



Agenda Item 6A

MAPPING DOCUMENT – AU-C SECTION 501 AS AMENDED BY THE EXPOSURE DRAFT AUDITING ACCOUNTING ESTIMATES AND RELATED DISCLOSURES

This mapping document demonstrates how the requirements in extant AU-C section 501, *Audit Evidence—Specific Considerations for Selected Items* (AICPA, *Professional Standards*), have been amended by the exposure draft of the proposed SAS *Auditing Accounting Estimates and Related Disclosures* (Estimates ED).

Proposed amendments to AU-C section 501 are included in the Estimates ED in appendix C, “Proposed Amendments to Various Sections in SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification, as Amended*; SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements, as Amended*; and SAS No. 136, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*.”

Explanations are provided where appropriate.

Extant AU Section 501, <i>Audit Evidence—Specific Considerations for Selected Items</i>	<i>Explanation</i>
Introduction	
Scope of This Section	
.01 This section addresses specific considerations by the auditor in obtaining sufficient appropriate audit evidence, in accordance with section 330, <i>Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained</i> ; section 500, <i>Audit Evidence</i> ; proposed SAS Auditing Accounting Estimates and Related Disclosures ; and other relevant AU-C sections, regarding certain aspects of (a) investments in securities and derivative instruments; (b) inventory; (c) litigation, claims, and assessments	Proposed amendments to reference to Estimates ED.

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involving the entity; and (d) segment information in an audit of financial statements.	
Effective Date	
.02 This section is effective for audits of financial statements for periods ending on or after December 15, 2012.	
Objective	
<p>.03 The objective of the auditor is to obtain sufficient appropriate audit evidence regarding the</p> <ul style="list-style-type: none"> a. valuation of investments in securities and derivative instruments; b. existence and condition of inventory; c. completeness of litigation, claims, and assessments involving the entity; and d. presentation and disclosure of segment information, in accordance with the applicable financial reporting framework. 	
Requirements	
Investments in Securities and Derivative Instruments (Ref: par. .A1–.A3)	
<i>Investments in Securities When Valuations Are Based on the Investee’s Financial Results (Excluding Investments Accounted for Using the Equity Method of Accounting)</i>	
<p>.04 When investments in securities are valued based on an investee’s financial results, excluding investments accounted for using the equity method of accounting, the auditor should obtain sufficient appropriate audit evidence in support of regarding the investee’s financial results, including as applicable in the circumstances, performing the following procedures as follows: (Ref: par. .A4–.A8)</p>	Proposed amendments to lead-in because the procedures in a–d are not comprehensive. See Appendix C in proposed Estimates SAS.
<ul style="list-style-type: none"> a. Obtain and read available financial statements of the investee and the accompanying audit report, if any, including determining 	Consistent with B1 in PCAOB appendix B to AS 1105.

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whether the report of the other auditor is satisfactory for this purpose.	
<p><i>b.</i> If the investee’s financial statements are not audited, or if the audit report on such financial statements is not satisfactory to the auditor, apply, or request that the investor entity arrange with the investee to have another auditor apply, appropriate auditing procedures to such financial statements, considering the materiality of the investment in relation to the financial statements of the investor entity.</p>	Consistent with B3 in PCAOB appendix B to AS 1105.
<p><i>c.</i> If the carrying amount of the investment reflects factors that are not recognized in the investee’s financial statements or fair values of assets that are materially different from the investee’s carrying amounts, obtain sufficient appropriate audit evidence in support of <i>regarding</i> such amounts.</p>	Consistent with B4 in PCAOB appendix B to AS 1105.
<p><i>d.</i> If the difference between the financial statement period of the entity and the investee has or could have a material effect on the entity’s financial statements, determine whether the entity’s management has properly considered the lack of comparability and determine the effect, if any, on the auditor’s report. (Ref: par. .A9)</p>	Consistent with B5 in PCAOB appendix B to AS 1105.
<p>If the auditor is not able to obtain sufficient appropriate audit evidence <i>in support of the investee’s financial results</i> because of an inability to perform one or more of these <i>appropriate</i> procedures, the auditor should determine the effect on the auditor’s opinion, in accordance with section 705, <i>Modifications to the Opinion in the Independent Auditor’s Report</i>.</p>	Proposed amendments to clarify that this relates to all procedures, not just those listed in AU-C section 501.
<p>.05 With respect to subsequent events and transactions of the investee occurring after the date of the investee’s financial statements but before the date of the auditor’s report, the auditor should obtain and read available interim financial statements of the investee and make appropriate inquiries of management of the investor to identify such events and transactions that may be material to the investor’s financial statements and that may need to be recognized or disclosed in the investor’s financial statements. (Ref: par. .A10)</p>	This paragraph contains some content from B6 in PCAOB appendix B to AS 1105.
<p>The Estimates ED includes proposed amendments to delete paragraphs.06–.10 and related application material from AU-C section</p>	

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501 because the requirements are duplicative of the requirements in the Estimates ED. Accordingly, paragraphs .06-.10 are not shown.	
Paragraphs .11–.25 discuss inventory; litigation, claims and assessments; and segment information and are not within the scope of this proposed project.	
Application and Other Explanatory Material	
Investments in Securities and Derivative Instruments (Ref: par. .04–.10)	
<p>.A2.A1 This section addresses only certain specific aspects relating to auditing valuation of investments in securities and derivative instruments. Section 540, <i>The proposed SAS Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures</i>, addresses the auditor’s responsibilities relating to accounting estimates, including fair value accounting estimates and related disclosures in an audit of financial statements. <i>This section addresses aspects relating to auditing valuation of investments in securities and derivative instruments that are incremental to the proposed SAS Auditing Accounting Estimates and Related Disclosures.</i> The Audit Guide <i>Auditing Derivative Instruments, Hedging Activities, and Investments in Securities</i> provides additional and more detailed guidance to auditors related to planning and performing auditing procedures for assertions about derivative instruments, hedging activities, and investments in securities.</p>	Moved from .A2 and revised.
<p>.A2I Evaluating audit evidence for assertions about investments in securities and derivative instruments often involves professional judgment because the assertions, especially those about valuation, are based on highly subjective assumptions or are particularly sensitive to changes in the underlying circumstances. Valuation assertions relating to investments in securities and derivative instruments may be based on assumptions about the occurrence of future events for which expectations are difficult to develop or on assumptions about conditions expected to exist over a long period (for example, default rates or prepayment rates). Accordingly, competent persons could reach different conclusions about estimates of fair values or estimates of ranges of fair values. Professional judgment also may be necessary when evaluating audit evidence for assertions based on features of the</p>	Content retained in AU-C section 501 as paragraph .A2 with minimal edits.

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<p>security or derivative and the requirements of the applicable financial reporting framework, including underlying criteria for hedge accounting, which may be extremely complex. For example, determining the fair value of a structured note may require consideration of a variety of features of the note that react differently to changes in economic conditions. In addition, one or more other derivatives may be designated to hedge changes in cash flows under the note. Evaluating audit evidence about the fair value of the note, the determination of whether the hedge is highly effective, and the allocation of changes in fair value to earnings and other comprehensive income requires professional judgment.</p>	
<p>A2 See par. A1</p>	<p>Moved to be par. A1</p>
<p><i>Investments in Securities When Valuations Are Based on Cost</i></p>	
<p>.A3 Procedures to obtain evidence about the valuation of securities that are recorded at cost may include inspection of documentation of the purchase price, confirmation with the issuer or holder of those securities, and testing discount or premium amortization either by recomputation or through the use of analytical procedures.</p>	
<p><i>Investments in Securities When Valuations Are Based on the Investee’s Financial Results (Excluding Investments Accounted for Using the Equity Method of Accounting) (Ref: par. .04–.05)</i></p>	
<p>.A4 Section 600, <i>Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)</i>, addresses auditing investments accounted for using the equity method of accounting.</p>	
<p>.A5 For valuations based on an investee’s financial results (excluding investments accounted for using the equity method of accounting), obtaining and reading the financial statements of the investee that have been audited by an auditor whose report is satisfactory may be sufficient for the purpose of obtaining sufficient appropriate audit evidence <i>of the amount of the estimate</i>. In determining whether the report of another auditor is satisfactory, the auditor may perform procedures such as making inquiries regarding the professional reputation and standing of the other auditor, visiting the other auditor, discussing the audit procedures followed and the results thereof, and reviewing the audit plan and audit documentation of the other auditor.</p>	

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<p>.A6 After obtaining and reading the audited financial statements of an investee, the auditor may conclude that additional audit procedures are necessary to obtain sufficient appropriate audit evidence, <i>for example, when the date of the audited financial statements is different from the investor’s measurement date. Further examples for when</i> For example, the auditor may conclude that additional audit evidence is needed <i>include</i> because of significant differences in fiscal year ends, significant differences in accounting principles, changes in ownership, or the significance of the investment to the investor’s financial position or results of operations. Examples of procedures that the auditor may perform are reviewing information in the investor’s files that relates to the investee, such as investee minutes and budgets, and investee cash flow information and making inquiries of investor management about the investee’s financial results.</p>	<p>Proposed amendments to clarify that further audit procedures are necessary when the measurement date differs from that of the audited financial statements.</p>
<p>.A7 The auditor may need to obtain evidence relating to transactions between the entity and investee to evaluate</p>	
<p><i>a.</i> the propriety of the elimination of unrealized profits and losses on transactions between the entity and investee, if applicable, and</p>	
<p><i>b.</i> the adequacy of disclosures about material related party transactions or relationships.</p>	
<p>.A8 <i>The proposed SAS Auditing Accounting Estimates and Related Disclosures addresses</i> Section 540 and paragraphs .06–.08 of this section address auditing fair value accounting estimates. The Audit Guide <i>Auditing Derivative Instruments, Hedging Activities, and Investments in Securities</i> also provides guidance on audit evidence that may be relevant to the fair value of derivative instruments and securities and on procedures that may be performed by the auditor to evaluate management’s consideration of the need to recognize impairment losses.</p>	<p>Amended to reference generally to the estimates ED and to remove the reference to an outdated audit guide.</p>
<p>.A9 The date of the investor’s financial statements and those of the investee may be different. If the difference between the date of the entity’s financial statements and those of the investee has or could have a material effect on the entity’s financial statements, the auditor is required, in accordance with paragraph .04<i>d</i>, to determine whether the entity’s management has properly considered the lack of comparability. The effect may be material, for example, because the difference</p>	

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<p>between the financial statement period ends of the entity and investee is not consistent with the prior period in comparative statements or because a significant transaction occurred during the time period between the financial statement period end of the entity and investee. If a change in the difference between the financial statement period end of the entity and investee has a material effect on the investor’s financial statements, the auditor may be required, in accordance with section 708, <i>Consistency of Financial Statements</i>, to add an emphasis-of-matter paragraph to the auditor’s report because the comparability of financial statements between periods has been materially affected by a change in reporting period.</p>	
<p>.A10 Section 560, <i>Subsequent Events and Subsequently Discovered Facts</i>, addresses the auditor’s responsibilities relating to subsequent events and subsequently discovered facts in an audit of financial statements.</p>	
<p>Paragraphs .A11-.A19 are deleted by the Estimates ED.</p>	
<p>Paragraphs .A20–.A72 are not within the scope of this project and are not included in this table.</p>	