



Agenda Item 2C

PROPOSED STATEMENT ON AUDITING STANDARDS *AUDIT EVIDENCE*

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Proposed Statement on Auditing, *Audit Evidence*

<i>Introduction, Scope, Effective Date, Objectives, Definitions, and Requirements</i>	<i>Application Material</i>
Introduction	
Scope of This Section Proposed SAS	<u>Scope of This Proposed SAS (Ref: par. 1-6)</u>
<p>1. .01 This section <u>proposed Statement of Auditing Standard (SAS)</u> explains what constitutes audit evidence in an audit of financial statements and addresses the auditor's responsibility to design and perform audit procedures to obtain sufficient appropriate <u>how an auditor evaluates information to be used as audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.</u></p>	
<p>.02 This section <u>Audit evidence is applicable to all</u> <u>cumulative in nature and is obtained primarily through the performance of one or more audit evidence procedures on information obtained during the course of the audit. Other AU-C sections address</u></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>); ● the audit evidence to be obtained regarding a particular topic (for example, section 570, <i>The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern</i>); 	<p><u>A1. 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 audit; and the results of applying the firm's quality control procedures for client acceptance and continuance to the engagement.¹</u></p>

¹ Paragraph 10 of AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*.

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<p>• specific procedures to obtain audit evidence (for example, section 520, <i>Analytical Procedures</i>); and</p> <p>2. the evaluation of whether sufficient appropriate audit evidence has been obtained (for example, section 200, <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards</i>, and section 330, <i>Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained</i>); (Ref: par. A1)</p>	
<p>[Revised, August 2012, to reflect conforming changes necessary due to the issuance of SAS No. 126.]</p>	
<p>Effective Date</p>	
<p>.03 This section is effective for audits of financial statements for periods ending on or after December 15, 2012.</p>	
<p>Objective</p>	
<p>.04 The objective of the auditor is to design and perform audit procedures that enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.</p>	
<p>Definitions</p>	

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<p>.05 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:</p>	
<p>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.</p>	
<p>Appropriateness (of audit evidence). 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).</p>	
<p>Audit evidence. Information 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.</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>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</p>	

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misstatement and also by the quality of such audit evidence.	
Requirements	
Sufficient Appropriate Audit Evidence	
<p>3. .06 The auditor should design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. (Ref: par. A1-A26) The application of this proposed SAS assists the auditor in fulfilling the auditor's responsibilities in other AU-C sections. This proposed SAS is to be read in conjunction with other AU-C sections that address the auditor's responsibilities to identify and assess the risks of material misstatement,² design and implement responses to the risks of material misstatement identified and assessed by the auditor,³ and form an opinion on the financial statements.⁴ Specifically, AU-C section 330, <i>Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained</i>, requires the auditor to conclude whether sufficient appropriate audit evidence has been obtained and thereby provides a basis for the auditor's opinion. (Ref: par. A2)</p>	<p>.A1— Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed 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 relevance to the current audit^{fn+1}), or a firm's quality control procedures for client acceptance and continuance. In addition to other sources inside and outside the entity, the entity's accounting records are an important source of audit evidence. Also, information that may be used as audit evidence may have been prepared using the work of management's specialist. 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</p>

² AU-C section 315.

³ AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*.

⁴ AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*.

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

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	<p>example, management's refusal to provide a requested representation) is used by the auditor and, therefore, also constitutes audit evidence.^{fn-2}</p> <p>A2— 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 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>A3— As explained in section 200, reasonable assurance is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (that is, the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level.^{fn-3}</p> <p>A4— The sufficiency and appropriateness of audit evidence are interrelated. Sufficiency 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</p>

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

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

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	<p>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>A6— Section 330 requires the auditor to conclude whether sufficient appropriate audit evidence has 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> <p><i>Sources of Audit Evidence</i></p> <p>A7— Some audit evidence is obtained by performing audit procedures to test the accounting records (for example, through analysis and review, by reperforming</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>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.</p> <p>.A8— More assurance is ordinarily obtained 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 the accounting records, minutes of meetings, or a management representation.</p> <p>.A9— Information from sources independent of the entity that the auditor may use as audit evidence include confirmations from third parties, analysts' reports, and comparable data about competitors (benchmarking data).</p> <p><i>Audit Procedures for Obtaining Audit Evidence</i></p> <p>.A10— As required by and explained further in section 315 and section 330, audit evidence to draw reasonable conclusions on which to</p>

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	<p>base the auditor's opinion is obtained by performing the following:^{fn 6 fn 7}</p> <p>a. Risk assessment procedures</p> <p><u>A2. Paragraph 3 states that this proposed SAS should be read in conjunction with other AU-C sections, for example, AU-C section 330, which states that the auditor is required to:</u></p> <ul style="list-style-type: none"><u>• 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 level⁵</u><u>• Obtain more persuasive audit evidence the higher the auditor's assessment of risk.⁶</u><u>• Conclude whether sufficient appropriate audit evidence has been obtained.⁷</u><u>• Attempt to obtain further audit evidence if the auditor has not obtained sufficient appropriate audit evidence about a relevant assertion.⁸</u> <p><u>In addition, AU-C section 700 requires the auditor to conclude whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or</u></p>

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

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

⁵ Paragraph 6 of AU-C section 330.

⁶ Par. 7b of AU-C section 330

⁷ Par. 28 of AU-C section 330

⁸ Par. 29 of AU-C section 330

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	<p>error.⁹b. Further audit procedures, which comprise</p> <p>i. tests of controls, when required by the AU-C sections or when the auditor has chosen to do so, and</p> <p>ii. substantive procedures, which include tests of details and substantive analytical procedures.</p> <p>.A11—The audit procedures described in paragraphs .A14–.A26 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.^{fn-8}</p> <p>.A12—The nature and timing of the audit procedures to be used may be affected by the fact that some of the accounting data and other information may be available only in electronic form or only at certain points or periods in time. For example, source documents, such as purchase orders and invoices, may exist only in electronic form when an entity uses electronic commerce or may be discarded after scanning when an entity uses image processing systems to facilitate storage and reference.</p>

⁹ Par. 14 of AU-C section 700

^{fn-8} Paragraph .A38 of section 330.

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	<p>.A13—Certain electronic information may not be retrievable 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><i>Inspection</i></p> <p>.A14—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. 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 example of inspection used as a test of controls is inspection of records for evidence of authorization.</p> <p>.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. In addition, inspecting an executed contract may provide audit evidence relevant to the entity’s application of accounting policies, such as revenue recognition.</p> <p>.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</p>

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	<p>observation of inventory counting. For example, when observing an inventory count, the auditor may inspect individual inventory items (such as opening containers included in the inventory count to determine whether they are full or empty) to verify their existence.</p> <p>Observation</p> <p>.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). 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.^{fn-9}</p> <p>External Confirmation</p> <p>.A18— An external confirmation represents audit evidence obtained by the auditor as a direct written response to the auditor from a third party (the confirming party) in paper form or by electronic or other medium. External confirmation procedures frequently are relevant when addressing assertions associated with certain account balances and their elements. However, external confirmations need not be restricted to account balances only. For example, the auditor may request confirmation of the terms of agreements or transactions an entity has</p>

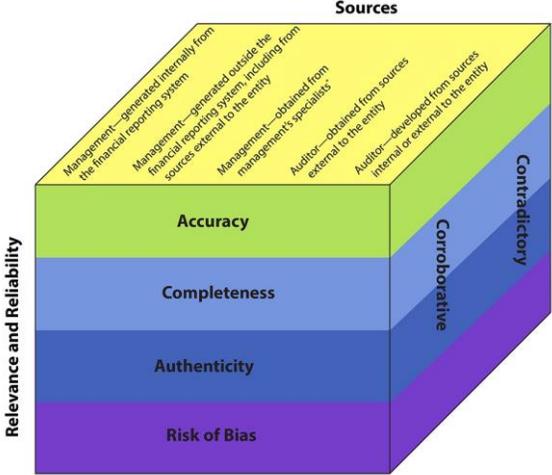
^{fn-9} ~~Paragraphs .11 .15 of section 501, *Audit Evidence—Specific Considerations for Selected Items*.~~

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	<p>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). See section 505, <i>External Confirmations</i>, for further guidance.</p> <p>Recalculation</p> <p>.A19—Recalculation consists of checking the mathematical accuracy of documents or records. Recalculation may be performed manually or electronically.</p> <p>Reperformance</p> <p>.A20—Reperformance involves the independent execution of procedures or controls that were originally performed as part of the entity’s internal control.</p> <p><i>Analytical Procedures</i></p> <p>.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 amount. See section 520 for further guidance.</p> <p>.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</p>

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	<p>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 testing by scanning and those items are tested, the auditor obtains audit evidence about those items. The auditor's scanning also may provide some audit evidence about the items not selected for testing because the auditor has exercised professional judgment to determine that the items not selected are less likely to be misstated.</p> <p><i>Inquiry</i></p> <p>.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>.A24—Responses to inquiries may provide the auditor with information not previously possessed or with corroborative audit evidence. Alternatively, responses might provide information that differs significantly from other information that the auditor has obtained (for example, information regarding the possibility of management override of controls). In some cases, responses to</p>

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	<p>inquiries provide a basis for the auditor to modify or perform additional audit procedures.</p> <p>.A25—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. 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.</p> <p>.A26Regarding some matters, the auditor may consider it necessary to obtain written representations from management and, when appropriate, those charged with governance to confirm responses to oral inquiries. See section 580, <i>Written Representations</i>, for further guidance.</p>
<p><u>4. The overall conclusion about whether sufficient appropriate audit evidence has been obtained is a matter of professional judgment and involves exercising professional skepticism in obtaining and evaluating such audit evidence. Concluding whether sufficient appropriate audit evidence has been obtained includes consideration of, among other things, the assessment of the risks of material misstatements, the nature, timing, and extent of the audit procedures performed and evaluating the audit evidence obtained from those procedures in accordance with this proposed SAS. (Ref: par. A3)</u></p>	<p><u>A3.AU-C section 200 provides application material in relation to exercising professional skepticism and professional judgment.¹⁰</u></p>
<p><u>5. This proposed SAS sets out characteristics of information to be used as audit evidence</u></p>	<p><u>A4.The auditor’s evaluation of information to be used as audit evidence is not a formulaic</u></p>

¹⁰ Paragraphs A22-A31 of AU-C 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><u>including its source, relevance, reliability, and whether the information corroborates or contradicts the assertions in the financial statements. The attributes and factors used to evaluate information to be used as audit evidence are depicted as follows:</u></p>  <p><u>*See AU-C section 501, Audit Evidence—Specific Considerations for Selected Items</u> <u>(Ref: par A4)</u></p>	<p><u>exercise, but rather is multi-dimensional and is dependent on the degree to which the relevance and reliability, sources, and whether the information corroborates or contradicts the assertions in the financial statements influences the auditor’s evaluation.</u></p>
<p><u>6. This proposed SAS does not establish audit documentation requirements beyond those audit documentation requirements that already exist in other AU-C sections. (Ref: par. A5)</u></p>	<p><u>A5.AU-C section 230 provides requirements and guidance with respect to circumstances in which it is appropriate to prepare audit documentation¹¹</u></p>
<p><u>Effective Date</u></p>	
<p><u>7. This proposed SAS is effective for audits of financial statements for periods ending on or after _____.</u></p>	
<p><u>Objective</u></p>	
<p><u>8. As a basis for concluding whether sufficient appropriate audit evidence has been obtained, the objective of the auditor is to evaluate information to which audit procedures have</u></p>	

¹¹ Paragraph 8 of AU-C section 230, *Audit Documentation*.

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<u>been applied to determine whether such information is appropriate audit evidence.</u>	
<u>Definitions</u>	<u>Definitions (Ref: par. 9)</u>
<u>9.</u> For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:	
<u>Appropriateness (of audit evidence).</u> The measure of the relevance and reliability of audit evidence.	
<u>Sufficiency (of audit evidence).</u> The measure of the persuasiveness of audit evidence. The persuasiveness of audit evidence necessary is affected by the auditor's assessment of the risks of material misstatement. (Ref: par A6)	<u>A6.</u> When considering the persuasiveness of audit evidence, the amount of audit evidence obtained may be of relevance to the auditor. However, obtaining more audit evidence may not compensate for its lack of appropriateness.
<u>Audit evidence.</u> Information to which audit procedures have been applied or which has been obtained from other sources. (Ref: par A7)	<u>A7.</u> In some cases, the absence of information is used by the auditor and, therefore, also constitutes audit evidence. ¹² For example, when considering whether contradictory information may exist regarding the entity's recorded warranty provision, the auditor could consider the absence of sales returns of the product in question as evidence supporting management's recorded amount.
<u>External Information.</u> Information developed external to the entity, including information from external information sources.	
<u>External Information Source.</u> An individual or organization that is external to the entity that develops information that has been used by the entity in preparing the financial statements or that has been used by the auditor as audit evidence, when such information is available for use by a broad range of users. When information has been provided by an individual or	<u>A8.</u> See Appendix A for the auditor's considerations when using external information sources.

¹² Paragraph .A32 of AU-C section 200.

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<p><u>organization acting in the capacity of management’s specialist, service organization,¹³ or auditor’s specialist¹⁴ the individual or organization is not considered an external information source with respect to that particular information. (Ref: par A8)</u></p>	
<p><u>Internal information. Information developed by the entity, including accounting records and other internal sources. (Ref: par A9–A11)</u></p>	<p><u>A9.Examples of <i>internal information</i> include the following accounting records:</u></p> <ul style="list-style-type: none"> • <u>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.</u> • <u>records, such as spreadsheets, cost allocations, computations, reconciliations, and disclosures.</u>
	<p><u>A10.An example of information developed by other internal sources is internal marketing information used as an assumption in making an accounting estimate for a warranty provision.</u></p>
	<p><u>A11.Internal information (within or outside the general ledger and subsidiary ledgers)</u></p> <ul style="list-style-type: none"> <u>a. may be in electronic or paper form. Examples of internal information in electronic form are electronic records of sales made through an entity’s website or a shared digital ledger such as a blockchain; or</u> <u>b. may be stored by the entity locally in paper form, within its information systems or may be stored in a network of hosted remote servers (often referred</u>

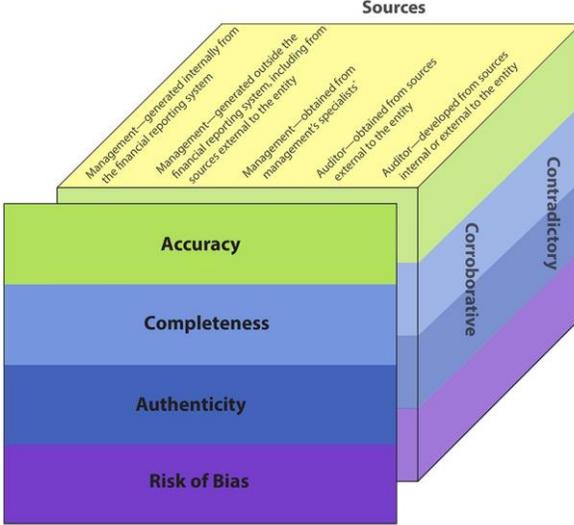
¹³ AU-C section 402, *Audit Considerations Relating to an Entity Using a Service Organization.*

¹⁴ AU-C section 620, *Using the Work of an Auditor’s Specialist.*

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	<u>to as the “Cloud”</u>).
<u>Requirements</u>	
<u>Sufficient Appropriate Audit Evidence</u>	<u>Sufficient Appropriate Audit Evidence (Ref: par. 10)</u>
<p><u>10. As a basis for concluding whether sufficient appropriate audit evidence has been obtained, the auditor should evaluate as set out in paragraphs Error! Reference source not found. Error! Reference source not found. of this proposed SAS, the appropriateness of the audit evidence in the context of the following:</u></p> <ul style="list-style-type: none"> <u>a. the source from which it was obtained and</u> <u>b. whether such audit evidence corroborates or contradicts the assertions in the financial statements,</u> <p><u>(Ref: par. A12–A14)</u></p>	<p><u>A12.As explained in AU-C 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.¹⁵</u></p>
	<p><u>A13.Audit evidence is sufficient (that is, persuasive) when an experienced auditor¹⁶ would be persuaded to draw conclusions for the auditor’s purposes based on consideration of the audit evidence. During the course of an audit, an auditor may draw many conclusions, and the more significant the conclusion being drawn, the more persuasive the audit evidence required to support the conclusion may be.</u></p>
	<p><u>A14.The amount of audit evidence, in and of itself, is not determinative of its sufficiency. Obtaining more of the same type of audit evidence cannot compensate for its lack of appropriateness. In such cases, the auditor may find it necessary to obtain evidence from more than one source. On the other hand, depending on the auditor’s consideration of relevance and</u></p>

¹⁵ Paragraph .06 of AU-C section 200.

¹⁶ Paragraph .06 of AU-C section 230.

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	<u>reliability, a single source of information may provide persuasive evidence (for example, corroborating evidence obtained from an external information source).</u>
Information to Be Used as Audit Evidence	<u>Information to Be Used as Audit Evidence</u>
<u>Relevance and Reliability</u>	<u>Relevance and Reliability (Ref: par. 11)</u>
<p><u>11. In evaluating the appropriateness of audit evidence in accordance with paragraph 10, the auditor should consider the relevance and reliability of the information to be used as audit evidence. When necessary in the circumstances, this includes:</u></p> <ul style="list-style-type: none"> <u>a. Obtaining audit evidence about the accuracy and completeness of the information and</u> <u>b. Evaluating whether the information is sufficiently precise and detailed for the auditor’s purposes.</u> <p><u>(Ref: par. A15–A36)</u></p>	<p>A15.</p> 
	<u>Relevance</u>
	<p><u>A16. The relevance of the information to be used as audit evidence relates to the logical connection with, or bearing upon, the assertion under consideration. 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"> <u>• The objective of the audit procedures performed, including the assertions being tested</u> <u>• The account balances, classes of transactions, disclosures to which the information relates</u>

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	<ul style="list-style-type: none"> <u>The period of time to which the information relates</u>
<p>.07 When designing and performing audit procedures, the auditor should consider the relevance and reliability of the information to be used as audit evidence. (Ref: par. .A27 .A34)</p>	<p><i>Relevance and Reliability (Ref: <u>par. .07</u>)</i></p> <p><i>.A27</i> As noted in paragraph .A1, although audit evidence is primarily obtained from audit procedures performed during the course of the audit, it also may include information obtained from other sources (for example, previous audits, in certain circumstances, and a firm's quality control procedures for client acceptance and continuance). The quality of all audit evidence is affected by the relevance and reliability of the information upon which it is based.</p> <p><i>Relevance</i></p> <p><u>A17.</u><u>A28</u>The following examples illustrate the relevance of information to be used as audit evidence:</p> <ul style="list-style-type: none"> If the objectiveRelevancerelates to the logical connection with, or bearing upon, the purpose of the audit procedure and, when appropriate, the assertion under consideration. The relevance of information to be used as audit evidence may be affected by the direction of testing. For example, if the purpose of an audit procedure is to test for overstatement in the existence or valuation of accounts payable, testing <u>information related to</u> the recorded accounts payable may beprovide relevant audit procedureevidence. On the other hand, when testing for understatement in the existence or valuationcompleteness of accounts payable, testing <u>information related to</u> the recorded accounts payable would not beprovide relevant, but

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	<p>testing audit evidence; however, information such information as subsequent disbursements, unpaid invoices, suppliers' statements, and unmatched receiving reports may provide relevant audit evidence.</p> <ul style="list-style-type: none">.A29A given set of audit procedures Information related to salary may provide audit evidence that is relevant to certain assertions but not others. For example, inspection of documents audit evidence regarding an accounting estimate for a bonus accrual. <p>Information related to the collection of receivables after the period-end may provide relevant audit evidence regarding existence and valuation of receivables and occurrence and accuracy of 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>.A30 Tests of controls are designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at 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>

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	<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><i>Reliability</i></p> <p>A32—The reliability of information to be used as audit evidence and, therefore, of the audit evidence itself is influenced by its source and nature and the circumstances under which 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, circumstances 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> <ul style="list-style-type: none">●—The reliability of audit evidence is increased when it is obtained from independent sources outside the entity.●—The reliability of audit evidence that is generated internally is increased when the related controls, including those over its preparation and

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	<p>maintenance, imposed by the entity are effective.</p> <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).• 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).• 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 reliability of which may depend on the controls over their preparation and maintenance. <p>.A33—Section 520 provides further guidance regarding the reliability of data used for</p>

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	<p>purposes of designing analytical procedures as substantive procedures.^{fn-10}</p> <ul style="list-style-type: none"> .A34Section 240, <i>Consideration of Fraud in a Financial Statement Audit</i>, addresses circumstances in which the auditor has reason to believe that a document may not be authentic or may have been modified without that modification having been disclosed to the auditor.^{fn-11}
	<p><u>A18.</u>Certain information to be used as audit evidence, whether in paper or electronic form, provides audit evidence of the existence of an asset (for example, a document constituting a financial instrument such as a stock, bond, or a digital copy maintained by a financial institution of a mortgage and the related deeded property). Other information to be used as audit evidence may also provide evidence of existence of an asset (for example, a record viewed on a blockchain may be evaluated in the context of the reliability of the blockchain itself). However, inspection of such information may not necessarily provide audit evidence about ownership or value. Similarly, inspection of tangible assets may provide relevant audit evidence with respect to their existence but not necessarily about the entity's rights and obligations or the valuation of the assets.</p>
	<p><u>A19.</u>Inspection of individual inventory items may accompany the observation of inventory counting.¹⁷ For example, when observing an</p>

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

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

¹⁷ See AU-C section 501, *Audit Evidence—Specific Considerations for Selected Items*.

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	<u>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 obtain audit evidence relevant to their existence. In contrast, while inspecting individual inventory items may provide relevant audit evidence about the need for an obsolescence provision, such inspection may not provide relevant audit evidence over the need for a lower of cost or market adjustment.</u>
	<u>A20.External confirmation¹⁸ procedures may 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 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).</u>
	<u>Reliability</u>
	<u>A21.The reliability of information is affected to varying degrees, individually or in combination, by the following attributes:</u> <ul style="list-style-type: none"> • <u>Accuracy</u> • <u>Completeness</u> • <u>Authenticity</u> • <u>Risk of bias</u>
	<u>A22.The auditor’s consideration of the reliability of audit evidence is affected by the attributes in paragraph A21 and is influenced</u>

¹⁸ See AU-C section 505, *External Confirmations*.

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	<u>by the auditor’s professional judgment and application of professional skepticism, the assessment of the risks of material misstatements, and the audit procedures performed.</u>
	<u>A23.The reliability of information, whether internal or external, is increased when the related controls (whether manual or automated), including those over its preparation and maintenance are effective.¹⁹</u>
	<u>A24.Information obtained directly by the auditor (for example, observation of the application of a control) is more reliable than information obtained indirectly or by inference (for example, inquiry about the application of a control).</u>
	<u>A25.Information in documentary form, whether paper, electronic, or other medium, may be more reliable in certain circumstances 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).</u>
	<u>Accuracy and Completeness</u>
	<u>A26.Information to be used as audit evidence, regardless of its source, needs to be sufficiently accurate and complete for the auditor’s purposes.</u>
	<u>A27.Therefore, in accordance with paragraph 11b the auditor may need to obtain audit evidence about the accuracy and completeness of the information.</u>
	<u>A28.Obtaining audit evidence about the accuracy or completeness of information to be used as audit evidence may be accomplished concurrently with the audit procedure applied</u>

¹⁹ See also paragraph 5 of section 520, *Analytical Procedures*.

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	<p><u>to the information when obtaining such audit evidence is an integral part of the audit procedure itself. For example, in testing investment transactions, the auditor may reconcile the listing of investment purchases in testing for completeness before selecting a sample. In other situations, the auditor may consider it necessary to obtain audit evidence about the accuracy and completeness of information by testing controls over the preparation and maintenance of the information (for example, in light of the nature, frequency, and volume of transaction).</u></p>
	<p><u>A29.However, in some situations, the auditor may determine that additional audit procedures to address accuracy or completeness of the information are needed. For example, the reliability of information used to develop an expectation of sales revenue, is affected by the accuracy of the price information and the completeness and accuracy of the sales volume data. Similarly, if the auditor intends to test a population (for example, payments) for a certain characteristic such as, authorization, the results of the test will be less reliable if the population from which items are selected for testing is not complete.</u></p>
	<p><u>A30.In some cases, the auditor may intend to use internal information 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 of internal information originally developed by the entity for monitoring activities such as reports of the internal audit function. In such cases, the reliability of the information obtained is affected by whether the information is sufficiently precise or detailed for the auditor's purposes (for example, performance measures used by management may not be precise enough to detect material misstatements).</u></p>

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	<u>Authenticity</u>
	<u>A31.AU-C section 240, Consideration of Fraud in a Financial Statement Audit, addresses circumstances in which the auditor has reason to believe that a document (that is, information) may not be authentic or may have been modified without that modification having been disclosed to the auditor.²⁰ AU-C section 240 further explains that an audit performed in accordance with GAAS rarely involves the authentication of documents, nor is the auditor trained as, or expected to be, an expert in such authentication.</u>
	<u>A32.Information in its original form is more likely to be authentic than information 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 transformation and maintenance). In some situations, the auditor may obtain audit evidence about the authenticity of electronic information by testing controls over the transformation and maintenance of the information. In other situations, the auditor may determine that additional substantive procedures to address the authenticity are needed (for example, inspecting underlying original documents to validate the authenticity of information in electronic form when available).</u>
	<u>Risk of Bias</u>
	<u>A33.Information with a higher risk of bias is considered less reliable than information where the risk of bias is lower.</u>
	<u>A34.A risk of bias may exist in the development of information itself or may exist due to interpretation of the information by the</u>

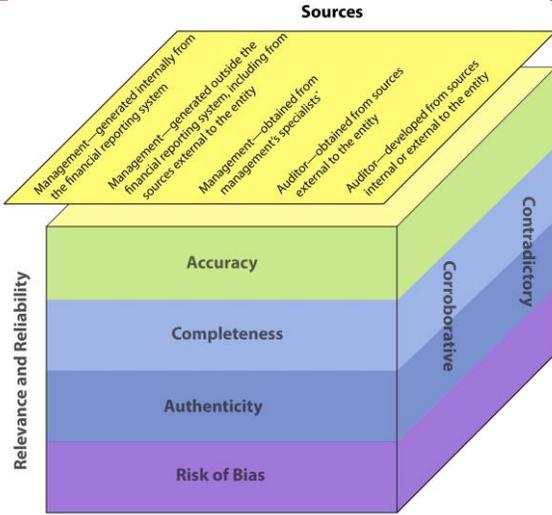
²⁰ Paragraph .A11 of AU-C section 240, *Consideration of Fraud in a Financial Statement Audit*.

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	<u>entity or the auditor.</u>
<p>.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: <u>par. .A35–.A37</u>)</p>	<p><u>A35.External 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 the reliability of information to be used as audit evidence by taking into account the following risks of bias:</u></p> <ul style="list-style-type: none"> <u>i. the ability of the entity to influence the external information source.</u> <u>ii. selecting information from an external source known to be favorably biased toward corroborating management’s assertions or information.</u> <p><u><i>Management unintentionally uses information from an external information source that is biased in generating information.</i></u> Reliability of Information Produced by a Management’s Specialist (Ref: <u>par. .08</u>)</p> <p>.A35—The preparation of an entity’s financial statements may require expertise in a field other than accounting or auditing, such as actuarial calculations, valuations, or engineering data. The entity uses a management’s specialist in these fields to obtain the needed expertise to prepare the financial statements. Failure to do so when such expertise is necessary increases the risks of material misstatement and may be a significant deficiency or material weakness.^{fn 12}</p>

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

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	<p>.A36—When 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 paragraph .07, but it is not the use of a management’s specialist by the entity.</p> <p>.A37—The 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

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	<p>entity or is a party engaged by it to provide relevant services</p> <ul style="list-style-type: none"> • The extent to which management can exercise control or influence over the work of the management's specialist • Whether the management's specialist is subject to technical performance standards or other professional or industry requirements • The nature and extent of any controls within the entity over the work of the management's specialist • The auditor's knowledge and experience of the field of expertise management's specialist <p>iii. The auditor's previous experience of the work of that specialist</p>
	<p><u>A36. The auditor's consideration of information to be used as audit evidence may be inhibited by tendencies in judgment that lead to bias and affect professional skepticism, such as the following:</u></p> <ul style="list-style-type: none"> <u>a. Availability bias, which involves considering information that is easily retrievable as being more likely, more relevant, and more important for a judgment.</u> <u>b. Confirmation bias, which involves seeking, and treating as more persuasive, information that is consistent with initial beliefs or preferences.</u> <u>c. Overconfidence bias, which involves</u>

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	<p><u>overestimating one’s own abilities to perform tasks or to make accurate assessments of risk or other judgments and decisions.</u></p> <p><u>d. Anchoring bias, which involves making assessments by starting from an initial numerical value and then adjusting insufficiently away from that initial value in forming a final judgment.</u></p>
<u>Sources</u>	<u>Sources (Ref: par. 12)</u>
<p><u>12. In evaluating the appropriateness of audit evidence in accordance with paragraph 10, the auditor should consider the sources of the information to be used as audit evidence. (Ref: par. A37–A44)</u></p>	<p><u>A37.</u></p> 
	<p><u>A38. Information to be used as audit evidence may be obtained or derived individually or in combination from the following sources:</u></p> <ul style="list-style-type: none"> <u>a. Management—generated internally from the financial reporting system,</u> <u>b. Management—generated outside the financial reporting system, including from sources external to the entity,</u> <u>c. Management—obtained from management’s specialists,²¹</u> <u>d. Auditor—obtained from sources</u>

²¹ See AU-C section 501.

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	<p><u>external to the entity, or</u> <u>e. Auditor—developed from sources internal or external to the entity</u></p>
	<p><u>A39. In considering the sources of information to be used as audit evidence, the auditor considers the possibility that the information source may not be reliable.</u></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</i> (Ref: par. .08a)</p> <p>.A38—Competence relates to the nature and level of expertise of the management’s specialist. Capability relates to the ability of the management’s specialist to exercise that competence in the circumstances. Factors that influence capability may include, for example, geographic location and the availability of time and resources. Objectivity relates to the possible effects that bias, conflict of interest, or the influence of others may have on the professional or business judgment of the management’s specialist. The competence, capabilities, and objectivity of a management’s specialist, and any controls within the entity over that specialist’s work, are important factors with regard to the reliability of any information produced by a management’s specialist.</p> <p>.A39—Information regarding the competence, capabilities, and objectivity of a management’s specialist may come from a variety of sources, such as the following:</p> <ul style="list-style-type: none"> • Personal experience with previous work of that specialist • Discussions with that specialist

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	<ul style="list-style-type: none"> • 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 • 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>A40—Matters relevant to evaluating the competence, capabilities, and objectivity of a management's specialist include whether that specialist's work is subject to technical performance standards or other professional or industry requirements, for example, ethical standards and other membership requirements of a professional body or industry association, accreditation standards of a licensing body, or requirements imposed by law or regulation.</p> <p>A41—Other matters that may be relevant include</p> <ul style="list-style-type: none"> • the relevance of the capabilities and competence of the management's specialist to the matter for which that specialist's work will be used, including any areas of specialty within that specialist's field. For example, a particular actuary may

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	<p>specialize in property and casualty insurance but have limited expertise regarding pension calculations.</p> <ul style="list-style-type: none"> • the competence of the management's specialist with respect to relevant accounting requirements, for example, knowledge of assumptions and methods, including models, when applicable, that are consistent with the applicable financial reporting framework. • whether unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures indicate that it may be necessary to reconsider the initial evaluation of the competence, capabilities, and objectivity of the management's specialist as the audit progresses. <p>A42—A broad range of circumstances may threaten objectivity, for example, self-interest threats, advocacy threats, familiarity threats, self-review threats, and intimidation threats. Safeguards may reduce such threats and may be created either by external structures (for example, the profession, legislation, or regulation of the management's specialist) or by the work of the management's specialist environment (for example, quality control policies and procedures).</p> <p>A43—Although safeguards cannot eliminate all threats to the objectivity of a management's specialist, threats such as intimidation threats may be of less significance to a specialist engaged by the</p>

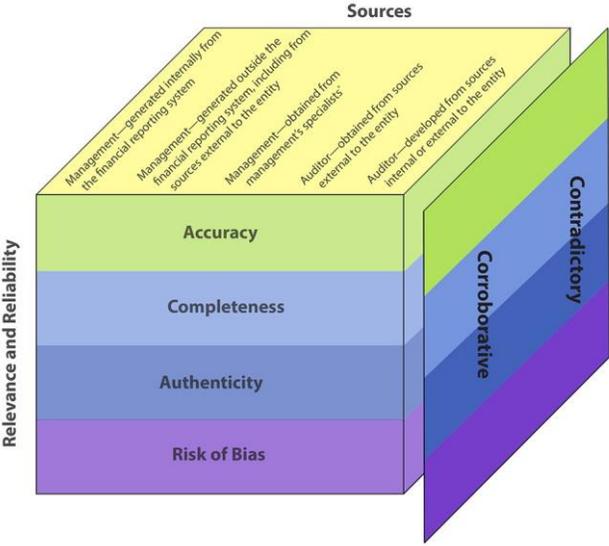
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	<p>entity than to a specialist employed by the entity, and the effectiveness of safeguards such as quality control policies and procedures may be greater. Because the threat to objectivity created by being an employee of the entity will always be present, a specialist employed by the entity cannot ordinarily be regarded as being more likely to be objective than other employees of the entity.</p> <p>A44—When evaluating the objectivity of a specialist engaged by the entity, it may be relevant to discuss with management and that specialist any interests and relationships that may create threats to the specialist’s objectivity and any applicable safeguards, including any professional requirements that apply to the specialist, and to evaluate whether the safeguards are adequate. Interests and relationships creating threats may include the following:</p> <ul style="list-style-type: none">• Financial interests• Business and personal relationships <p><u>A2.A40.</u> Provision of other servicesAs indicated in paragraph A38, information to be used as audit evidence by the auditor may be obtained directly or 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 that is generated internally by the financial reporting systems; information generated externally of the financial reporting system (including information and assumptions from <i>external information sources</i>); and information obtained from a management’s specialist. Similarly, an auditor may obtain information to be used as audit evidence originating from multiple sources, for</p>

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	<u>example, in performing a regression analysis to test revenue recorded, the auditor may obtain information about square footage of retail space and sales prices (both management-generated) and changes in the Consumer Price Index (an external information source).</u>
	<u>A41. Evaluating certain attributes and factors of information obtained by the auditor from external information sources is ordinarily beyond the auditor’s control. Practical considerations may limit the auditor’s ability to evaluate the reliability of such information, in particular evaluating the completeness and accuracy of the information obtained from an external source to the same degree as internal information.</u>
	<u>A42. The auditor’s evaluation 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>
b. obtain an understanding of the work of that specialist; and (Ref: par. A45–A48)	<p>Obtaining an Understanding of the Work of the Management’s Specialist (Ref: par. .08b)</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>.A46—Aspects of the field of the management’s specialist relevant to the auditor’s understanding may include</p> <ul style="list-style-type: none">• whether that specialist’s field has areas of specialty within it that are relevant to the audit.• whether any professional or other standards and regulatory or legal requirements apply.• what assumptions and methods are used by the management’s specialist and whether they are generally accepted within that specialist’s field and appropriate for financial reporting purposes.• the nature of internal and external data or information the management’s specialist uses. <p>.A47—In the case of a management’s specialist engaged by the entity, there will ordinarily be an engagement letter or other written form of agreement between the entity and that specialist. Evaluating that agreement when obtaining an understanding of the work of the management’s specialist may assist the auditor in determining for the auditor’s purposes the appropriateness of</p> <ul style="list-style-type: none">• the nature, scope, and objectives of that specialist’s work;• the respective roles and responsibilities of management and that specialist; and• the nature, timing, and extent of communication between

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	<p style="text-align: center;">management and that specialist, including the form of any report to be provided by that specialist.</p> <p>A3.A43.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. However, in some situations, there may be only one provider of certain information external to the entity, 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 consideration of the reliability of such information is influenced by the nature and credibility of the source of the external information, the assessed risks of material misstatement to which that external information is relevant, and the degree to which the use of that external information is relevant to the reasons for the assessed risk of material misstatement. For example, when information from an <i>external information source</i> is from a credible and authoritative source, such information may be more persuasive than information obtained from another source. In other cases, if an <i>external information source</i> is not considered credible, the auditor may determine that more persuasive audit evidence is necessary. In the absence of alternative independent information source against which to compare, the auditor may consider whether obtaining information from the external information source lacking credibility is appropriate in order to obtain sufficient appropriate audit evidence.</p>
	<p>A44.Some sources of electronic information (for example, a record maintained in a blockchain) may provide a central location from which the auditor may obtain audit</p>

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	<p><u>evidence. A blockchain may exist in different forms and may include information that is internal or external to the entity, which among other factors, may affect the auditor's consideration of the reliability of the information in a blockchain.</u></p>
<p><u><i>Corroborative or Contradictory Information</i></u></p>	<p><u><i>Corroborative or Contradictory Information (Ref: par. 13)</i></u></p>
<p><u>13. The auditor should evaluate the appropriateness of audit evidence in accordance with paragraph 10, regardless of whether the information to be used as audit evidence corroborates or contradicts the assertions in the financial statements. (Ref: par. A45–A48)</u></p>	<p><u>A45.</u></p> 
	<p><u>A46.AU-C section 330 states 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 being tested by the auditor or the amounts recorded in the financial statements.²²</u></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 <i>Appropriateness of the Work of the Management's Specialist (Ref: par. 08e)</i></p> <p>A49—Considerations when evaluating the appropriateness of the work of the</p>

²² Paragraph 28 of AU-C section 330.

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	<p>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 whether they have been appropriately reflected<u>involves consideration of information that both corroborates assertions in the financial statements;</u> • if and information that specialist's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods; and <p>A4.A47.<u>if that specialist's work involves significant use of</u>contradicts assertions in the financial statements. For example, corroborating information obtained from a source data, the relevance, completeness, and accuracy of<u>independent of the entity may increase the assurance that the auditor obtains from information that source data is generated internally.</u></p>
<p>.09 When using information produced by the entity, the auditor should evaluate whether the information is sufficiently reliable for the auditor's purposes, including, as necessary, in the following circumstances:</p>	<p>A5.A48.<u>Information that contradicts assertions in the financial statements may be considered by the auditor even when the source of that contradictory information is less reliable than the source of corroborative information. However, the auditor does not consider contradictory information in isolation, but rather as part of the auditor's consideration of the information obtained with respect to that management assertion taken as a whole.</u></p>

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<u>Audit Procedures for Obtaining Audit Evidence</u>	<u>Audit Procedures for Obtaining Audit Evidence (Ref: par. 14)</u>
<u>14. When designing and performing audit procedures to address the risk of material misstatement at the relevant assertion level, the auditor should consider whether the results of audit procedures applied are reasonably expected to provide a basis for concluding on the appropriateness of audit evidence obtained. (Ref: par. A49–A73)</u>	<u>A49. The nature, timing, and extent of audit procedures performed on information influences the persuasiveness of the audit evidence obtained. For example, inspection or observation provides more persuasive audit evidence than inquiry about existence.</u>
	<u>A50. As explained further in AU-C section 315 and AU-C section 330, audit evidence to draw reasonable conclusions on which to base the auditor’s opinion is obtained by performing the following:^{23 24}</u> <ul style="list-style-type: none"> <u>a. Risk assessment procedures</u> <u>b. Further audit procedures, which comprise</u> <ul style="list-style-type: none"> <u>i. tests of controls, when required by the AU-C sections or when the auditor has chosen to do so, and</u> <u>ii. substantive procedures, which include tests of details and substantive analytical procedures.</u>
	<u>A51. 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 through the use of automated tools or techniques.</u>
	<u>A52. An example of automated tools or 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</u>

²³ Paragraphs .05–.06 of AU-C section 315.

²⁴ Paragraphs .06–.07 of AU-C section 330.

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	<u>related to the subject matter of an audit through analysis, modeling, or visualization.</u>
	<u>A53.The auditor may use automated tools or techniques such as audit data analytics, to process, organize, structure, or present data in a given context to generate useful information to be used as audit evidence.</u>
	<u>A54.The nature and timing of the audit procedures to be performed 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.</u>
	<u>A55.Certain electronic information may not be available after a specified period of time (for example, if files are changed and backup files do not exist). Accordingly, the auditor may find it necessary, as a result of data retention policies, to request retention of some information for the performance of audit procedures at a later point in time or to perform audit procedures at a time when the information is available.</u>
	<u>A56.Some electronic information (for example, records maintained on a 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 information about transactions on a real-time basis.</u>
	<u>A57.Audit procedures performed on information can include inspection, observation, confirmation, recalculation, reperformance, and analytical procedures, often in some combination, in addition to inquiry. These procedures may be performed either manually or using automated tools and techniques such as audit data analytics. Although inquiry may provide important information and may even lead to the identification of a potential misstatement, inquiry of management alone ordinarily does</u>

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	<u>not provide sufficient appropriate audit evidence.</u>
	<u>Inspection</u>
	<u>A58. 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. An example of inspection used as a test of controls is inspection of records for evidence of authorization which can be performed manually or through automated techniques.</u>
	<u>A59. 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 aid the auditor in identifying items for further audit considerations.</u>
	<u>Observation</u>
	<u>A60. 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).</u>
	<u>A61. 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.</u>
	<u>A62. Audit evidence obtained through observation procedures is limited to the point in time at which the observation takes place and by the fact that the act of being observed may affect how the process or procedure is performed.</u>
	<u>External Confirmation</u>

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	<u>A63. An external confirmation consists of the auditor obtaining a direct response knowingly provided to the auditor by a third party (the confirming party). See AU-C section 505, External Confirmations, for further guidance.</u>
	<u>Recalculation</u>
	<u>A64.Recalculation consists of testing the mathematical accuracy of information. Recalculation may be performed manually or through automated techniques.</u> <u>A65.Through the use of automated techniques auditors may be able to perform recalculation procedures on 100 percent of a population, for example, recalculating the gross margin for each product sold for an entity’s product line.</u>
	<u>Reperformance</u>
	<u>A66.Reperformance involves the independent execution of procedures or controls that were originally performed as part of the entity’s internal control.</u>
	<u>Analytical Procedures and Audit Data Analytics</u>
	<u>A67.As a risk assessment procedure, an audit data analytics technique may be used to produce a visualization of 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 information about the identification and assessment of the risks of material misstatement, it may not be sufficiently precise in obtaining information to respond to the assessed risks of material misstatement at the assertion level.</u>

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<p>a.—Obtaining audit evidence about the accuracy and completeness of the information (Ref: par. .A50 .A51)</p>	<p><i>Information Produced by the Entity and Used for the Auditor’s Purposes (Ref: par. .09a–b)</i></p> <p>.A50—In order for the auditor to obtain reliable audit evidence, information produced by the entity, including any management’s specialist, that is used for performing audit procedures needs to be sufficiently complete and accurate. For example, the effectiveness of an audit procedure, such as applying standard prices to records of sales volume to develop an expectation of sales revenue, is affected by the accuracy of the price information and the completeness and accuracy of the sales volume data. Similarly, if the auditor intends to test a population (for example, payments) for a certain characteristic (for example, authorization), the results of the test will be less reliable if the population from which items are selected for testing is not complete.</p> <p><u>A6.A68.</u><u>A51</u>Obtaining audit evidence about the accuracy and completeness of such information may be accomplished concurrently with the actual audit procedure applied to the information when obtaining such audit evidence is an integral part of the audit procedure itself. In other situations, the auditor may have obtained audit evidence of the accuracy and completeness of such information by testing controls over the preparation and maintenance of the information. In some situations, however, the auditor may determine that additional audit procedures are needed.<u>An auditor may use automated tools or techniques such as audit data analytics 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</u></p>

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	<p><u>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. Further, the auditor may also determine that the audit data analytics technique performed 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.²⁵ Thus, the data analytic may be used to perform both a risk assessment procedure and a further audit procedure (that is, a substantive analytic procedure).</u></p>
	<p><u>A69.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, the auditor may be able to obtain corroborating information about the effectiveness of sequential numbering of sales invoices for the year through use of audit data analytics and determine whether any gaps in numbering or duplicates exist thereby providing information about completeness of invoices issued during the period.</u></p>

²⁵ See paragraph 5c of AU-C section 520.

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<p><i>b. Evaluating whether the information is sufficiently precise and detailed for the auditor's purposes (Ref: <u>par. A52</u>)</i></p>	<p><i>Information Produced by the Entity and Used for the Auditor's Purposes (Ref: <u>par. 09a-b</u>)</i></p> <p><i>A50—In order for the auditor to obtain reliable audit evidence, information produced by the entity, including any management's specialist, that is used for performing audit procedures needs to be sufficiently complete and accurate. For example, the effectiveness of an audit procedure, such as applying standard prices to records of sales volume to develop an expectation of sales revenue, is affected by the accuracy of the price information and the completeness and accuracy of the sales volume data. Similarly, if the auditor intends to test a population (for example, payments) for a certain characteristic (for example, authorization), the results of the test will be less reliable if the population from which items are selected for testing is not complete.</i></p> <p><i><u>A7.A70.A51</u>Obtaining audit evidence about the accuracy and completeness of such information may be accomplished concurrently with the actual audit procedure applied to the information when obtaining such audit evidence is an integral part of the audit procedure itself. In other situations, the auditor may have obtained audit evidence of the accuracy and completeness of such information by testing controls over the preparation and maintenance of the information. In some situations, however, the auditor may determine that additional audit procedures are needed. <u>Scanning</u> is a type of analytical procedure involving the auditor's exercise of professional judgment to review 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</i></p>

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	<p><u>analysis of, for example, entries in transaction listings, subsidiary ledgers, general ledger control accounts, adjusting entries, suspense accounts, reconciliations, and other detailed reports for indications of misstatements that have occurred. Automated audit procedures may assist the auditor in identifying unusual items. When the auditor selects items that exhibit characteristics of risk of material misstatement by scanning, the auditor obtains audit evidence about those items. The auditor’s scanning also provides audit evidence about the items not exhibiting characteristics of risks of material misstatements because the auditor has exercised professional judgment to determine that the items not selected are less likely to be misstated. The auditor may use automated tools or techniques to perform a scanning procedure. For example, the auditor might access an entire population of transactions using automated tools and techniques to extract only those transactions meeting the auditor’s criteria for a transaction being unusual.</u></p>
	<p><u>A71. 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. Evaluating responses to inquiries is an integral part of the inquiry process.</u></p>
	<p><u>A72. Responses to inquiries may provide the auditor with information not previously possessed or with corroborative information. Alternatively, responses might provide information that differs significantly from other audit evidence that the auditor has obtained (for example, 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.</u></p>

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	<u>A73.AU-C section 520 addresses the auditor’s use of analytical procedures as a means for obtaining audit evidence. Audit data analytics are a technique by which the auditor may perform analytical procedures.</u>
Inconsistency in, or Doubts Over and Reliability of, Audit Evidence	<u>Inconsistency and Reliability of Audit Evidence (Ref: par. 15)</u>
<p>4.15. .10 If</p> <ul style="list-style-type: none"> i. a. audit evidence obtained from one source is inconsistent with that obtained from another or ii. b. the auditor has doubts about the reliability of information to be used as audit evidence, <p>the auditor should determine what modifications or additions to audit procedures are necessary to resolve the matter and should consider the effect of the matter, if any, on other aspects of the audit. (Ref: par. .A53)(Ref: par. A74–A75)</p>	<p><u>Inconsistency in, or Doubts Over Reliability of, Audit Evidence (Ref: par. .10)</u></p> <p>A8.A74. A53 Obtaining audit evidence <u>Information 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 <u>information</u> 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 are inconsistent or when responses to inquiries of those charged with governance made to corroborate the responses to inquiries of management are inconsistent with the response by management. Section an external confirmation is inconsistent with the terms of a debt obligation. <u>AU-C section 230, Audit Documentation</u>, includes a specific documentation requirement if the auditor identified <u>identifies</u> information that is inconsistent with the auditor’s final conclusion regarding a significant finding or issue. ^{fn-14-26}</p>

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

²⁶ Paragraph .12 of section 230

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	<p><u>A75. In the case of inquiries about management's intent, the information available to support management's intent may be limited.²⁷ AU-C section 580, <i>Written Representations</i> provides guidance about obtaining written representations that address management's intent. The exercise of professional skepticism is particularly important when corroborative audit evidence is limited to inquiry. In these cases, understanding management's past history of carrying out its stated intentions, management's stated reasons for choosing a particular course of action, and management's ability to pursue a specific course of action may provide relevant information about the information obtained through inquiry if it is not inconsistent.</u></p>

²⁷ See paragraph .A13 of AU-C section 580, *Written Representations*

A76.

Appendix A – Considerations Regarding the Use of External Information Sources

- .1 As defined in paragraph .09, an external information source is an individual or organization that is external to the entity that develops information that has been used by the entity in preparing the financial statements, or that has been used by the auditor as audit evidence, when such information is available for use by a broad range of users.
- .2 External information sources may include pricing services, governmental organizations, central banks, recognized stock exchanges, media, or academic journals. Examples of information that may be obtained from external information sources include:
- Prices and pricing related data;
 - Macro-economic data, such as historical and forecast unemployment rates and economic growth rates, or census data;
 - 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.
- .3 An external individual or organization cannot, in respect of any particular set of information, be both an external information source and:
- a management’s specialist,
 - service organization, or
 - auditor’s specialist.
- .4 When information has been provided by an individual or organization acting in the capacity of management’s specialist, service organization²⁸, or auditor’s specialist²⁹ the particular information individual or organization is not considered an external information source with respect to that particular information.
- .5 However, an external individual or organization may, for example, be acting as a management’s specialist when providing a particular set of information but may be acting as an external information source when providing a different set of information. Professional judgment may be needed to determine whether an external individual or organization is acting as an external information source or as a management’s expert with

²⁸ AU-C section 402, *Audit Considerations Relating to an Entity Using a Service Organization.*

²⁹ AU-C section 620, *Using the Work of an Auditor’s Specialist.*

respect to a particular set of information. In other circumstances, the distinction may be clear. For example:

- 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 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 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 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 specialist 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.
- 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*), such information would ordinarily be considered to be information from an external information source. However, if the same type of information has been specifically commissioned by the entity to use its expertise to develop information about those risks, tailored to the entity's circumstances, the external individual or organization is likely to be acting as a management's specialist.
- 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 specialist.

- .6 The auditor is required by paragraph 11 to consider the relevance and reliability of information to be used as audit evidence regardless of whether that information has been used by the entity in preparing the financial statements or was obtained by the auditor. For information obtained from an external information source, that consideration may, in certain cases, include:
- Information about the external information source or the preparation of the information by the external information source, or
 - Audit evidence obtained through designing and performing further audit procedures in accordance with AU-C section 330 or, where applicable, AU-C section 540.
- .7 Obtaining an understanding of why management or, when applicable, a management’s specialist 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 those same attributes of that information.
- .8 The following factors may be important when evaluating the relevance and reliability of information obtained from an external information source, including whether it is sufficiently accurate and complete, 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:
- 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 information to the public can likely be considered a reliable external information source for certain types of information;
 - The ability of management to influence the information obtained, through relationships between the entity and the external 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 an external information 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 transactions;
 - 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;³⁰
 - 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.
- .9** The nature and extent of the auditor's consideration takes into account the assessed risks of material misstatement at the assertion level to which the use of the external information is relevant, the degree to which the use of that information is relevant to the reasons for the assessed risks of material misstatement, and the possibility that the information from the external information source may not be reliable (for example, whether it is from a credible source). Based on the auditor's consideration of the matters described in paragraph 6, the auditor may determine that further understanding of the entity and its environment, including its internal control, is needed, in accordance with AU-C section 315, or that further audit procedures, in accordance with AU-C section 330,³¹ and AU-C section 540³² when applicable, are appropriate in the circumstances, to respond to the assessed risks of material misstatement related to the use of information from an external information source. Such procedures may include:
- Performing a comparison of information obtained from the external information source with information obtained from an alternative independent information source.
 - When relevant to considering management's use of an external information source, obtaining an understanding of controls management has in place to consider the reliability of the information from external information sources, and potentially testing the operating effectiveness of such controls.
 - Performing procedures to obtain information from the external information source to understand its processes, techniques, and assumptions, for the purposes of identifying, understanding and, when relevant, testing the operating effectiveness of its controls.
- ~~1.10~~** 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 AU-C section 705, *Modifications to the Opinion in the Independent*

³⁰ See paragraphs .A56–.A62 of AU-C section, *Audit Evidence—Specific Considerations for Selected Items*.

³¹ Paragraph .06 of AU-C section 330.

³² Paragraphs .12–.14 of AU-C section 540

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