



Agenda Item 1A

Proposed Statement on Auditing Standards *Audit Evidence*

Introduction

Scope of This Proposed SAS

1. This proposed Statement on Auditing Standards (SAS) explains what constitutes audit evidence in an audit of financial statements and addresses how an auditor evaluates information to be used as audit evidence.

~~**1-2.** This proposed SAS sets out attributes and factors of information to be used as audit evidence, including the attributes of the relevance and reliability of the information, including its source from which the information is obtained, and whether the information corroborates or contradicts the assertions in the financial statements are key concepts when the auditor evaluates information to be used as audit evidence. Taking these attributes into account assists the auditor in demonstrating how professional skepticism has been appropriately exercised during the audit.~~

~~**2.** — Audit evidence is cumulative in nature and is obtained primarily through the performance of one or more audit procedures on information obtained during the course of the audit. (Ref: par. A1, A6-A7)~~

3. 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, including those that address the auditor's responsibilities to identify and assess the risks of material misstatement,¹ design and implement responses to the risks of material

* All AU-C sections can be found in AICPA *Professional Standards*.

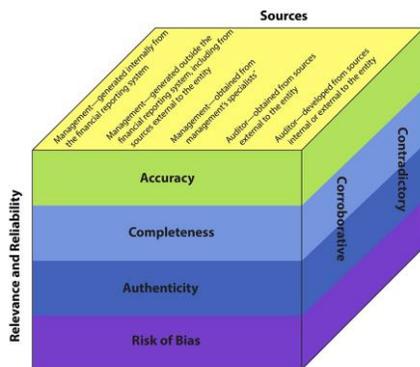
¹ See AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*.

misstatement identified and assessed by the auditor,² and form an opinion on the financial statements.³ In particular, AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*, 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. A1)

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 audit evidence.~~ The auditor's overall evaluation conclusion about ~~of~~ whether sufficient appropriate audit evidence has been obtained is a matter of professional judgment based on the results of audit procedures performed and includes evaluating the following: (Ref: par. A2–A3)

- .a Whether the assessment of the risks of material misstatement at the financial statement and at the relevant assertion levels remains appropriate
- ~~.b The nature, timing, and extent of the audit procedures performed~~
- ~~.c The evaluation of information to be used as audit evidence obtained from those procedures~~ in accordance with this proposed SAS (Ref: par. A2)

5. ~~This proposed SAS sets out attributes and factors of information to be used as audit evidence including the relevance and reliability of the information, the source from which the information is obtained, 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:⁴~~



6. _____

7. _____

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

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

⁴ See AU-C section 501, *Audit Evidence—Specific Considerations for Selected Items*.

Field Code Changed

~~(Ref: par. A4)~~

Effective Date

~~8.5.~~ This proposed SAS is effective for audits of financial statements for periods beginning on or after ~~June~~ December 15, 2021.

Objective

~~6.~~ The objective of the auditor is to ~~evaluate~~ evaluate information to be used as audit evidence, ~~including the results of audit procedures, to inform the auditor's overall conclusion about whether sufficient appropriate audit evidence has been obtained.~~

Definitions

~~9.7.~~ For purposes of generally accepted auditing standards (GAAS), the following terms have the meanings attributed as follows:

Appropriateness (of audit evidence). The measure of the ~~relevance and reliability~~ quality of audit evidence, ~~that is, its relevance and reliability in providing support for the conclusions on which the auditor's opinion is based.~~ (Ref: par. A4–A5)–

Audit evidence. Information used by the auditor ~~in~~ arriving at the conclusions on which the auditor's opinion is based. Audit evidence consists of information that both corroborates or contradicts assertions in the financial statements. (Ref: par. A6A9–A9A7)

External information source. An individual or organization external to the entity that ~~develops~~ provides information used by the entity in preparing the financial statements or ~~used that has been obtained~~ by the auditor as audit evidence, when such information is ~~available~~ suitable for use by a broad range of users. When information has been provided by an individual or organization acting in the capacity of management's specialist, service organization,⁴ or auditor's specialist,⁵ the individual or organization is not considered an external information source with respect to that particular information. ~~(Ref: par. A8).~~

Sufficiency (of audit evidence). The measure of the ~~persuasiveness~~ quantity of audit evidence. The ~~persuasiveness~~ quantity of audit evidence necessary is affected by the auditor's assessment of the risks of material misstatement and the quality of the audit evidence obtained (that is, its appropriateness). (Ref: par. A10–A11A5)

Requirements

~~Sufficient Appropriate Audit Evidence~~

~~10.~~ As a basis for concluding whether sufficient appropriate audit evidence has been obtained as required by AU-C section 330, the auditor should ~~evaluate the information to be used as audit~~

⁴ See AU-C section 402, *Audit Considerations Relating to an Entity Using a Service Organization*.

⁵ See AU-C section 620, *Using the Work of an Auditor's Specialist*.

~~evidence in accordance with paragraphs 10–12 of this proposed SAS. (Ref: par. A9–A11)~~

Evaluating Information to Be Used as Audit Evidence

Relevance and Reliability

~~8. In evaluating~~The auditor should evaluate information to be used as audit evidence ~~in accordance with paragraph 9, the auditor should consider~~by taking into account:

~~a. its the~~the relevance and reliability of the information, including the~~its source~~of the information, and

~~b. whether such information corroborates or contradicts assertions in the financial statements. The auditor should also consider whether the information is sufficiently reliable for the auditor's purposes, including as necessary (Ref: par. A12–A46)~~

~~9. The auditor's evaluation of the information to be used as audit evidence in accordance with paragraph 8, should include, when necessary:~~evaluating whether (Ref: par. A12–A33)

~~a. the information is sufficiently precise and detailed for the auditor's purposes~~obtaining audit evidence about~~obtaining audit evidence about~~ the accuracy and completeness of the information ~~and/or~~

~~a.~~

~~b. evaluating whether the information is sufficiently precise and detailed for the auditor's purposes.~~

~~11. In evaluating information to be used as audit evidence in accordance with paragraph 9, the auditor should consider the sources of the information to be used as audit evidence. (Ref: par. A34–A44)~~

Corroborative or Contradictory Information

~~12. In evaluating information to be used as audit evidence in accordance with paragraph 9, the auditor should consider whether such information corroborates or contradicts the assertions in the financial statements. (Ref: par. A45–A48)~~

Audit Procedures for Obtaining Audit Evidence

~~13.10. When designing and performing audit procedures~~In evaluating information to be used as audit evidence, the auditor should consider whether the results of ~~such~~audit procedures ~~are reasonably expected to~~ provide a basis for concluding on the sufficiency and appropriateness of audit evidence obtained. (Ref: par. ~~A47,A49–A72,A69,A81~~)

Inconsistency in, or Doubts Over, About the Reliability of, Information to be Used as Audit Evidence or Inconsistencies in Audit Evidence

~~14.11.~~ The auditor should determine ~~what~~whether modifications or additions to audit procedures are necessary to resolve doubts about the reliability of information to be used as audit evidence

~~and/or any inconsistencies in audit evidence, including when the matter and should consider the effect of the matter, if any, on other aspects of the audit if~~

- ~~a. Information to be used as audit evidence obtained from one source is inconsistent with that obtained from another source or contradicts an assertion in the financial statements~~
- ~~b. Information to be used as audit evidence contradicts assertions in the financial statements~~
- ~~c. The results of an audit procedure are inconsistent with the results of another audit procedure the auditor has doubts about the reliability of information to be used as audit evidence. (Ref: par. A73A70A82-A74A71A83)~~

Application and Other Explanatory Material

Scope of This Proposed SAS (Ref: par. 1-45)

~~A1. The nature of the audit procedures that the auditor performs on information to obtain audit evidence may range from simple to more extensive procedures, and the time required to perform such procedures varies accordingly.~~

~~A2-A1.~~ 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 do the following:

- Design and perform further audit procedures whose nature, timing, and extent are based on, and are responsive to, the assessed risks of material misstatement at the relevant assertion level.⁶
- Obtain more persuasive audit evidence the higher the auditor's assessment of risk.⁷
- Conclude whether sufficient appropriate audit evidence has been obtained.⁸
- Attempt to obtain further audit evidence if the auditor has not obtained sufficient appropriate audit evidence about a relevant assertion.⁹

In addition, AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*, requires the auditor to conclude whether reasonable assurance has been obtained about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. The conclusions required by AU-C section 700 take into account, among other things, whether sufficient appropriate audit evidence has been obtained in accordance with AU-C section

⁶ Paragraph .06 of AU-C section 330.

⁷ Paragraph .07b of AU-C section 330.

⁸ Paragraph .28 of AU-C section 330.

⁹ Paragraph .29 of AU-C section 330.

330.¹⁰

~~A3.A2.~~ AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*, defines professional judgment and professional skepticism.¹¹ AU-C section 200 and AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*, provide application material about exercising professional skepticism and professional judgment.¹²

~~A4.A3.~~ The auditor's evaluation of information to be used as audit evidence is not a formulaic exercise but rather is multidimensional and is dependent on the degree to which the attributes ~~and factors~~ of information to be used as audit evidence influence the auditor's evaluation.

Definitions (Ref: par. 7)

Appropriateness (of audit evidence)

~~A5.~~

~~A4.~~ As explained in AU-C section 200, the sufficiency and appropriateness of audit evidence are interrelated.¹³ Together they affect the persuasiveness of audit evidence. The auditor's conclusion ~~about~~ whether sufficient appropriate audit evidence has been obtained in accordance with AU-C section 330 is both at the financial statement level as well as the relevant assertion level. The evidence that is needed is affected by the risk of material misstatement. As the risk increases, the need for more persuasive evidence ~~needed~~ also increases. For example, ordinarily more persuasive evidence is needed to respond to significant risks.

~~A5.~~ ~~When considering the persuasiveness of audit evidence, the amount of audit evidence obtained may be a factor for the~~ The auditor to consider quantity of audit evidence, in and of itself, is not determinative of its sufficiency when considering the persuasiveness of audit evidence. ~~As the quality of evidence increases, the need for additional evidence decreases. However, obtaining more audit evidence may not compensate for its lack of appropriateness. Depending on the auditor's consideration of relevance and reliability, information obtained from a single source may provide persuasive evidence (for example, corroborating evidence obtained from an external information source).~~

Audit Evidence

~~A6.~~ Audit evidence is cumulative in nature and is obtained primarily through the performance of one or more audit procedures on information obtained during the course of the audit. The auditor may also use automated tools and techniques as a means to obtain audit evidence.

¹⁰ Paragraph .14 of AU-C section 700.

¹¹ Paragraph .14 of AU-C section 200.

¹² 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*.

¹³ See paragraph A33 of this proposed SAS.

~~A7.~~ The nature of the audit procedures that the auditor performs in order to use information as audit evidence may depend on its source and may range from simple to more extensive procedures. For example, when using information from an external information source, it may be relatively easy to obtain the information and the auditor's considerations are largely focused on considering the source of that information. On the other hand, more extensive procedures, including procedures to test controls, may be necessary when the auditor intends to use information generated internally from the financial reporting system as audit evidence. For example, inspection or observation may provide more persuasive audit evidence than inquiry about existence.

~~A6.A8.~~ Audit evidence is information to which audit procedures have been applied. Audit evidence may be obtained by the auditor

- a. during the course of the current year audit.
- b. 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.¹⁴
- c. based on the results of applying the firm's quality control procedures for client acceptance and continuance to the engagement.

~~A7.A9.~~ In some cases, the absence of information is used by the auditor and, therefore, also constitutes audit evidence.¹⁵ For example, when considering ~~whether contradictory~~ information may exist regarding ~~management's assertions related to~~ the entity's recorded warranty provision, the absence of sales returns of the product in question may be evidence supporting management's ~~assertion as to the completeness of the warranty provision~~ recorded amount.

~~See appendix A, "Considerations Regarding the Use of External Information Sources," for the auditor's considerations when using external information sources.~~

Sufficiency (of audit evidence)

~~A8.~~

Sufficient Appropriate Audit Evidence (Ref: par. 9)

~~A9.A10.~~ 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.¹⁶

~~A10.~~—Audit evidence is sufficient (that is, persuasive) when another experienced auditor would be persuaded to be persuaded to reach conclusions for the auditor's purposes based on consideration of ~~conclude that~~ the audit evidence is sufficient. The ~~more significant the conclusion~~

¹⁴ Paragraph .10 of AU-C section 315.

¹⁵ Paragraph .A32 of AU-C section 200.

¹⁶ Paragraph .06 of AU-C section 200.

~~being reached~~ higher the assessed risks of material misstatement, the more persuasive the audit evidence required to support the conclusion may need to be.¹⁷

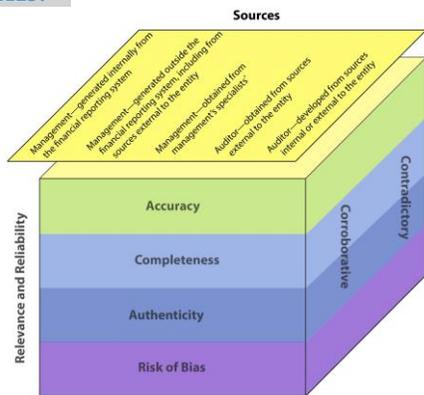
~~A11. The amount of audit evidence, in and of itself, is not determinative of its sufficiency. Obtaining more of the same type of audit evidence cannot compensate for its lack of appropriateness. In such cases, the auditor may find it necessary to obtain evidence from more than one source. On the other hand, depending on the auditor's consideration of relevance and reliability, a single source of information may provide persuasive evidence (for example, corroborating evidence obtained from an external information source).~~

Evaluating Information to Be Used as Audit Evidence Sources (Ref: par. 8)

~~A12. The auditor's evaluation of information to be used as audit evidence in accordance with this proposed SAS involves exercising professional skepticism, including the consideration of whether unconscious or conscious auditor's bias may affect the auditor's professional judgments.~~

~~Sources (Ref: par. 11)~~

~~A13.~~



~~A14.A13. The reliability of evidence depends on the nature and source of the evidence and the circumstances under which it is obtained. Generally, the reliability of audit evidence increases when it is obtained from external parties because the information is less susceptible to management bias. Consideration of the sources of information to be used as audit evidence includes the possibility that the information source may not be reliable.~~

~~A14. Information to be used as audit evidence may take different forms, which influences the nature of procedures that may be necessary to evaluate the reliability of the information.~~

¹⁷ See paragraph 7b of AU-C section 330.

- Oral – information obtained through a verbal response to an inquiry of management or external information sources (for example, oral inquiries made during the course of the audit).
- Visual – information obtained through observation (for example, an error message that appears on-screen for a control restricting access to an information technology (IT) system).
- Paper documents – information obtained in written documentary form (for example, an original executed sales contract or a written confirmation).
- Electronic documents – information obtained in electronic documentary form (for example, a scanned version of an executed sales contract or an electronic confirmation).
- Electronic data – data stored in the entity’s IT system or obtained electronically from an external information source. Such data may be manually input into the system or may be electronically generated (for example, an electronic data interface between the entity and a service organization).

A15. 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 classes of transactions, account balances, or disclosures. 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, the relevant details. External confirmation procedures are also used to obtain audit evidence about the absence of certain conditions (for example, the absence of a side agreement that may influence revenue recognition).

Sources of Information to be Used as Audit Evidence

A15-A16. Information to be used as audit evidence may be obtained directly or derived individually or in combination from the different following sources, including the following:

- Management. Management may provide the auditor with information that is generated internally from the financial reporting system (including the entity’s accounting records) as well as information generated from outside the financial reporting system (for example, from the entity’s risk management or sales functions). Management may also employ or engage a specialist who may provide information that can be used as audit evidence.
- External parties, including external information sources. Management or the auditor may use information obtained from external parties, including external information sources (for example, information used as inputs to forecasts or models used to prepare accounting estimates). The auditor may obtain external confirmations or may make inquiries of external parties to corroborate management’s assertions.

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

c. Auditor. The auditor may develop information to be used as audit evidence. ~~For example, an auditor may accumulate and analyze industry trends to be used as audit evidence for the audits of entities in that industry. The auditor may also employ or engage a specialist to assist the auditor in developing audit evidence, which could include developing an independent expectation to be used in evaluating the reasonableness of an accounting estimate. The auditor may also use automated tools and techniques to analyze information provided by management or external parties, resulting in audit evidence.~~

~~a. Management—Generated internally from the financial reporting system~~

~~b. Management—Generated outside the financial reporting system, including from sources external to the entity~~

~~c. Management—Obtained from management’s specialists⁴⁹~~

~~d. Auditor—Obtained from sources external to the entity~~

~~e. Auditor—Developed from sources internal or external to the entity~~

~~The sources of information are not intended to indicate all sources possible but are included to assist with providing a framework by which to evaluate information to be used as audit evidence.~~

~~A16.A17. Consideration of the sources of information to be used as audit evidence includes the possibility that the information source may not be reliable.~~

~~A17.A18. As indicated in paragraph A16.A12, information to be used as audit evidence by the auditor may be obtained directly or derived individually or in combination from the different 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 external information sources); 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 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 index published by a government agency (an external information source).~~

~~A19. The auditor’s evaluation of information to be used as audit evidence of information to be used as audit evidence may be enhanced by the use of automated tools and techniques such as audit data analytics that may enable the auditor to aggregate or disaggregate, and consider information obtained from multiple sources. Audit data analytics are described as may be used to the analysis-analyze of patterns, identification-identify of anomalies, or extraction of other useful information in data underlying or related to the subject matter of an audit through analysis, modeling, or visualization. The auditor may c[RECOMMENDED EXAMPLE]~~

~~A18.~~

⁴⁹—See AU-C section 501.

~~A19,A20.~~ Accounting records are an example of information generated internally by management from the financial reporting system and may include the following:

- 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; and journal entries
- Records, such as spreadsheets, cost allocations, computations, reconciliations, and disclosures

~~A20,A21.~~ An example of information developed-generated by management from obtained by other internal sources outside the financial reporting system is internal marketing information used as an assumption in making an accounting estimate for a warranty provision.

~~A21,A22.~~ Internal information generated-generated from within or outside the general ledger and subsidiary ledgers by management may be as follows:

- a. may be in electronic or paper-written form. Examples of internal information in electronic form are electronic records of sales made through an entity's website.
- b. may be stored by the entity locally within its information-IT systems or in a network of remote servers (which may be referred to as the "cloud").

~~A22,A23.~~ Evaluating certain attributes factors-related to the relevance and reliability and factors of information obtained by the auditor-obtained from external information sources used by the auditor is ordinarily may not be beyond the auditor's control-practicable. For example, the auditor may not be able Practical considerations may limit the auditor's ability to evaluate the reliability of such information, in particular the ability to evaluate the completeness and accuracy of the information obtained from an external source to the same degree as the auditor would evaluate the completeness and accuracy of internal information obtained from management.

~~A23,A24.~~ In some situations, there may be only one provider-source of certain information external to the entity, for example, information from a central bank or government, such as an inflation rate or 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 the information is from a credible authoritative source, the extent of the auditor's further audit procedures may be less extensive, such as corroborating the information with the source's website or published information when information from an external information source is from a credible and authoritative source, such information may be more persuasive than information obtained from another source. In other cases, when information is from a source not assessed as credible, the auditor may determine that more extensive procedures are appropriate and, in the absence of any alternative independent information source against which to compare, may consider whether performing procedures to obtain information from the external information source, when practical, is appropriate in order to obtain sufficient appropriate audit evidence. if an external information source is not considered credible, the auditor may determine that more persuasive audit evidence

~~is necessary~~ (see paragraph 9 in appendix A).

~~A25.~~ Some sources of electronic information (~~for example, a record maintained in a distributed ledger, such as a blockchain~~) may provide a central location from which the auditor may obtain audit evidence. ~~For example, a record maintained in a distributed ledger, such as 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.

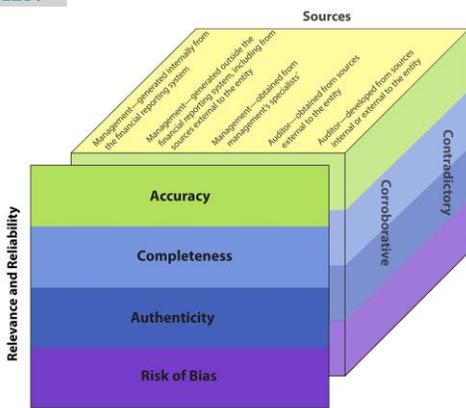
~~A26.~~ In certain circumstances, the source of information may be a combination of management and external parties. For example, if an entity develops a distributed ledger to capture transactions, there may be few or many other external parties participating in the transactions and contributing to the information included in the distributed ledger, including the entity. Therefore, when considering the source of the distributed ledger, the source is not solely management (that is, the information contributed by management), but also includes information from external parties. In such circumstances, the auditor uses professional judgment to assess the relevance and reliability of the audit evidence.~~the information provided by [RECOMMENDED EXAMPLE]~~

External Information Sources

~~A24.~~~~A27.~~ See appendix A, “Considerations Regarding the Use of External Information Sources,” for the auditor’s considerations when using external information sources.

Relevance and Reliability (Ref: par. 8)

~~A25.~~



Relevance

~~A26.~~~~A28.~~ 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 auditor’s purposes. ~~Such~~

information may be relevant when applying multiple audit procedures. The following are factors that, individually or in combination, may affect the relevance of information to be used as audit evidence:

- The classes of transactions, account balances, classes of transactions, or disclosures or assertions to which the information relates. Information to be used as audit evidence may be relevant to multiple classes of transactions, account balances or disclosures, or assertions. The objective of the audit procedures performed, including the assertions being tested
- The account balances, classes of transactions, or disclosures to which the information relates
- The period of time to which the information relates.
-

A27, A29. The following examples illustrate the relevance of information to be used as audit evidence:

- If the objective of an audit procedure is to test the existence or valuation of accounts payable, testing information related to the recorded accounts payable may provide relevant audit evidence. On the other hand, when testing the completeness of accounts payable, testing information related to the recorded accounts payable would not provide relevant audit evidence; however, information such as subsequent disbursements, unpaid invoices, suppliers' statements, and unmatched receiving reports may provide relevant audit evidence.
- Information related to employee salaries may provide relevant audit evidence regarding an accounting estimate for a bonus accrual.
- 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 completeness of receivables and revenue.
- Information related to commodity pricing is used to perform an audit data analytic to test recorded revenue. The period of time utilized used for the commodity pricing data should be relevant to the time period revenue was recorded.

A30. Certain information to be used as audit evidence, whether in paper or electronic form, may have direct relevance to the provides evidence of the existence of an asset, for example:

- (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) depending on the source of the information may provide relevant audit evidence about existence but). Other information may provide only some evidence of

existence of an asset (for example, a record viewed on a blockchain may be subject to consideration of the reliability of the blockchain itself). However, inspection of such information regarding existence 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.

~~A28. or the valuation of the assets.~~

- Inspection of individual inventory items may accompany the observation of inventory counting.²⁰ 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 obtain audit evidence relevant to their existence, which information technology(i.d system

~~A29. External confirmation²¹ 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, the relevant details. External confirmation procedures are also used to obtain audit evidence about the absence of certain conditions (for example, the absence of a side agreement that may influence revenue recognition).~~

Reliability

~~A30.A31.~~ The reliability of information is affected to varying degrees by the following attributes, individually or in combination:

- Accuracy
- Completeness
- Authenticity
- Risk Susceptibility of to management bias

~~A31.A32.~~ The auditor's consideration of the reliability of audit evidence is also influenced by the auditor's professional judgment and application of professional skepticism, the assessment of the risks of material misstatement, and the audit procedures performed.

~~A32.A33.~~ Determining whether controls are effectively designed and implemented may help the auditor design appropriate audit procedures to evaluate the reliability of information, including testing controls over the completeness and accuracy of the information when necessary. In some

²⁰—See AU-C section 501.

²¹—See AU-C section 505, *External Confirmations*.

~~cases, the reliability of such information may only be established when the related controls (whether manual or automated), including those over the preparation and maintenance of the information, have been tested and determined to be operating effectively. Information, whether internal or external, may be considered more reliable when controls over such information are effectively designed and have been implemented. The reliability of such information may be enhanced when the related controls (whether manual or automated), including those over its preparation and maintenance, have been tested and determined to be operating effectively.~~²²

A34. Information obtained directly by the auditor (for example, observation of the application of a control) may be more reliable than information obtained indirectly or by inference (for example, inquiry about the application of a control). In the latter circumstance, the auditor may perform additional procedures to evaluate the reliability of the information obtained indirectly or by inference such as by reperforming the control activity.

~~**A33.**~~

A35. Information in documentary form, whether paperwritten, electronic, or other medium, may be more reliable in certain circumstances than evidence obtained orally (for example, a contemporaneously written record of a meeting may be more reliable than a subsequent oral representation of the matters discussed).

A36. Using electronic documents may require the auditor to perform additional procedures to establish its reliability. For example, when using a scanned version of an executed sales contract provided by the sales department, additional audit procedures may be necessary such as confirmation of the key terms with a third party, if the auditor has not tested the operating effectiveness of the controls around execution of the original contract and the maintenance of the scanned version.

Accuracy and Completeness

~~**A34.**~~**A37.** In accordance with paragraph 98, the auditor is required to determine whether it is necessary consider whether information is sufficiently reliable for the auditor's purposes and whether evidence to obtain audit evidence about the accuracy and completeness of the information may be needed. For example, the reliability of the price and sales volume data produced by the entity used to develop an expectation of sales revenue is affected by the accuracy and completeness of the information being used. 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.

~~**A35.**~~**A38.** The auditor may obtain audit evidence about the accuracy or completeness of information to be used as audit evidence through the performance of an audit procedure that was not primarily intended for that purpose. 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

²² See also paragraph .05b of AU-C section 520, *Analytical Procedures*.

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 transactions).

~~A36. In some cases, the auditor may use information developed by management outside of the financial reporting system for audit purposes. For example, the auditor may use the entity's performance measures for the purpose of analytical procedures. In such cases, the reliability of the information obtained is affected by affected by multiple factors, including whether such information is subject to controls, how the information is used by management and 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).~~

Authenticity ~~[WILL NEED TO BE EDITED]~~

~~A37. 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.²³ 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.~~

~~A39. When information has been transformed from its original medium (for example, documents that have been filmed, digitized, scanned or otherwise transformed to electronic form), the reliability of that information may depend on the controls over the information's 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 are needed to address the reliability authenticity are needed (for example, inspecting underlying original documents to validate the authenticity of information in electronic form). However, 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. However, when the auditor identifies conditions that cause the auditor to believe that a document may not be authentic, that terms in a document may have been modified but not disclosed to the auditor, or that undisclosed side agreements may exist, procedures to evaluate authenticity may include~~

- ~~confirming directly with the third party.~~
- ~~using the work of a specialist to assess the document's authenticity.²⁴~~

~~Susceptibility of to Management Bias~~

~~A38.A40. Information with a higher susceptibility risk of to management bias is considered less reliable than information for which the risk of management bias is lower unless audit~~

²³ Paragraph A11 of AU-C section 240, *Consideration of Fraud in a Financial Statement Audit*.

²⁴ AU-C 240, paragraph A11

procedures have been performed to address the higher risk of management bias.

~~A39.~~—A susceptibility risk of to management bias may exist in the development of information itself or may exist due to interpretation of the information by the entity. A greater susceptibility to management bias may exist when information is generated from internal sources, or the auditor.

Management Bias

~~A40, A41.~~ A greater risk of management bias may exist when information is generated from internal sources.

~~A41, A42.~~ Professional judgment may be required in determining the impact of management bias in evaluating the reliability of information from external information sources to be used as audit evidence. The auditor may by taking take into account the following:

- a. The ability of the entity to influence the external information source
- b. Management's selection of information from an external source known to be favorably biased toward corroborating management's assertions or information
- c. Management's unknowing use of information from an external information source that is biased in generating information

~~A42, A43.~~ 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. The auditor may need to exercise judgment in determining the reliability of information to be used as audit evidence by taking into account the ability of the entity to influence the external source.

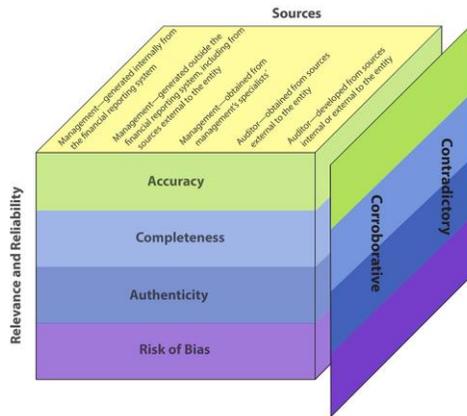
Auditor's Bias [TO DISCUSS AS TF]

~~A43.~~—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:

- a. Availability bias, which involves considering information that is easily retrievable as being more likely, more relevant, and more important for a judgment
- b. Confirmation bias, which involves seeking, and treating as more persuasive, information that is consistent with initial beliefs or preferences
- c. Overconfidence bias, which involves overestimating one's own abilities to perform tasks or to make accurate assessments of risk or other judgments and decisions
- 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

Corroborative or Contradictory Information (Ref: par. 12)

A44.



~~A45.~~ A44. 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.²⁵

~~A46.~~ A45. Evaluating the appropriateness of information to be used as audit evidence involves consideration taking into account of both information that corroborates assertions in the financial statements and information that contradicts assertions in the financial statements. For example, audit evidence obtained through the inspection of an original document may corroborate a financial statement assertion, while audit evidence obtained from confirmation with an external party may contradict that financial statement assertion. In this example, additional audit evidence may be necessary to provide audit evidence that would enable the auditor to conclude on the relevant assertion corroborating information obtained from a source independent of the entity may increase the assurance that the auditor obtains from information that is generated internally.

~~A46.~~ When the auditor evaluates information to be used as audit evidence, such information may be relevant even when the auditor may consider information that contradicts assertions in the financial statements even when the source of that contradictory information is less reliable than the source of corroborative information. For example, in the audit of a depository institution, the auditor may obtain press reports of property value declines in a particular geography that contradict the report of an external appraisal provided by management to support the values of collateral for a loan portfolio. In this case the auditor may determine to perform additional procedures on the value of the property to assess the reliability of the appraisal received.

A47. 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. In such cases, the auditor uses professional judgment to evaluate the

²⁵ Paragraph .28 of AU-C section 330.

persuasiveness of the evidence taken as a whole rather than focusing on a single source of evidence. For example, an auditor may read a social media suggesting a company's product has major quality issues and that all buyers will be returning the product. The auditor may consider this information in light of the confirmations received regarding product sales and outstanding accounts receivable that indicated no quality or return issues; and in the context of the scanning of the sales returns sub-ledger that contained only an immaterial amount of returns subsequent to year end. In this case, the auditor may conclude that the contradictory information does not suggest a reasonably possible risk of material misstatement and performs no further procedures.

Audit Procedures for Obtaining Audit Evidence (Ref: par. 10)

A48. Audit procedures performed on information may 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 not provide sufficient appropriate audit evidence. The nature, timing, and extent of audit procedures performed on information influences the persuasiveness of the audit evidence obtained. For example, inspection or observation may provide more persuasive audit evidence than inquiry about existence.~~

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 may provide more persuasive audit evidence than inquiry about existence.~~

A50, A49. As explained further in AU-C section 315, ~~Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement~~, and AU-C section 330, ~~audit evidence~~ to draw reasonable conclusions on which to base the auditor's opinion, audit evidence is obtained by performing the following:^{26, 27}

- a. Risk assessment procedures
- b. Further audit procedures, which comprise
 - i. tests of controls, when required by the AU-C sections or when the auditor has chosen to do so, and
 - ii. substantive procedures, which include tests of details and substantive analytical procedures

A51. ~~The auditor may use automated tools and techniques, such as audit data analytics, to process, organize, structure, or present data in a given context in order to generate useful information that can be used as audit evidence.~~

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²⁶ Paragraphs .05-.06 of AU-C section 315.

²⁷ Paragraphs .06-.07 of AU-C section 330.

A50.

A51. In some instances, the auditor may achieve the objective of more than one type of audit procedure (for example, both a risk assessment and further audit procedure) simultaneously by using automated tools and techniques.

Electronic Information

~~**A52.** The auditor may use automated tools and techniques, such as audit data analytics, to process, organize, structure, or present data in a given context in order to generate useful information that can be used as audit evidence.~~

A53. Some information may be available only in electronic form or only at certain points or periods in time, which may affect the nature and timing of the audit procedures to be performed.

A54. Certain electronic information may be destroyed or deleted after a specified period of time (for example, if files are changed and backup files do not exist). Accordingly, as a result of the entity's data retention policies, the auditor may find it necessary 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.

A55. 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 using automated tools and techniques, such as audit data analytics or artificial intelligence, to obtain information about transactions on a real-time basis.

~~**A56.** Audit procedures performed on information may 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 not provide sufficient appropriate audit evidence.~~

Inspection

A57. Inspection involves a physical examination of an asset or an examination of records or documents, whether internal or external or in paper form, electronic form, or other media. An example of inspection used as a test of controls is inspection of records, using manual or automated techniques, ~~of records~~ for evidence of authorization. An example of an automated technique for inspection is the use of text-recognition programs to examine large populations of documents, such as contracts, to identify items for further audit consideration.

Observation

A58. Observation ~~consists of~~ includes 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).

A59. Automated tools and 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.

A60. 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.

External Confirmation ~~DO WE WANT TO DEVELOP ADDITIONAL GUIDANCE?!~~

A61. An external confirmation ~~is defined as represents audit evidence obtained by is a direct response knowingly provided to the auditor as a direct written response to the auditor from by a~~ third party (the confirming party), ~~either in paper form or by electronic or other medium (for example, through the auditor's direct access to information held by a third party).~~ See AU-C section 505, *External Confirmations*, for further guidance.

Recalculation

A62. Recalculation consists of testing the mathematical accuracy of information. Recalculation may be performed manually or using automated tools and techniques.

A63. By using automated tools and 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.

Reperformance

A64. Repformance involves the independent execution of procedures or controls ~~by the auditor~~ that were originally performed as part of the entity's internal control.

Analytical Procedures and Use of Audit Data Analytics

A65. 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. Audit data analytics are a technique that the auditor may use to perform analytical procedures. Analytical procedures may be used as risk assessment procedures²⁸ or substantive analytical procedures.²⁹

A65. AU C section 520, *Analytical Procedures*, addresses the auditor's use of analytical procedures as a means for obtaining audit evidence. Audit data analytics are a technique that the auditor may use to perform analytical procedures. **[RECOMMENDED EXAMPLE]**

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²⁸ Paragraph of AU-C section 315

²⁹ Paragraph of AU-C section 520.

A66. As a risk assessment procedure, an audit data analytics technique may be used to produce a visualization of transactional detail. For example, a visualization depicting the composition of a population may be prepared to illustrate the volume and dollar value of items in the population. Although the auditor may find this technique useful in obtaining information in order to identify and assess the risks of material misstatement, the information provided may not be sufficiently precise for the auditor's purpose of obtaining information to respond to the assessed risks of material misstatement at the assertion level.

A67. An auditor may use automated tools and techniques, ~~such as audit data analytics, to perform as~~ both a risk assessment procedure and a substantive procedure concurrently. For example, audit data analytic techniques may be used to ~~analyze an entire population of transactions in order to identify, at the same time, those transactions with~~ relevant characteristics ~~of that warrant further investigation an entire population of transactions and 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 be considered ~~may constitute~~ a risk assessment procedure. ~~Further, the auditor may deem the audit data analytic~~ However, if the analysis performed using the audit data analytic is sufficiently precise ~~for the auditor to conclude that the population that does not warrant further investigation~~ ~~not~~, the audit data analytic may also ~~to respond to the assessed risks of material misstatement.~~³⁰ If so, 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 range of expectations.~~ Thus ~~Therefore~~, the audit data analytic technique may be used to perform both a risk assessment procedure and a further audit procedure (that is, a substantive analytical procedure).

A67.A68. An auditor may use an audit data analytic technique, such as a visualization of transactional detail, to address the objectives of a risk assessment procedure and a substantive procedure concurrently. For example, when performing risk assessment procedures related to payroll expense, the auditor may prepare a visualization that is based on a headcount report from the entity's human resources department, which contains a number of different attributes (or "data fields"). The auditor considers the various attributes of the report and performs audit procedures to evaluate whether the report is complete, accurate, and sufficiently precise for the audit objectives. The headcount report accumulates the number and employment classification of prior-year employees, current-year additions, terminations, and the ending number and employment classification of current year employees and represents the information used to develop the data visualization. While evaluating the headcount report, the auditor determines consistency exists in the entity's employee base. Also, consistent with prior year, the majority of the employees are represented by a labor union with three-year labor contracts providing predictability of payroll amounts. Using the same headcount information used in the data visualization, the auditor is also able to perform a substantive analytical procedure related to the expectation of payroll expense for the year. This substantive analytical procedure is sufficiently precise to detect a misstatement in accordance with AU-C Section 520. Accordingly, the auditor may determine that, based on the payroll information and procedures performed on such information, the resulting evidence

³⁰—See paragraph .05c of AU-C section 520.

supports both the auditor's assessment of risk and also meets the objective of a substantive analytical procedure. ~~[RECOMMENDED EXAMPLE]~~

~~A68:A69.~~ The auditor may use automated tools and techniques, ~~such as audit data analytics,~~ to obtain evidence about the effectiveness of the entity's internal control. For example, ~~if management is using a data analytic to monitor sequential numbering of invoices,~~ the auditor may be able to obtain corroborating information about the effectiveness of sequential numbering of sales invoices for the year by using audit data analytics to determine whether any gaps in numbering or duplicates exist, which provides information about completeness of invoices issued during the period ~~and evidence regarding the effectiveness of management's monitoring of the control.~~

~~A69:A70.~~ ~~Scanning is a type of a~~ Analytical procedures ~~involving involve~~ the auditor's exercise of professional judgment ~~and may be performed by that auditor manually or electronically.~~ ~~The auditor may manually~~ review data to identify significant or unusual items to test. ~~This, which~~ may include the identification of unusual individual items within account balances or other data through the reading or analysis of, for example, entries in transaction listings, subsidiary ledgers, general ledger control accounts, adjusting entries, suspense accounts, reconciliations, and other detailed reports for indications of misstatements that have occurred. ~~The auditor may also use automated tools and techniques to assist in performing analytical procedures. For example, The auditor also might use automated tools and techniques, such as artificial intelligence, to review an entire population of transactions and identify those transactions meeting the auditor's criteria for a transaction being unusual. Automated audit procedures may assist the auditor in identifying unusual items. Selecting The identification of items that exhibit characteristics of risk of material misstatement through analytical procedures by scanning provides the auditor with audit evidence about those items. The auditor's scanning~~ Analytical procedures also provide audit evidence about the items not exhibiting characteristics of risks of material misstatements because the auditor has determined, using professional judgment, that the items not selected are less likely to be misstated. ~~The auditor may use automated tools and techniques to perform a scanning procedure. For example, the auditor might use automated tools and techniques to access an entire population of transactions and extract those transactions meeting the auditor's criteria for a transaction being unusual.~~ ~~[RECOMMENDED EDITS]~~

Inquiry

~~A70:A71.~~ Inquiry consists of seeking information, both financial and nonfinancial, from knowledgeable persons 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.

~~A71:A72.~~ Responses to inquiries may provide the auditor with corroborative information or with new 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,~~ ~~R~~Responses to inquiries may provide a basis for the auditor to modify or perform additional audit procedures.

Inconsistency in, or Doubts About, the Reliability of Information to be Used as Audit Evidence or Inconsistencies in Audit Evidence (Ref: par. 11~~Error! Reference source not found.~~)

~~A72:~~**A73.** Information obtained from different sources ~~or~~ that differs in nature may indicate that an individual item of audit evidence is not reliable, such as when information obtained from one source is inconsistent with that obtained from another. This may be the case when, for example, an external confirmation is inconsistent with the terms of a debt obligation. AU-C section 230, *Audit Documentation*, includes a specific documentation requirement if the auditor identifies information that is inconsistent with the auditor's final conclusion regarding a significant finding or issue.³¹

~~A73:~~**A74.** In the case of inquiries about management's intent, the information available to support management's intent may be limited.³² AU-C section 580, *Written Representations*, 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 such circumstances, it may be helpful to consider the consistency, or lack thereof, between the information obtained through inquiry and management's history of carrying out its stated intentions, management's stated reasons for choosing a course of action, and management's ability to pursue a specific course of action.

³¹ Paragraph .12 of AU-C section 230, *Audit Documentation*.

³² Paragraph .A13 of AU-C section 580, *Written Representations*.

~~A74.A75.~~

Appendix A — Considerations Regarding the Use of External Information Sources

1. As defined in paragraph 7, an external information source is an individual or organization ~~that is~~ external to the entity that ~~develops~~ provides 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~~ suitable 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 the following:
 - Prices and pricing-related data
 - Macroeconomic 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
 - Mortality tables used to determine liabilities in the life insurance and pension sectors
 - Documents or records on websites or in databases or distributed ledgers
3. As set forth in GAAS, an external individual or organization ~~external to the entity~~ cannot, in respect of any particular set of information, be both an external information source and
 - a management's specialist,
 - a service organization, or
 - an auditor's specialist.
4. ~~When information has been provided by an individual or organization acting in the capacity of management's specialist, service organization,¹ or auditor's specialist,² the particular individual or organization is not considered an external information source with respect to that particular information.~~
- 5.4. However, an external individual or organization ~~external to the entity~~ may, for example, be acting as a management's specialist when providing a particular set of information but 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

¹— See AU-C section 402, *Audit Considerations Relating to an Entity Using a Service Organization*.

²— See AU-C section 620, *Using the Work of an Auditor's Specialist*.

organization is acting as an external information source or as a management's expert specialist with respect to a particular set of information. The following examples illustrate some of the considerations that may be used. Each situation may be influenced by individual facts and circumstances. In other circumstances, the distinction may be clear, such as in the following examples:

- 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 that, 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.

~~6.5~~ The auditor is required by paragraph 8 to ~~take into account~~ ~~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~~
- ~~details about 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, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*, or, where applicable, AU-C section 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*.

~~7.6~~ 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 inform the auditor's consideration of ~~those same attributes~~ ~~relevance and reliability~~ of that information.

~~8.7~~ The following factors may be important when ~~evaluating~~ ~~taking into account~~ the relevance and reliability of information obtained from an external information source, including ~~whether it is sufficiently accurate and complete, its accuracy and completeness,~~ ~~taking into account that s~~ 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~~ ~~may~~ 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 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 obtained³
- 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
- When available, information relevant to considering the appropriateness of assumptions and other data applied by the external information sources in developing the information obtained

9.8. The nature and extent of the auditor’s consideration takes into account the assessed risks of material misstatement at the assertion level ~~for assertions~~ 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 ~~the likelihood that the information from the external information source is reliable~~ (for example, whether it is from a credible source). Based on the auditor’s consideration of the matters described in paragraph **6.5**, 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, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, or that further audit procedures, in accordance with AU-C section 330⁴ and AU-C section 540,⁵ when applicable, are appropriate in the circumstances, to respond to the assessed risks of material misstatement at the assertion level related to the use of information from an external information source. Such procedures may include the following:

³ Paragraphs .A56–.A62 of AU-C section 501, *Audit Evidence— Specific Considerations for Selected Items*.

⁴ Paragraph .06 of AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*.

⁵ Paragraphs .12–.14 of AU-C section 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*.

- 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

10.9. When the auditor does not have a sufficient basis upon 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 Auditor's Report*.

[A76.](#)

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

[Note: This section was intentionally omitted because the Task Force has not discussed this section]