidence obtained in performing external confirmation procedures.***

^{fn 1} Paragraph .A5 of section 500, *Audit Evidence*.

^{fn 2} Paragraph .A32 of section 500.

.03 Other AU-C sections recognize the importance of external confirmations as audit evidence; for example

- section 330 discusses the auditor's responsibility (a) to design and implement overall responses to address the assessed risks of material misstatement at the financial statement level and (b) to design and perform further audit procedures whose nature, timing, and extent are based on, and are responsive to, the assessed risks of material misstatement at the relevant assertion level.^{fn 3} In addition, section 330 requires that, irrespective of the assessed risks of material misstatement, the auditor design and perform substantive procedures for all

relevant assertions related to each material class of transactions, account balance, and disclosure^{fn 4} The auditor is required to consider whether external confirmation procedures are to be performed as substantive audit procedures and is required to use external confirmation procedures for accounts receivable unless

- the overall account balance is immaterial,
 - external confirmation procedures would be ineffective, or
 - the auditor’s assessed level of risk of material misstatement at the relevant assertion level is low, and the other planned substantive procedures address the assessed risk.^{fn 5}
- section 330 requires that the auditor obtain more persuasive audit evidence the higher the auditor’s assessment of risk.^{fn 6} ~~To do this, the auditor may increase the quantity of the evidence or obtain evidence that is more relevant or reliable, or both.~~ For example, the auditor may place more emphasis on obtaining evidence directly from **appropriate** third parties or obtaining corroborating evidence from a number of independent sources. Section 330 also indicates that external confirmation procedures may assist the auditor in obtaining audit evidence ~~with the high level of reliability~~ that the auditor requires to respond to significant risks of material misstatement, whether due to fraud or error^{fn 7}
 - section 240, *Consideration of Fraud in a Financial Statement Audit*, indicates that the auditor may design confirmation requests to obtain additional corroborative information as a response to address the assessed risks of material misstatement due to fraud at the assertion level.^{fn 8}
 - Section 500 indicates that corroborating information obtained from a source independent of the entity (such as external confirmations) may increase the assurance the auditor obtains from evidence existing within the accounting records or representations made by management.^{fn 9}

^{fn 3} Paragraphs .05–.06 of section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*.

^{fn 4} Paragraph .18 of section 330.

^{fn 5} Paragraphs .19–.20 of section 330.

^{fn 6} Paragraph .07b of section 330.

^{fn 7} Paragraph .A58 of section 330.

^{fn 8} Paragraph .A43 of section 240, *Consideration of Fraud in a Financial Statement Audit*.

^{fn 9} Paragraph ~~A8~~ **.A50** of **proposed** section 500.

[No amendment to paragraphs .03–.04.]

.05 The objective of the auditor, when using external confirmation procedures, is to design and perform such procedures to obtain ~~relevant and reliable~~ **sufficient appropriate** audit evidence.

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

Exception. A response that indicates a difference between information requested to be confirmed, or contained in the entity's records, and information provided by the confirming party.

External confirmation. Audit evidence obtained as a direct ~~written~~ response to the auditor from a third party (the confirming party), either in paper form, **orally**, or by electronic or other medium (for example, through the auditor's direct access to information held by a third party). (Ref: [par. .A1](#))

...

[No amendment to paragraph .07.]

When a ~~Written~~ Response to a Positive Confirmation Request Is Necessary to Obtain Sufficient Appropriate Audit Evidence

.08 If management refuses to allow the auditor to perform external confirmation procedures, the auditor should

- a. inquire about management's reasons for the refusal and seek audit evidence about their validity and reasonableness; (Ref: par. A.9)
- b. evaluate the implications of management's refusal on the auditor's assessment of the relevant risks of material misstatement, including the risk of fraud, and on the nature, timing, and extent of other audit procedures; and (Ref: par. A10)
- c. perform alternative audit procedures designed to obtain ~~relevant and reliable~~ **sufficient appropriate** audit evidence. (Ref: par. A11)

.09 If the auditor concludes that management's refusal to allow the auditor to perform external confirmation procedures is unreasonable or the auditor is unable to obtain ~~relevant and reliable~~ **sufficient appropriate** audit evidence from alternative audit procedures, the auditor should communicate with those charged with governance, in accordance with section 260, *The Auditor's Communication With Those Charged With*

Governance.^{fn 10} The auditor also should determine the implications for the audit and the auditor's opinion, in accordance with section 705, *Modifications to the Opinion in the Independent Auditor's Report*.

.12 In the case of each nonresponse, the auditor should perform alternative audit procedures to obtain ~~relevant and reliable~~ **sufficient appropriate** audit evidence. (Ref: par. A24–A27)

.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. If the auditor does not obtain such confirmation, the auditor should determine the implications for the audit and the auditor's opinion, in accordance with section 705.

[No amendment to paragraphs .14–.A2.]

.A3 Responses to confirmation requests provide more ~~relevant and reliable~~ **appropriate** audit evidence when confirmation requests are sent to a confirming party who the auditor believes is knowledgeable about the information to be confirmed. For example, a financial institution official who is knowledgeable about the transactions or arrangements for which confirmation is requested may be the most appropriate person at the financial institution from whom to request confirmation.

[No amendment to paragraphs .A4–.A5.]

[No amendment to paragraphs .07–.A11.]

.A12 ~~Section 500 indicates that even when audit evidence is obtained from sources external to the entity, circumstances may exist that affect its reliability.~~^{fn 13} All responses carry some risk of interception, alteration, or fraud. Such risk exists regardless of whether a response is obtained in paper form or by electronic or other medium. Factors that may indicate doubts about the reliability of a response include whether it

- was received by the auditor indirectly or
- appeared not to come from the originally intended confirming party.

^{fn 13} Paragraph .A32 of section 500

¹⁰ Paragraph .12 of section 260, *The Auditor's Communication With Those Charged With Governance*.

[No amendment to paragraphs .A13–.A15.]

.A16 The auditor is required by section 500 to determine whether to modify or add procedures to resolve doubts over the reliability of information to be used as audit evidence.^{fn 14} The auditor may choose to verify the source and contents of a response to a confirmation request by contacting the confirming party (for example, as described in paragraph .A14). When a response has been returned to the auditor indirectly (for example, because the confirming party incorrectly addressed it to the entity rather than the auditor), the auditor may request the confirming party to respond in writing directly to the auditor.

^{fn 14} Paragraph ~~40 II~~ of section 500.

^{fn 6} Paragraph .A32 of section 500.

[No amendment to paragraphs .A17–.A25.]

.A26 The auditor may determine that it is not necessary to perform additional alternative audit procedures beyond the evaluation of the confirmation results if such evaluation indicates that ~~relevant and reliable~~ *sufficient appropriate* audit evidence has already been obtained. This may be the case when testing for overstatement of amounts and (a) the nonresponses in the aggregate, projected as 100 percent misstatements to the population and added to the sum of all other unadjusted differences, would not affect the auditor's decision about whether the financial statements are materially misstated and (b) the auditor has not identified unusual qualitative factors or systematic characteristics related to the nonresponses, such as that all nonresponses pertain to year-end transactions.

~~.A27—An oral response to a confirmation request does not meet the definition of an external confirmation 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, the auditor may take the receipt of an oral response to a confirmation request into consideration when determining the nature and extent of alternative audit procedures required to be performed for nonresponses, in accordance with paragraph .12. The auditor may perform additional procedures to address the reliability of the evidence provided by the oral response, such as initiating a call to the respondent using a telephone number that the auditor has independently verified as being associated with the entity. For example, the auditor might call the main telephone number obtained from a reliable source and ask to be directed to the named respondent instead of calling a direct extension provided by the client or included in the statement or other correspondence received by the entity. The auditor may determine that the additional evidence provided by contacting the respondent directly, together with the evidence upon which the original confirmation request is based (for example, a statement or other correspondence received by the entity), is sufficient~~

appropriate audit evidence. ~~In appropriately documenting the oral response, the auditor may include specific details, such as the identity of the person from whom the response was received, his or her position, and the date and time of the conversation.~~

When a ~~Written~~ Response to a Positive Confirmation Request Is Necessary to Obtain Sufficient Appropriate Audit Evidence (Ref: par. .13)

.A28 In certain circumstances, the auditor may identify an assessed risk of material misstatement at the assertion level for which a response to a positive confirmation request is necessary to obtain sufficient appropriate audit evidence. Such circumstances may include the following:

- The information available to corroborate management’s assertion(s) is only available outside the entity.
- Specific fraud risk factors, such as the risk of management override of controls or the risk of collusion, which can involve employee(s) or management, or both, prevent the auditor from relying on evidence from the entity.

AU-C Section 520, Analytical Procedures

Objectives

[No amendment to paragraphs .01–.02.]

.03 The objectives of the auditor are to

- a. obtain ~~relevant and reliable~~ **sufficient appropriate** audit evidence when using substantive analytical procedures and
- b. design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion about whether the financial statements are consistent with the auditor’s understanding of the entity. (Ref: par. .A1)

[No amendment to paragraphs .04–.A4.]

.A5 *Scanning* 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 type of analytical procedure is described further in section 500, *Audit Evidence*^{fn 5}

^{fn 5} Paragraph ~~.A22~~ **.A78** of section 500, *Audit Evidence*.

[No amendment to paragraphs .A6–.A16.]

.A17 The reliability of data is influenced by its source and ~~and is dependent on the circumstances under which it is obtained.~~ **nature the relationship to management's assertion.** Accordingly, the following are relevant when determining whether data is reliable for purposes of designing substantive analytical procedures:

- a. The source of the information available. ~~For example, information may be more reliable when it is obtained from independent sources outside the entity.~~
^{fn 6}
- b. The comparability of the information available. For example, broad industry data may need to be supplemented to be comparable to that of an entity that produces and sells specialized products.
- c. The nature and relevance of the information available. For example, whether budgets have been established as results to be expected rather than as goals to be achieved.
- d. Controls over the preparation of the information that are designed to ensure its completeness, accuracy, and validity. For example, controls over the preparation, review, and maintenance of budgets.

AU-C Section 530, Audit Sampling

[No amendment to paragraph .01. footnote intentionally omitted]

.02 This section complements section 500 *Audit Evidence*, which ~~addresses the auditor's responsibility to design and perform audit procedures to obtain sufficient appropriate audit evidence~~ **explains what constitutes evidence obtained. and provides a framework to evaluate audit evidence obtained.** ~~to be able to draw reasonable conclusions as a basis for forming the auditor's opinion.~~ Section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*, provides guidance on the means available to the auditor for selecting items for testing, one of which is audit sampling.

AU-C Section 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

[No amendment to paragraphs .01–.A27. Paragraph .A28 shown for contextual purposes]

Management's Use of Specialists ^{fn 11} ~~(Ref: [par. .08e\(iii\)](#))~~

.A28 Management may have, or the entity may employ individuals with, the experience and competence necessary to make estimates. In some cases, however, management may

need to engage a specialist to make estimates or assist in making them. This need may arise because of, for example

- the specialized nature of the matter requiring estimation (for example, the measurement of mineral or hydrocarbon reserves in extractive industries).
- the technical nature of the models required to meet the relevant requirements of the applicable financial reporting framework, as may be the case in certain measurements at fair value.
- the unusual or infrequent nature of the condition, transaction, or event requiring an accounting estimate.

~~^{fn 11} See Paragraph .08 of section 500, *Audit Evidence*, which addresses management's specialists.~~

[No amendment to paragraphs .A29–.A69]

.A70 In accordance with section 500, *Audit Evidence*, the auditor is required to *consider the relevance and reliability of the information to be used as audit evidence.* Section 500 explains that the reliability of the audit evidence is affected to varying degrees, individually or in combination, by the following attributes:

- Accuracy
- *Completeness*
- *Authenticity, and*
- *Risk of bias*

~~evaluate whether the data on which the estimate is based is sufficiently reliable for the auditor's purposes, including, as necessary.~~^{fn 18}

- ~~a. obtaining audit evidence about the accuracy and completeness of the data.~~
- ~~b. evaluating whether the data is sufficiently precise and detailed for the auditor's purposes.~~

^{fn 18} Paragraph .09 .07 of section 500

AU-C Section 550, *Related Parties*

[No amendment to paragraphs .01–.A40]

.A41 In evaluating the business rationale of a significant related party transaction outside the entity's normal course of business, the auditor may consider the following:

- Whether the transaction
 - is overly complex (for example, it may involve multiple related parties within a consolidated group)
 - has unusual terms of trade, such as unusual prices, interest rates, guarantees, and repayment terms
 - lacks an apparent logical business reason for its occurrence
 - involves previously unidentified related parties
 - is processed in an unusual manner
- Whether management has discussed the nature of, and accounting for, such a transaction with those charged with governance
- Whether management is placing more emphasis on a particular accounting treatment rather than giving due regard to the underlying economics of the transaction

If management's explanations are materially inconsistent with the terms of the related party transaction, the auditor is required to consider the reliability of management's explanations and representations on other significant matters. ^{fn 31}

^{fn 31} Paragraph .40 .II of section 500, *Audit Evidence*

AU-C Section 560, *Subsequent Events and Subsequently Discovered Facts*

[No amendment to paragraphs .01–.A1]

.A2 The period between the date of the financial statements and the date of the auditor's report may vary from a relatively short period to one or more months. Some phases of the audit will be performed during this period, whereas other phases will be substantially completed on or before the date of the financial statements. As an audit approaches completion, the auditor is not expected to perform additional audit procedures on matters to which previously applied audit procedures have provided satisfactory conclusions. New information, however, may be inconsistent with the audit evidence obtained, in which case the auditor is required to determine what modifications or additions to audit procedures are necessary to resolve the matter and consider the effect of the matter, if any, on other aspects of the audit. ^{fn 7}

^{fn 7} Paragraph .40 .II of section 500, *Audit Evidence*.

AU-C Section 9620, *Using the Work of an Auditor's Specialist: Auditing Interpretations*

of Section 620

[No amendment to paragraphs .01–.20. Footnotes 23 and 24 intentionally omitted]

.21 Interpretation—When other ~~relevant~~ audit evidence exists, the auditor should consider it before reaching a conclusion about the appropriateness of management’s accounting for a transfer. However, because the isolation aspect of surrender of control is assessed primarily from a legal perspective, the auditor usually will not be able to obtain persuasive evidence in a form other than a legal opinion. In the absence of persuasive evidence that a transfer has met the isolation criterion, derecognition of the transferred assets is not in conformity with generally accepted accounting principles and the auditor may need to express a qualified or adverse opinion in accordance with section 705, *Modifications to the Opinion in the Independent Auditor’s Report*. However, if permission for the auditor to use a legal opinion that he or she deems otherwise adequate is not granted, this would be a scope limitation and the auditor should consider the need to express a qualified opinion or to disclaim an opinion in accordance with section 705.