
Introduction

1. The exposure draft of Proposed ISA 501 (Redrafted) (“ED-ISA 501”) was issued in December 2007. The comment period closed on March 31, 2008. Thirty eight comment letters were received. A list of respondents is provided in the Appendix of this paper.

2. Overall, most respondents were supportive of the ED. It was noted that it is an improvement on the extant ISA and that it is more readable and user-friendly. Further, all of the respondents who commented on the IAASB’s proposal to delete material in the extant ISA pertaining to valuation and disclosure of long-term investments agreed with the deletion and the basis for doing so.

3. Several respondents, however, raised some fundamental concerns. It was questioned whether it continues to be appropriate to retain the ISA as a separate standard. Concern was also expressed over the extent of new requirements being proposed. Further, several respondents questioned the continuing relevance of the requirements and guidance on “Segment Information”. These and other various matters requiring drafting revisions noted by respondents are addressed below.

Significant Issues

A. Status of ISA 501, Scope and Objective

4. One-third of respondents felt that the ISA needs to be revised, withdrawn, or its requirements and guidance incorporated in other relevant ISAs.

5. The respondents were of the view that the ISA, on its own, does not add to the overall auditing framework. It was commented that its lack of linkage to the risk assessment standards, its specificity in relation to certain financial statement account balances and disclosures, and its strong technical orientation, results in the ISA being out of line with principles-based standards. It was also felt that the scope of ED-ISA 501 did not clearly reflect the intent of the extant ISA.

6. A respondent was also strongly of the view that ED-ISA 501 does not warrant an objective of its own. It was argued that the extant ISA is more appropriately viewed as providing support for the achievement of the requirements of other ISAs (e.g., ISA 330 (Redrafted) and ISA 500 (Redrafted)). Accordingly, it was felt that the ISA would be better viewed as providing support for the achievement of the objectives of other related ISAs, in particular ISA 500 (Redrafted), and therefore should be incorporated therein.

1 ACCA, BDO, CICA, CIPFA, ICABC, ICAEW, ICAS, ICPAC, IDW, IOSCO, NAO, NZICA, PWC.
2 PWC.
3 ISA 330 (Redrafted), “The Auditor’s Responses to Assessed Risks.”
4 ISA 500 (Redrafted), “Audit Evidence.”
This was also commented that this would benefit the suite of ISAs by avoiding the establishment of a uniquely account-balance and disclosure specific objective.

7. Further, the respondent argued that the effect of treating the extant ISA as a ‘stand-alone standard with a unique objective too narrowly interprets the intent of the extant ISA. This resulted in the elevations of ‘how-to’ guidance material as requirements, thereby exacerbating the procedural and technical nature of the standard. This was seen as a deviation from the original intent of the ISA to mandate the performance of selected procedures relating to the specific items rather than requiring how these audit procedures should be carried out (i.e. procedures-centric).

8. Several respondents\(^5\) were also concerned about the specificity of the objective in relation to assertions. For example, it was noted that ‘condition of inventory’ is not an assertion per se and therefore creates problems in terms of achieving the objective; it was also questioned whether the assertions specified in the objectives fully reflect all those inherent in the requirements. Various suggestions were made to refine the objective, including aligning it with the objectives in ISA 315(Redrafted)\(^6\) and ISA 330(Redrafted) or ISA 500 (Redrafted), or to expand it to better describe the specificity of the ISA in terms of the requirements it contains.

**Task Force Recommendations**

9. The Task Force recommends that ED-ISA 501 be retained as a separate ISA, and that its contents not be incorporated in other ISAs such as ISA 500 (Redrafted). While the ISA is in effect a standard that expands on the general requirements of other ‘overarching’ ISAs, it is not unique in this respect. There are other account balance and disclosure specific ISAs, such as ISA 540 (Revised and Redrafted)\(^7\) and ISA 570 (Redrafted),\(^8\) which serve a similar purpose. Further, ISA 500 (Redrafted), as well as ISA 330 (Redrafted) in general, deals with audit evidence considerations applicable to all aspects of the evidence gathering process. Accordingly, the Task Force is of the view that it is neither desirable nor appropriate to dilute the over-arching nature of these ISAs by adding specific considerations for particular topics within them.

10. The Task Force is of the further view that the purpose of the extant ISA was in fact to draw the auditor’s attention to the selected items addressed by the standard. It is therefore appropriate to establish an objective in relation to these items, consistent with the general principle that redrafting should not weaken the extant ISA.

11. The Task Force considered the option of redrafting the objective paragraph in a manner which refrains from listing the specific considerations addressed by the ISA. This would reduce the specificity of the objective, and thereby allow it to relate more broadly to the matters dealt with by the requirements. The Task Force concluded, however, that

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\(^5\) BDO, DTT, EFAA, FEE, ICAEW, IDW, IRBA, KPMG, PWC.

\(^6\) ISA 315 (Redrafted), “Identifying and Assessing the Risks of Material Misstatement Through Understanding The Entity and Its Environment.”

\(^7\) ISA 540 (Revised and Redrafted), “Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures.”

\(^8\) ISA 570 (Redrafted), “Going Concern.”
omitting the specific considerations addressed by the ISA fails to recognize its relatively narrow scope.

12. The Task Force also considered focusing the objective on the obtaining of ‘relevant and reliable’ audit evidence to better reflect the scope of the ISA. This approach would be consistent with [proposed] ISA 505 (Revised and Redrafted). The Task Force believes, however, that doing so may weaken the extant ISA, as it specifically refers to the obtaining of sufficient appropriate audit evidence. This outcome would neither be desirable nor appropriate.

13. Nevertheless, the Task Force recommends refinement of the scope and objectives of ED-ISA 501. In particular, the following is proposed:
   - To clarify in the scope paragraph the selected items addressed by the ISA.
   - To clarify in the scope paragraph the linkage between ISA 501 and other relevant ISAs dealing with the obtaining of sufficient appropriate audit evidence, in particular ISA 330 and ISA 500.
   - To redraft the scope paragraph to remove reference to “certain assertions and related considerations,” which some respondents felt was ambiguous.
   - To redraft the objective paragraph to achieve a better linkage with the requirements of the standard.

14. Proposed changes to the scope and objective are shown in paragraphs 1 and 3, respectively, of Agenda Item 4-B.

A.1 TITLE OF THE STANDARD

15. A respondent commented that the title of ED-ISA 501 may lead to the conclusion that the ISA contains fully the responsibilities of the auditor for the selected items addressed. It is suggested that the title be redrafted to better reflect the objective of the ISA and its linkage to the remainder of the ISAs.

Task Force Recommendations

16. The Task Force agrees with the observation. Further, it believes that refining the title would assist in the making clear of the relationship of ED-ISA 501 with the rest of the ISAs.

17. Accordingly, the proposed change is shown in the title of Agenda Item 4-B.

B. Inventory

B.1 ATTENDANCE AT PHYSICAL INVENTORY COUNTING

B.1.1 Attendance as Test of Controls or Substantive Procedures

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10 IOSCO.
18. Paragraph 5 of extant ISA 501 uses the phrase “attendance at physical inventory counting” in its bold-type requirement. This was replaced by “physical inventory count (or counts)” in ED-ISA 501.

19. A few respondents\(^{11}\) were of the view that the change inadvertently shifts the focus of the requirement from the physical inventory count process to the outcome of the physical inventory count (or counts). As a result, ED-ISA 501 does not adequately recognize that physical inventory counting could serve two purposes; as a test of controls or a substantive procedure. It was further raised that the applicability of the requirements and guidance relating to the auditor’s attendance at physical inventory counting, in the circumstance where perpetual inventory systems are in place, was not adequately acknowledged.

**Task Force Recommendations**

20. The extant ISA 501 employs both phrases “physical inventory counting” and physical inventory count”. The Task Force concluded that in order to reduce confusion, where the process of counting the physical inventory is being referred to, previous references to “physical inventory counting” should be re-instated. Where the outcome of the physical inventory counting is referred to, “physical inventory count” would be used. This should enhance alignment with the extant ISA, and improve clarity with regards to when such references are made.

21. Proposed changes are shown in paragraphs 4(a), 5, A2, A3, A4, A8, A11, A14 and A18 of Agenda Item 4-B.

22. In addition, the Task Force notes that ED-ISA 501 may have inadvertently changed the neutrality of the ISA to both physical and perpetual inventory systems, and in terms of the auditor’s risk assessment and planned approach by deleting selected guidance in the extant ISA 501 which related to both physical and perpetual inventory systems as indicated by some respondents\(^{12}\). Accordingly, the Task Force proposes to re-instated the grey lettered-text in paragraph 5 of the extant ISA, which was deleted only on the grounds that it is already covered by ISAs 315 (Redrafted) and 330 (Redrafted).

23. Proposed changes are shown in paragraphs A2 and A3 of Agenda Item 4-B.

**B.1.2 Physical Inventory Counting not Performed**

24. A respondent\(^{13}\) commented that in addition to addressing the auditor’s inability to attend inventory counting, the ISA should include references to situations whereby the entity does not perform physical inventory counting. For such circumstances, the requirement in paragraph 7 of ED-ISA 501 applies similarly.

**Task Force Recommendations**

25. The Task Force agrees that including references to situations whereby the entity does not conduct an inventory counting would be appropriate and would clarify the applicability of ISA 501. Accordingly, the Task Force proposes for the relevant requirement to be redrafted to take into account such circumstance.

\(^{11}\) IOSCO, KPMG, PWC.

\(^{12}\) BDO, ICPAK, IOSCO.

\(^{13}\) IOSCO.
26. Proposed changes are shown in **paragraph 7 of Agenda Item 4-B.**

**B.1.3 Specificity of Required Procedures**

27. Several respondents\(^{14}\) were concerned that some of the elevations of materials in extant ISA 501 to requirements resulted in ED-ISA 501 being too procedure-centric. It was argued that the appropriate level of specificity for an ISA should be to direct the auditor to address, or take action, with respect to a specific matter, but not necessarily prescribe the ‘how-to’ auditing procedures to comply with the requirements.

**Task Force Recommendations**

28. The Task Force recognizes the IAASB accepted that the extant ISA is a procedural standard when developing ED-ISA 501. Nevertheless, the Task Force revisited the requirements in paragraph 4 of ED-ISA 501 in light of respondents’ comments, and identified instances in which the focus is on prescribing specific audit procedures as opposed to requiring audit procedures be performed in order to achieve desired outcomes. In particular, the Task Force believes that required procedures in paragraph 4(a) and (b) of ED-ISA 501 reflect the principle that, when attending physical inventory counting, the auditor should be satisfied that the counting and the results thereof are properly conducted and controlled.

29. The Task Force therefore proposes that it is this principle that should be articulated rather than the procedures to be undertaken to its achievement. The Task Force believes that this proposed treatment achieves the intent of the redrafting exercise but in a more principles-based manner and importantly, without weakening the extant ISA.

30. Proposed changes are shown in **paragraphs 4 and A4-A9 of Agenda Item 4-B.**

**B.1.4 Audit Procedures Over Final Inventory Records**

31. A respondent\(^{15}\) commented that the intent of the extant ISA in regard to paragraph 4 in ED-ISA 501 is to require that audit procedures be performed over the final inventory count records regardless of whether the auditor attends the physical inventory counting.

**Task Force Recommendations**

32. The Task Force agrees with the observation and believes that the requirement in ED-ISA 501 was unintentionally drafted in such a way that the requirement is contingent on the auditor’s attendance at the physical inventory counting, which is inconsistent with the intent of the extant ISA 501. Accordingly, it is proposed that ED-ISA 501 be aligned to better reflect the extant ISA.

33. Proposed changes are shown in **paragraph 4 of Agenda Item 4-B.**

**B.1.5 Condition of Inventory**

34. Some respondents\(^{16}\) felt that use of the word “condition” to describe inventory is inappropriate as it is not an assertion identified in ISA 315 (Redrafted).\(^{17}\) It was suggested that the reference should be removed, or that it should refer to the obtaining of sufficient

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\(^{14}\) BDO, DTT, EFAA, FEE, ICAEW, IDW, IRBA, KPMG, PWC.

\(^{15}\) EY.

\(^{16}\) ACCA, BDO, EFAA, KPMG, IRBA.

\(^{17}\) See paragraph A104 of ISA 315 (Redrafted).
appropriate audit evidence regarding the ‘valuation and allocation’ of inventory. Another respondent commented that for each aspect of the objective, there should be a corresponding requirement(s); the respondent observed that while ED-ISA 501 makes reference to “condition of inventory” in the objective, there is no related requirement.

35. A respondent also suggested that the “condition” of inventory in the ISA refers to the physical condition of inventory and should therefore be clarified in the standard accordingly.

Task Force Recommendations

36. The Task Force notes that the extant ISA (paragraph 5) requires the auditor to obtain sufficient appropriate audit evidence regarding the condition of inventory. The Task Force believes the phrase ‘condition’ cannot be deleted without weakening the extant ISA. Nor does the Task Force believe that reference should be made to ‘valuation and allocation’ of inventory as the requirements of the extant ISA do not fully address the procedures necessary to obtain sufficient appropriate audit evidence regarding these assertions. Accordingly, the Task Force has retained the phase ‘condition’ in the ISA.

37. Nevertheless, the Task Force is of the view that greater clarity can be achieved by referring to the ‘physical condition’ of inventory as opposed to the ‘condition’ of inventory as this is indeed what the ISA intends.

38. Proposed changes are shown in paragraph 4, 7, 8, A2, A6 of Agenda Item 4-B.

B.1.6 Auditor Unable to Attend Physical Inventory Counting

39. A respondent commented that ED-ISA 501 contains references to two instances in which the auditor is prevented from attending the physical inventory counting namely, “due to unforeseen circumstances” and “when attendance is impracticable” as set out in paragraphs 6 and 7 respectively. The respondent queried whether the circumstances are sufficiently distinct to warrant their differentiation in the ISA. It was also noted that ED-ISA 501 does not contain any guidance on examples of “unforeseen circumstances”.

Task Force Recommendations

40. The Task Force notes that ED-ISA 501 addresses two separate scenarios. One describes the scenario in which the auditor is unable to attend the counting due to unforeseen circumstances although attendance at the physical inventory counting is practicable. The second scenario is one of which the auditor’s attendance of the physical inventory counting is impracticable. Accordingly, distinguishing between both circumstances in ED-ISA 501 is necessary as the auditor’s response may vary depending on the scenario.

41. Nevertheless, the Task Force accepts that the reference to “unforeseen circumstances” may be potentially confusing and proposes to replace the phase by “as planned” which would achieve the same effect.

42. Proposed changes are shown in paragraph 6 of Agenda Item 4-B.

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18 IOSCO.
19 APB.
20 IOSCO.
B.2 PHYSICAL INVENTORY COUNTING CONDUCTED OTHER THAN AT THE DATE OF THE FINANCIAL STATEMENTS

43. A respondent commented that the audit procedures to be performed when the entity employs a perpetual inventory system contained in paragraph A10 of ED-ISA 501 are applicable under all circumstances. Accordingly, it was suggested that these audit procedures be elevated to requirements or the linkage between these audit procedures and the requirement in paragraph 5 of ED-ISA 501 be clarified.

Task Force Recommendations

44. The Task Force believes that the intent of the extant ISA was to provide guidance on the application of the requirement in paragraph 5 under the circumstances specified. Accordingly, the Task Force does not believe it is appropriate to elevate the materials. However, it agrees that it would be appropriate to clarify the link between the related requirement and paragraph A10.

45. Proposed changes are shown in paragraph A12 and A13 of Agenda Item 4-B.

B.3 INVENTORY UNDER CUSTODY AND CONTROL OF A THIRD PARTY

46. Paragraph 8 of ED-ISA 501 contains elevated guidance materials on procedures to be performed when inventory under the custody and control of a third party is material to the financial statements. It is stated that the auditor shall perform either confirmation procedures or inspection and other audit procedures appropriate in the circumstances.

47. A few respondents were of the view that the ISA unnecessarily restricts the auditor’s ability to exercise professional judgment in the selection of appropriate audit procedures. It was also noted that the ED suggested that only one of the two procedures may be performed and not both, a restriction that is not necessary and may not be appropriate in all cases. Further, some respondents felt that specifying the performance of specific procedures is inconsistent with proposed ISA 505 (Revised and Redrafted) which allows for discretion in the use of external confirmations as audit evidence.

Task Force Recommendations

48. The Task Force concluded that the procedures identified in paragraph 8 of ED-ISA 501 are, in effect, the two principal options that exist with respect to obtaining audit evidence, and that it is essential for consistency in practice to identify them as procedures. Accordingly, it is appropriate that they be retained as requirements.

49. The Task Force believes, however, that the intent of extant ISA is to allow for the use of either direct confirmation, or performance of other audit procedures, or both, as appropriate. This position is consistent with paragraph 18 of the extant ISA, and the guidance in paragraph A15 of ED-ISA 501. Accordingly, it is proposed that paragraph 8 be amended to clarify the applicability of the specified procedures.

50. Proposed changes are shown in paragraph 8 of Agenda Item 4-B.

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21 IOSCO.
22 ACAG, CICA, DTT.
C. Litigation and Claims

C.1 PROCEDURES TO BECOME AWARE OF LITIGATION AND CLAIMS

51. Paragraphs 9(a) and 9(b) of ED-ISA 501 specify procedures to be performed by the auditor to become aware of litigation and claims involving the entity. These new requirements were based on the elevation of guidance material in paragraph 32 of the extant ISA.

52. Respondents’ comments on the proposed elevations were mixed. One respondent\(^{23}\) did not support the proposed elevations based on the view that auditors’ should be able to exercise professional judgment over which audit procedures will be most effective in the circumstances. In contrast, a few respondents\(^{24}\) strongly supported the elevations, and recommended that other audit procedures (i.e., review of legal expense accounts) in the guidance should also be elevated.

Task Force Recommendations

53. The Task Force concluded that it is appropriate for the proposed ISA 501 to specify procedures to be performed to become aware of litigation and claims involving the entity. This enhances the consistency in which auditor’s approach compliance with the requirement, and appears consistent with the intent of paragraph 32 of the extant ISA which used the phrase “Such procedure would include the following…” in describing the expected auditor actions.

54. The Task Force also considered the rationale for ED-ISA 501 not having elevated the procedure to review legal expense accounts. This decision was made on the basis that it may not be necessary in all cases, in contrast to the other identified procedures to inquire of management and review minutes of meetings. In view of respondents’ comments, however, the Task Force believes there is also merit in elevating this procedure as a requirement, in terms of providing necessary corroborative evidence. Accordingly, the Task Force proposes elevation of this procedure.

55. Proposed changes are shown in **paragraph 9 of Agenda Item 4-B**.

C.2 SEEKING DIRECT COMMUNICATION WITH ENTITY’S LEGAL COUNSEL

56. Some respondents\(^ {25}\) commented that in certain jurisdictions, legal counsels are not permitted (for example, by the professional bodies to which they belong) to respond to general inquiries letters (distinct from letters of specific inquiry) from auditors even though the letters are prepared by management and contain management’s clearance for the legal counsel to disclose the necessary information. The respondents were of the view that these situations should be taken account of in the ISA.

Task Force Recommendations

57. The Task Force proposes the following to address comments raised by respondents, thereby improving the applicability of the standard:

\(^{23}\) PWC.

\(^{24}\) CNCC – CSOEC, CPAB, IOSCO.

\(^{25}\) AuAASB, BDO, CNCC – CSOEC, DTT, FEE, ICAEW, ICAI, KPMG and NIVRA.
• Reverting back to the wording of paragraph 33 and 34 of the extant ISA, and thereby removing the specification of ‘general inquiry’ or ‘specific inquiry’ letters in the requirement itself. This will widen the applicability of the requirement taking into consideration the comment made by respondents.

• Introducing clarifying guidance to explain that local circumstances may give rise to non-responses from legal counsels to letters of general inquiry.

58. Proposed changes are shown in paragraphs 10 and A24 of Agenda Item 4-B.

59. Some respondents\textsuperscript{26} also questioned the applicability of the ISA in instances when litigation and claims are handled by internal legal counsels. Whilst the extant ISA 501 is written primarily with external legal counsels in mind (for example, paragraph 9(a) of ED-ISA 501 requires “inquiry with management and others within the entity where applicable, including the in-house legal counsel” by the auditor), the Task Force is of the view that the ISA could also be applied when litigation and claims are handled by internal legal counsels.

60. The Task Force concluded that in view of the comments received, adding ‘external’ to ‘legal counsel’ in ED–ISA 501 has resulted in the unintended outcome of unnecessarily limiting the application of the ISA. Further, it appears that this create confusion amongst the respondents. Accordingly, the Task Force proposes that the word ‘external’ before ‘legal counsel’ be removed. In addition, to maintain the neutrality of the ISA, it is proposed that “in house legal counsel” be replaced by “those responsible for legal matters”.

61. Proposed changes are shown in paragraphs 9 – 11 and A22 - A26 of Agenda Item 4-B.

C.3 MEETING WITH ENTITY’S LEGAL COUNSEL

62. Some respondents\textsuperscript{27} commented that the conditional nature of paragraph 10(b) of ED-ISA 501 (“When considered necessary, meet with the entity’s external legal counsel to discuss the likely outcome of the litigation or claims”) indicates that it is more appropriate for it to be specified as guidance material than a requirement.

Task Force Recommendations

63. The Task Force accepts this observation, and notes that the conditionality of the requirement is based on need as determined by the auditor. This is different from other forms of conditionality, which anchor on the existence (or not) of specified circumstances. Accordingly, it is proposed that the paragraph be re-instated as explanatory materials.

64. Proposed changes are shown in paragraphs 10(b) and A25 of Agenda Item 4-B.

C.4 UPDATING STATUS OF LITIGATIONS AND CLAIMS

65. Paragraph 12 of ED-ISA 501 is guidance elevated from the extant ISA 501 which directs the auditor to obtain audit evidence about the status of litigations and claims up to the date of the auditor’s report. A few respondents\textsuperscript{28} were of the view that this requirement is adequately

\textsuperscript{26} BDO, ICAEW, ICJCE, PWC.

\textsuperscript{27} FEE, IBR – IRE, ICAEW, IDW.

\textsuperscript{28} APB, PWC.
covered by ISA 560 (Redrafted)\(^{29}\) and hence repeating the requirement in this ISA is not warranted.

**Task Force Recommendations**

66. The Task Force believes that the matter of obtaining audit evidence about the effects of events and transactions of which the auditor becomes aware and that occurred up to the date of the auditor’s report is a general principle addressed by both [proposed] ISA 700 (Redrafted)\(^{30}\) and ISA 560 (Redrafted).\(^{31}\) In accordance with the IAASB’s clarity guideline, a requirement(s) is only required when the objective stated in the ISA is unlikely to have been met by the requirements of other ISAs. Accordingly, the Task Force proposes that the paragraph be re-instated as guidance with appropriate reference back to ISA 700 (Redrafted).

67. Proposed changes are shown in paragraphs 12 and A26 of Agenda Item 4-B.

**D. Segment Information**

**D.1 RETENTION OF GUIDANCE**

68. Several respondents\(^ {32}\) commented that the requirements and guidance on “Segment Information” need not be retained in the ISA. It was felt that developments in financial reporting frameworks (specifically IFRS 8, “Operating Segments” effective 1 January 2009 with early adoption permitted) bring into question the continuing relevance of this material without a comprehensive review of the extant ISA 501. For example, with the change from IAS 14, “Segment Reporting” to IFRS 8, “Operating Segment”, challenges with respect to identifying the ‘Chief Operating Decision Maker’ may arise which require greater audit effort with respect to identifying this function and assessing whether the basis on which segment information is prepared has been disclosed. These matters are not presently addressed in ED-ISA 501.

**Task Force Recommendations**

69. IFRS 8 “Operating Segments”, issued on November 30, 2006 replaced IAS 14 “Segment Reporting”. The Task Force has undertaken a comparative analysis of IAS 4, IFRS 8 and the provisions of ED-ISA 501 to assess the impact, if any, of IFRS 8 on the relevance of the requirements relating to segment information contained in the ISA.

70. The Task Force considered three drafting options for the section “Segment Information” as follows:

   I) Retain and redraft (for matters of clarity) the requirements and guidance from ED-ISA 501;

   II) Update the section to address changes brought about by IFRS 8; and

   III) Withdraw the section on “Segment Information”.

\(^{29}\) ISA 560 (Redrafted), “Subsequent Events.”

\(^{30}\) See [proposed] ISA 700 (Redrafted), paragraph [41].

\(^{31}\) See ISA 560 (Redrafted), paragraph 6.

\(^{32}\) FEE, IBR-IRE, ICAEW, KPMG, NIVRA, NZICA, PWC.
The Task Force concluded that Option II is inconsistent with the scope of the project, and a potentially unwise strategy at this stage of the broader clarity project. As for Option III, whilst desirable from the point of view of some respondents, the Task Force felt that deletion of the section is justified only if the requirements are no longer relevant and the guidance potentially misleading. The Task Force concluded that such is not that case.

71. Accordingly, the Task Force proposes Option I which involves retaining the section as appropriate. Notwithstanding the changes in the financial reporting framework, the Task Force believes that the requirements and guidance in this section are in fact still relevant and applicable to the audit of segment information. For example, IFRS 8 focuses on the approach adopted by the ‘Chief Operating Decision Maker’ in determining operating segments as compared to IAS 14 which prescribed segment reporting by line of business and geographical areas. Although greater audit effort is expected to be vested into assessing management’s determination of segments under IFRS 8, the principle of obtaining sufficient appropriate audit evidence regarding the presentation and disclosure of segment information as required by the ISA remains applicable. Accordingly, the Task Force proposes that the material on "Segment Information” be retained in the ISA permitting redraft only for matters of clarity.

72. It should be noted, however, that there remains the risk that some may view the ISA as having been updated to address changes in IFRS, which is not the case.

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**Matter for IAASB Consideration**

The IAASB is asked whether it agrees with retaining the section “Segment Information” and redrafting for matters of clarity.

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**D.2 Analytical Procedures (Note: Discussion Subject to Decision Made Regarding D.1 Above)**

73. Paragraph 44 of the extant ISA states: “Audit procedures regarding segment information ordinarily consists of analytical procedures and other audit procedures as appropriate in the circumstances.” The IAASB felt that the intent of this sentence was to acknowledge the primacy of analytical procedures in auditing segment information, and elevated the material accordingly (paragraph 14 of ED-ISA 510).

74. Some respondents commented that the objective of the ISA can be achieved without necessarily performing analytical procedures on segment information. Further, it was argued that under some circumstances, it is impractical to perform substantive analytical procedures or inefficient to perform these procedures due to the presence of alternative audit procedures which are more efficient.

*Task Force Recommendations*

75. The Task Force believes that it is not essential to give greater prominence to analytical procedures than other procedures that may be equally or more effective in the circumstances.

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33 APB, CNCC–CSOEC, FEE, IDW, IOSCO, NZICA.
Accordingly, it is proposed that the requirement in paragraph 14 of ED-ISA 501 be redrafted to achieve a more neutral presentation of the procedures expected to be performed over segment information.

76. Proposed changes are shown in paragraph 13 of Agenda Item 4-B.

E. Other Matters – Reference to ‘Material’

77. In approving ED-501, the IAASB acknowledged that it is ordinarily unnecessary to refer to ‘material’ in the requirements of individual ISAs in light of the ISAs dealing with risk assessment and materiality. However, due to the specificity of ISA 501 and to avoid any suggestion that the IAASB intended to change the scope of the extant requirement (which is not the case), it agreed to retain reference to ‘material’ in paragraph 4 of ED-ISA 501 regarding inventory attendance. In all other instances, the IAASB agreed that use of ‘material’ as a qualifier should be determined on a case-by-case basis.

78. Some respondents commented that reference to ‘material’ should be applied consistently. However, the preferred treatments differed: some felt reference should not be made at all (as is the case with most other ISAs) while others felt that reference should be made in all instances in the ISA.

Task Force Recommendations

79. The Task Force concluded that no new arguments have been raised to warrant reconsideration by the IAASB of its position with respect to the inclusion (or not) of references to ‘material’. However, for consistency within ISA 501, the Task Force believes that a ‘material’ qualifier should be included in the requirement on ‘Segment Information’. The Task Force also believes that a ‘material’ qualifier should be included in the objective paragraph to maintain consistency and linkage with the requirements.

80. Proposed changes are shown in paragraphs 3 and 13 of Agenda Item 4-B.

F. Consideration of the Need to Re-expose

81. Agenda Item 4-B show in marked text the changes proposed to ED-ISA 501. The Task Force is of the view that the changes are in response to matters raised by respondents to the exposure draft. They do not introduce new principles or represent other changes of substance when compared with the exposure draft.

82. Accordingly, the Task Force is of the view that re-exposure is not necessary.\(^{35}\)

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\(^{34}\) ACCA, DTT, CICA, GTI, KPMG, IDW.

\(^{35}\) IAASB Working Procedures regarding re-exposure state: “Situations that constitute potential grounds for a decision to re-expose may include, for example: substantial change to a proposal arising from matters not aired in the exposure draft such that commentators have not had an opportunity to make their views known to the IAASB before it reaches a final conclusion; substantial change arising from matters not previously deliberated by the IAASB; or substantial change to the substance of an International Standard or Practice Statement.”
### APPENDIX

**List of Respondents**

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<th>#</th>
<th>Abbreviation</th>
<th>Name</th>
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<td><strong>Member Bodies</strong></td>
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<tr>
<td>1.</td>
<td>ACCA</td>
<td>The Association of Chartered Certified Accountants</td>
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<td>2.</td>
<td>AICPA</td>
<td>American Institute of Certified Public Accountants</td>
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<td>CIPFA</td>
<td>Chartered Institute of Public Finance and Accountancy</td>
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<td>Compagnie Nationale des Commissaires aux Comptes + Conseil Supérieur de l’Ordre des Experts-Comptables</td>
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<td>HKICPA</td>
<td>Hong Kong Institute of Certified Public Accountants</td>
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<td>6.</td>
<td>IBR-IRE</td>
<td>Institut des Reviseurs d'Entreprises/ Instituut der Bedrijfsrevisoren</td>
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<td>The Institute of Chartered Accountants in England and Wales</td>
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<td>ICAP</td>
<td>Institute of Chartered Accountants of Pakistan</td>
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<td>IDW</td>
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<td>The South African Institute of Chartered Accountants</td>
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<td>Auditing Practice Board</td>
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<td>Australian Auditing and Assurance Standard Board</td>
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