

Agenda Item E.4 For Reference

Mapping of Extant ISA 500 to Proposed ISA 500 (Revised), Audit Evidence

Given the extent of changes, including movement of paragraphs, Staff has prepared the table below, which compares or maps the requirements and selected application material in extant ISA 500¹ to Proposed ISA 500 (Revised), as set out in **Agenda Item 5–A**. The application material presented includes the paragraphs related to external information sources and management’s experts, given the extent of such application material in extant ISA 500.

When paragraphs were added in Proposed ISA 500 (Revised) that were not included in extant ISA 500, the corresponding extant ISA 500 column will be empty. When paragraphs in extant ISA 500 have been moved to a different location or incorporated into other paragraphs in Proposed ISA 500 (Revised), comments have been provided to assist in navigation.

This paper is provided to the IAASB CAG Representatives for reference purposes (including the IAASB at its meeting in March 2022)

Extant ISA 500	Proposed ISA 500 (Revised) (Agenda Item 5–A)
Introduction	
Scope of this ISA	
1. This International Standard on Auditing (ISA) explains what constitutes audit evidence in an audit of financial statements, and deals with the auditor’s responsibility to design and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor’s opinion.	1. This International Standard on Auditing (ISA) deals with the auditor’s responsibilities relating to audit evidence when designing and performing audit procedures in accordance with the ISAs. Such responsibilities include evaluating the relevance and reliability of information intended to be used as audit evidence and evaluating whether the audit evidence obtained meets the auditor’s purposes.
	2. ISA 200 ² deals with the overall responsibilities of the auditor in conducting an audit of the financial statements. ISA 200 requires

¹ ISA 500, *Audit Evidence*

² ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

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	the auditor to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion. ³
2. This ISA is applicable to all the audit evidence obtained during the course of the audit. Other ISAs deal with specific aspects of the audit (for example, ISA 315 (Revised 2019) ⁴), the audit evidence to be obtained in relation to a particular topic (for example, ISA 570 (Revised) ⁵ , specific procedures to obtain audit evidence (for example, ISA 520 ⁶), and the evaluation of whether sufficient appropriate audit evidence has been obtained (ISA 200 and ISA 330 ⁷).	3. This ISA is applicable to all audit evidence obtained through designing and performing audit procedures in accordance with the ISAs. Other ISAs address the auditor's responsibilities for designing and performing audit procedures regarding specific aspects of the audit. In addition, ISA 330 deals with, among other matters, the auditor's overall responsibility to obtain sufficient appropriate audit evidence and to conclude whether sufficient appropriate audit evidence has been obtained. This ISA assists the auditor in fulfilling the auditor's responsibilities in accordance with the other ISAs.
	<p><i>Professional Judgment and Professional Skepticism</i></p> <p>4. ISA 200 requires the auditor to exercise professional judgment in planning and performing an audit of financial statements, and to plan and perform an audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated.⁸ This ISA further emphasizes exercising professional skepticism in planning and performing the</p>

³ ISA 200, paragraph 17

⁴ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

⁵ ISA 570 (Revised), *Going Concern*

⁶ ISA 520, *Analytical Procedures*

⁷ ISA 330, *The Auditor's Responses to Assessed Risks*

⁸ ISA 200, paragraphs 15–16

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	<p>audit, including critically assessing audit evidence through, for example:</p> <ul style="list-style-type: none"> (a) Designing and performing audit procedures in a manner that is not biased. (b) Evaluating the relevance and reliability of information to be used as audit evidence. (c) Considering all audit evidence in evaluating whether the audit evidence obtained meets the auditor’s purposes, as a basis for concluding whether sufficient appropriate audit evidence has been obtained.
Effective Date	
3. This ISA is effective for audits of financial statements for periods beginning on or after December 15, 2009.	5. This ISA is effective for audits of financial statements for periods beginning on or after XXX.
Objective	
4. The objective of the auditor is to design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor’s opinion.	6. The objective of the auditor is to evaluate audit evidence to provide a basis for concluding whether sufficient appropriate audit evidence has been obtained.
Definitions	
5. For purposes of the ISA, the following terms have the meanings attributed below:	7. For purposes of this ISA, the following terms have the meanings attributed below:
(a) Accounting records – The records of initial accounting entries and supporting records, such as checks and records of electronic fund transfers; invoices; contracts;	[Incorporated into the example in the first bullet of paragraph A41]

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the general and subsidiary ledgers, journal entries and other adjustments to the financial statements that are not reflected in journal entries; and records such as work sheets and spreadsheets supporting cost allocations, computations, reconciliations and disclosures.	
(b) Appropriateness (of audit evidence) – The measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor’s opinion is based.	(a) Appropriateness (of audit evidence): – The measure of the quality of audit evidence in providing support for the conclusions that form the basis for the auditor’s opinion and report.
(c) Audit evidence – Information used by the auditor in arriving at the conclusions on which the auditor’s opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and information obtained from other sources.	(b) Audit evidence – Information, which has been subject to audit procedures, that enables the auditor to draw conclusions that form the basis for the auditor’s opinion and report.
(d) External information source – An external individual or organization that provides information that has been used by the entity in preparing the financial statements, or that has been obtained by the auditor as audit evidence, when such information is suitable for use by a broad range of users. When information has been provided by an individual or organization acting in the capacity of a management’s expert, service organization ⁹ , or auditor’s expert ¹⁰ the individual or	[Incorporated into paragraph A41 – see below]

⁹ ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*, paragraph 8.

¹⁰ ISA 620, *Using the Work of an Auditor’s Expert*, paragraph 6

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organization is not considered an external information source with respect to that particular information.	
(e) Management's expert – An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements.	(c) Management's expert – An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements.
(f) Sufficiency (of audit evidence) – The measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor's assessment of the risks of material misstatement and also by the quality of such audit evidence.	(d) Sufficiency (of audit evidence) – The measure of the quantity of appropriate audit evidence in providing support for the conclusions that form the basis for the auditor's opinion and report.
Requirements	
Sufficient Appropriate Audit Evidence	Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence
6. The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.	8. For the purpose of obtaining sufficient appropriate audit evidence, the auditor shall design and perform audit procedures in accordance with the ISAs: <ul style="list-style-type: none"> (a) In a manner that is not biased towards obtaining audit evidence that may corroborate the assertions in the financial statements, or towards excluding audit evidence that may contradict the assertions in the financial statements; and (b) That are appropriate in the circumstances to provide audit evidence to meet the purposes of the audit procedure.

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Information to Be Used as Audit Evidence	Information Intended to Be Used as Audit Evidence
<p>7. When designing and performing audit procedures, the auditor shall consider the relevance and reliability of the information to be used as audit evidence, including information obtained from an external information source</p>	<p>9. The auditor shall evaluate whether the information intended to be used as audit evidence is relevant and reliable for the auditor's purposes. In making this evaluation, the auditor shall consider:</p> <ul style="list-style-type: none"> (a) The source of the information; and (b) The attributes of relevance and reliability that are applicable in the circumstances, including, as necessary, accuracy and completeness.
<p>8. If information to be used as audit evidence has been prepared using the work of a management's expert, the auditor shall, to the extent necessary, having regard to the significance of that expert's work for the auditor's purposes:</p> <ul style="list-style-type: none"> (a) Evaluate the competence, capabilities and objectivity of that expert; (b) Obtain an understanding of the work of that expert; and (c) Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion. 	<p>10. In evaluating information intended to be used as audit evidence in accordance with paragraph 9, when information has been prepared by a management's expert, the auditor shall:</p> <ul style="list-style-type: none"> (a) Evaluate the competence, capabilities and objectivity of that expert; (b) Obtain an understanding of the work performed by that expert; and (c) Obtain an understanding about how the information prepared by that expert has been used by management in the preparation of the financial statements, including: <ul style="list-style-type: none"> (i) How management has considered the appropriateness of the information prepared by that expert; and (ii) Modifications made by management to the information prepared by that expert, and the reasons for such modifications.

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	<p><i>Doubts About the Relevance and Reliability of Information Intended to be Used as Audit Evidence</i></p> <p>11. If the auditor has doubts about the relevance and reliability of information intended to be used as audit evidence, the auditor shall:</p> <ul style="list-style-type: none"> (a) Determine what modifications or additions to audit procedures are necessary to resolve the matter, including attempting to obtain additional information that is relevant and reliable for the auditor's purposes; and (b) Consider the effect of the matter, if any, on other aspects of the audit.
<p>9. When using information produced by the entity, the auditor shall evaluate whether the information is sufficiently reliable for the auditor's purposes, including, as necessary in the circumstances:</p> <ul style="list-style-type: none"> (a) Obtaining audit evidence about the accuracy and completeness of the information; and (b) Evaluating whether the information is sufficiently precise and detailed for the auditor's purposes. 	<p>[Incorporated into paragraph 9]</p>
<p>Selecting Items for Testing to Obtain Audit Evidence</p>	
<p>10. When designing tests of controls and tests of details, the auditor shall determine means of selecting items for testing that are effective in meeting the purpose of the audit procedure.</p>	<p>[Incorporated into paragraph 8(b)]</p>

Extant ISA 500	Proposed ISA 500 (Revised) (Agenda Item 5–A)
Inconsistency in, or Doubts over Reliability of, Audit Evidence	Inconsistencies in Audit Evidence
<p>11. If:</p> <ul style="list-style-type: none"> (a) audit evidence obtained from one source is inconsistent with that obtained from another; or (b) the auditor has doubts over the reliability of information to be used as audit evidence, <p>the auditor shall determine what modifications or additions to audit procedures are necessary to resolve the matter, and shall consider the effect of the matter, if any, on other aspects of the audit.</p>	<p>12. If audit evidence is inconsistent with other audit evidence, the auditor shall:</p> <ul style="list-style-type: none"> (a) Determine what modifications or additions to audit procedures are necessary to resolve the matter; and (b) Consider the effect of the matter, if any, on other aspects of the audit. <p>[Paragraph 11(b) of extant ISA 500 was incorporated into paragraph 11 of proposed ISA 500 (Revised)]</p>
	Evaluating Whether Audit Evidence Obtained Meets the Auditor's Purposes
	<p>13. The auditor shall evaluate whether the audit evidence obtained meets the auditor's purposes, as a basis for concluding whether sufficient appropriate audit evidence has been obtained in accordance with ISA 330.¹¹ In doing so, the auditor shall consider all relevant audit evidence, including audit evidence that is consistent or inconsistent with other audit evidence or assertions in the financial statements.</p>

¹¹ ISA 330, paragraph 26

The remainder of this document shows a mapping of the application material related to external information sources, management's experts and information produced by the entity from extant ISA 500 to Proposed ISA 500 (Revised).

Extant ISA 500	Proposed ISA 500 (Revised)
Application and Other Explanatory Material	
External Information Source	Information Intended to Be Used as Audit Evidence
	<i>Sources of Information</i>
<p>A1. External information sources may include pricing services, governmental organizations, central banks or recognized stock exchanges. Examples of information that may be obtained from external information sources include:</p> <ul style="list-style-type: none"> • Prices and pricing related data; • Macro-economic data, such as historical and forecast unemployment rates and economic growth rates, or census data; • Credit history data; • Industry specific data, such as an index of reclamation costs for certain extractive industries, or viewership information or ratings used to determine advertising revenue in the entertainment industry; and • Mortality tables used to determine liabilities in the life insurance and pension sectors 	<p>[Incorporated as an example to the second bullet of paragraph A41]</p> <p>Example:</p> <p>Pricing services, governmental organizations, central banks or recognized stock exchanges may provide information such as:</p> <ul style="list-style-type: none"> • Prices and pricing related data. • Macro-economic data, such as historical and forecast unemployment rates and economic growth rates, or census data. • 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
<p>A2. A particular set of information is more likely to be suitable for use by a broad range of users and less likely to be subject to influence by any particular user if the external individual or organization provides it to the public for free, or makes it</p>	<p>A41. [Second bullet]</p> <ul style="list-style-type: none"> • An external individual or organization that provides information suitable for use by a broad range of users,

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<p>available to a wide range of users in return for payment of a fee. Judgment may be required in determining whether the information is suitable for use by a broad range of users, taking into account the ability of the entity to influence the external information source.</p>	<p>which the entity uses in preparing the financial statements, or the auditor intends to use as audit evidence. Such sources are referred to as an “external information source” in the application material of this ISA. A particular set of information is more likely to be suitable for use by a broad range of users and less likely to be subject to influence by any particular user if the external individual or organization provides it to the public for free, or makes it available to a wide range of users in return for payment of a fee. Judgment may be exercised in determining whether the information is suitable for use by a broad range of users, and therefore if it is information from an external information source, taking into account the ability of management to influence the external information source.</p>
<p>A3. An external individual or organization cannot, in respect of any particular set of information, be both an external information source and a management’s expert, or service organization or auditor’s expert.</p>	<p>A42. This ISA includes specific requirements for information prepared by a management’s expert. In some instances, information prepared by an external individual or organization that is used by management in preparing the financial statements is an external information source because it is suitable for use by a broad range of users, and in other cases, it is information prepared by a management’s expert (see paragraphs A62–A74). An external individual or organization cannot, in respect of any particular set of information, be both an external information source and a management’s expert.</p>
<p>A4. However, an external individual or organization may, for example, be acting as a management’s expert when providing a</p>	<p>A63. As explained in paragraph A42, in some instances, information prepared by an external individual or organization that is used by</p>

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<p>particular set of information, but may be acting as an external information source when providing a different set of information. In some circumstances, professional judgment may be needed to determine whether an external individual or organization is acting as an external information source or as a management's expert with respect to a particular set of information. In other circumstances, the distinction may be clear. For example:</p>	<p>management in preparing the financial statements is an external information source, and in other cases it is information prepared by a management's expert. Accordingly, professional judgment may be needed in determining whether information intended to be used as audit evidence has been prepared by a management's expert, and therefore whether the requirement in paragraph 10 of this ISA applies.</p>
<ul style="list-style-type: none"> • An external individual or organization may be providing information about real estate prices that is suitable for use by a broad range of users, for example, information made generally available pertaining to a geographical region, and be determined to be an external information source with respect to that set of information. The same external organization may also be acting as a management's or auditor's expert in providing commissioned valuations, with respect to the entity's real estate portfolio specifically tailored for the entity's facts and circumstances. • Some actuarial organizations publish mortality tables for general use which, when used by an entity, would generally be considered to be information from an external information source. The same actuarial organization may also be a management's expert 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. 	<p>Examples:</p> <ul style="list-style-type: none"> • An individual or organization may provide information about real estate prices that is suitable for use by a broad range of users and is therefore determined to be an external information source with respect to that information (e.g., information made generally available about a geographical region). The same individual or organization may also act as a management's expert in providing commissioned valuations for 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 expert for 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. <p>[The AETF is of the view that these two examples adequately illustrate the principles explained in paragraph A63 and including only two examples results in more concise application material, consistent with</p>

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Application and Other Explanatory Material	
<p>If the external individual or organization applies that expertise in making an estimate specifically for the entity and that work is used by management in preparing its financial statements, the external individual or organization is likely to be a management's expert with respect to that information. If, on the other hand, that external individual or organization merely provides, to the public, prices or pricing-related data regarding private transactions, and the entity uses that information in its own estimation methods, the external individual or organization is likely to be an external information source with respect to such information.</p> <ul style="list-style-type: none"> • An external individual or organization may publish information, suitable for a broad range of users, about risks or conditions in an industry. If used by an entity in preparing its risk disclosures (for example in compliance with IFRS 7¹²), 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 expert. • 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 	<p>the CUSP guidelines]</p>

¹² International Financial Reporting Standards 7 (IFRS), *Financial Instruments: Disclosures*

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<p>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 expert.</p>	
Information to Be Used as Audit Evidence	
<i>Relevance and Reliability</i>	
External Information Sources	
<p>A39. The auditor is required by paragraph 7 to consider the relevance and reliability of information obtained from an external information source that is to be used as audit evidence, regardless of whether that information has been used by the entity in preparing the financial statements or obtained by the auditor. For information obtained from an external information source, that consideration may, in certain cases, include audit evidence about the external information source or the preparation of the information by the external information source, obtained through designing and performing further audit procedures in accordance with ISA 330 or, where applicable, ISA 540 (Revised).¹³</p>	<p>[Paragraph 9 requires the auditor to evaluate whether the information intended to be used as audit evidence is relevant and reliable for the auditor's purposes. This requirement applies to all sources of information, including external information sources]</p>

¹³ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

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Application and Other Explanatory Material	
A40. Obtaining an understanding of why management or, when applicable, a management's expert uses an external information source, and how the relevance and reliability of the information was considered (including its accuracy and completeness), may help to inform the auditor's consideration of the relevance and reliability of that information.	[Incorporated in paragraph A54]
A41. The following factors may be important when considering the relevance and reliability of information obtained from an external information source, including its accuracy and completeness, taking into account that some of these factors may only be relevant when the information has been used by management in preparing the financial statements or has been obtained by the auditor:	[Paragraphs A47-A50 provide guidance on the attributes of relevance and reliability. Such attributes apply to all (sources of) information that the auditor intends to use as audit evidence, including from an external information source.]
<ul style="list-style-type: none"> The nature and authority of the external information source. For example, a central bank or government statistics office with a legislative mandate to provide industry information to the public is likely to be an authority for certain types of information; 	[Incorporated into paragraphs A43, A55 and A57. Also addressed by the attribute of authenticity in paragraph A49]
<ul style="list-style-type: none"> The ability to influence the information obtained, through relationships between the entity and the information source; 	[Incorporated into paragraph A44 and addressed by the attribute of bias in paragraph A49]
<ul style="list-style-type: none"> The competence and reputation of the external information source with respect to the information, including whether, in the auditor's professional judgment, 	[Incorporated into paragraph A55 and addressed by the attribute of credibility in paragraph A49]

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Application and Other Explanatory Material	
the information is routinely provided by a source with a track record of providing reliable information;	
<ul style="list-style-type: none"> Past experience of the auditor with the reliability of the information provided by the external information source; 	[Incorporated into paragraph A53 and addressed by the attribute of credibility in paragraph A49]
<ul style="list-style-type: none"> Evidence of general market acceptance by users of the relevance and/or reliability of information from an external information source for a similar purpose to that for which the information has been used by management or the auditor; 	[Addressed by the attributes of authenticity and credibility in paragraph A49]
<ul style="list-style-type: none"> Whether the entity has in place controls to address the relevance and reliability of the information obtained and used; 	[Incorporated into paragraph A53]
<ul style="list-style-type: none"> Whether the external information source accumulates overall market information or engages directly in “setting” market transactions; 	[Addressed by the attributes in paragraphs A48 and A49]
<ul style="list-style-type: none"> Whether the information is suitable for use in the manner in which it is being used and, if applicable, was developed taking into account the applicable financial reporting framework; 	[Addressed by the attributes in paragraphs A48, A49 and A58]
<ul style="list-style-type: none"> Alternative information that may contradict the information used; 	[Incorporated into the requirement in paragraphs 12 and the factors in paragraph A53]
<ul style="list-style-type: none"> The nature and extent of disclaimers or other restrictive language relating to the information obtained; 	[Addressed by the attributes in paragraphs A48 and A49]

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Application and Other Explanatory Material	
<ul style="list-style-type: none"> Information about the methods used in preparing the information, how the methods are being applied including, where applicable, how models have been used in such application, and the controls over the methods; and 	[Addressed by the attributes in paragraphs A48 and A49]
<ul style="list-style-type: none"> When available, information relevant to considering the appropriateness of assumptions and other data applied by the external information sources in developing the information obtained. 	[Addressed by the attributes in paragraphs A48 and A49]
<p>A42. The nature and extent of the auditor's consideration takes into account the assessed risks of material misstatement at the assertion level to which the use of the external information is relevant, the degree to which the use of that information is relevant to the reasons for the assessed risks of material misstatement and the possibility that the information from the external information source may not be reliable (for example, whether it is from a credible source). Based on the auditor's consideration of the matters described in paragraph A39, the auditor may determine that further understanding of the entity and its environment, including its internal control, is needed, in accordance with ISA 315 Revised), or that further audit procedures, in accordance with ISA 330 , and ISA 540 (Revised) when applicable, are appropriate in the circumstances, to respond to the assessed risks of material misstatement related to the use of information from an external information source. Such procedures may include:</p> <p>[bullets not included]</p>	[Incorporated into paragraphs A45, A51, A52, and A53]

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Application and Other Explanatory Material	
<p>A43. In some situations, there may be only one provider of certain information, for example, information from a central bank or government, such as an inflation rate, or a single recognized industry body. In such cases, the auditor's determination of the nature and extent of audit procedures that may be appropriate in the circumstances is influenced by the nature and credibility of the source of the information, the assessed risks of material misstatement to which that external information is relevant, and the degree to which the use of that information is relevant to the reasons for the assessed risk of material misstatement. For example, when the information is from a credible authoritative source, the extent of the auditor's further audit procedures may be less extensive, such as corroborating the information to the source's website or published information. In other cases, if a source is not assessed as credible, the auditor may determine that more extensive procedures are appropriate and, in the absence of any alternative independent information source against which to compare, may consider whether performing procedures to obtain information from the external information source, when practical, is appropriate in order to obtain sufficient appropriate audit evidence.</p>	<p>[Incorporated into paragraphs A55 and A57]</p>
<p>A44. When the auditor does not have a sufficient basis with which to consider the relevance and reliability of information from an external information source, the auditor may have a limitation on scope if sufficient appropriate audit evidence cannot be obtained through alternative procedures. Any imposed</p>	<p>[Incorporated into paragraphs A37 and A38]</p>

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Application and Other Explanatory Material	
<p>limitation on scope is evaluated in accordance with the requirements of ISA 705 (Revised).¹⁴</p>	
<p><i>Reliability of Information Produced by a Management's Expert</i></p>	<p><i>Information Intended to be Used as Audit Evidence Prepared by a Management's Expert</i></p>
<p>A45. The preparation of an entity's financial statements may require expertise in a field other than accounting or auditing, such as actuarial calculations, valuations, or engineering data. The entity may employ or engage experts in these fields to obtain the needed expertise to prepare the financial statements. Failure to do so when such expertise is necessary increases the risks of material misstatement.</p>	<p>A62. The preparation of an entity's financial statements may require expertise in a field other than accounting, such as actuarial calculations, valuations, or engineering data. The entity may employ or engage experts in these fields to obtain the needed expertise to prepare the financial statements. Failure to do so when such expertise is necessary increases the risks of material misstatement.</p>
<p>A46. When information to be used as audit evidence has been prepared using the work of a management's expert, the requirement in paragraph 8 of this ISA applies. For example, an 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 individual or organization applies that expertise in making an estimate which the entity uses in preparing its financial statements, the individual or organization is a management's expert and paragraph 8 applies. If, on the other hand, that individual or organization merely provides price data regarding private transactions not otherwise available to the entity which the entity uses in its own estimation methods, such information, if used as audit evidence, is subject to paragraph 7 of this ISA</p>	<p>A63. As explained in paragraph A42, in some instances, information prepared by an external individual or organization that is used by management in preparing the financial statements is an external information source, and in other cases it is information prepared by a management's expert. Accordingly, professional judgment may be needed in determining whether information intended to be used as audit evidence has been prepared by a management's expert, and therefore whether the requirement in paragraph 10 of this ISA applies.</p> <p>[Examples also added to illustrate when paragraph 10 would apply because the information has been prepared by a management's expert. Also see paragraph A64.]</p>

¹⁴ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*, paragraph 13

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being information from an external information source and not the use of a management's expert by the entity.	
<p>A47. The nature, timing and extent of audit procedures in relation to the requirement in paragraph 8 of this ISA, may be affected by such matters as:</p> <ul style="list-style-type: none"> • The nature and complexity of the matter to which the management's expert relates. • The risks of material misstatement in the matter. • The availability of alternative sources of audit evidence. • The nature, scope and objectives of the management's expert's work. • Whether the management's expert is employed by the entity, or is a party engaged by it to provide relevant services. • The extent to which management can exercise control or influence over the work of the management's expert. • Whether the management's expert is subject to technical performance standards or other professional or industry requirements. • The nature and extent of any controls within the entity over the management's expert's work. • The auditor's knowledge and experience of the management's expert's field of expertise. 	[Incorporated into paragraphs A65–A74]

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<ul style="list-style-type: none"> The auditor's previous experience of the work of that expert. 	
	<p>A64. Audit evidence obtained in evaluating the relevance and reliability of the information prepared by a management's expert may assist the auditor in complying with other ISAs. For example, in complying with ISA 540 (Revised), the audit evidence obtained from evaluating the relevance and reliability of the information prepared by a management's expert may assist the auditor in obtaining audit evidence relating to:</p> <ul style="list-style-type: none"> The selection and application of the methods, significant assumptions and the data used by management in making the accounting estimate; and How management selected the point estimate and developed related disclosures about estimation uncertainty.
The Competence, Capabilities and Objectivity of a Management's Expert	The Competence, Capabilities and Objectivity of the Management's Expert
<p>A48. Competence relates to the nature and level of expertise of the management's expert. Capability relates the ability of the management's expert to exercise that competence in the circumstances. Factors that influence capability may include, for example, geographic location, and the availability of time and resources. Objectivity relates to the possible effects that bias, conflict of interest or the influence of others may have on the professional or business judgment of the management's expert. The competence, capabilities and objectivity of a management's expert, and any controls within the entity over</p>	<p>A65. When evaluating the relevance and reliability of information intended to be used as audit evidence, paragraph 9(b) requires the auditor to consider the attributes of relevance and reliability that are applicable in the circumstances. When such information is prepared by a management's expert:</p> <ul style="list-style-type: none"> The competence and capabilities of that expert may inform the auditor's consideration of the attribute of credibility. The credibility of the source providing the information affects the

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<p>that expert's work, are important factors in relation to the reliability of any information produced by a management's expert.</p>	<p>degree to which information intended to be used as audit evidence is reliable.</p> <ul style="list-style-type: none"> The objectivity of that expert may inform the auditor's consideration of the attribute of bias. Bias in the information intended to be used as audit evidence affects the degree to which information is reliable. In some cases, information prepared by a management's expert may be subject to bias, as management may have an influence on the professional judgments of the management's expert.
<p>A49. Information regarding the competence, capabilities and objectivity of a management's expert may come from a variety of sources, such as:</p> <ul style="list-style-type: none"> Personal experience with previous work of that expert. Discussions with that expert. Discussions with others who are familiar with that expert's work. Knowledge of that expert's qualifications, membership of a professional body or industry association, license to practice, or other forms of external recognition. Published papers or books written by that expert. An auditor's expert, if any, who assists the auditor in obtaining sufficient appropriate audit evidence with respect to information produced by the management's expert. 	<p>[Incorporated into paragraphs A65–67]</p>

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<p>A50. Matters relevant to evaluating the competence, capabilities and objectivity of a management's expert include whether that expert's work is subject to technical performance standards or other professional or industry requirements, for example, ethical standards and other membership requirements of a professional body or industry association, accreditation standards of a licensing body, or requirements imposed by law or regulation.</p>	<p>Competence and Capabilities</p> <p>A66. Competence relates to the nature and level of expertise of the management's expert. Factors that may affect whether the management's expert has the appropriate competence include:</p> <ul style="list-style-type: none"> • Whether the expert's work is subject to technical performance standards or other professional or industry requirements, for example, ethical standards and other membership requirements of a professional body or industry association, accreditation standards of a licensing body, or requirements imposed by law or regulation. • The matter for which the management expert's work will be used, and whether they have the appropriate level of expertise applicable to the matter, including expertise in a particular area of specialty. [Example not included] • The management's expert's competence with respect to relevant accounting requirements, for example, knowledge of assumptions and methods, including models when applicable, that are consistent with the applicable financial reporting framework. <p>A67. Capabilities relates to the ability of the management's expert to exercise the competence in the circumstances. Factors that may influence capabilities may include geographic location, and the availability of time and resources.</p>

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<p>A51. Other matters that may be relevant include:</p> <ul style="list-style-type: none"> • The relevance of the management's expert's competence to the matter for which that expert's work will be used, including any areas of specialty within that expert's field. For example, a particular actuary may specialize in property and casualty insurance, but have limited expertise regarding pension calculations. • The management's expert's competence with respect to relevant accounting requirements, for example, knowledge of assumptions and methods, including models where applicable, that are consistent with the applicable financial reporting framework. • Whether unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures indicate that it may be necessary to reconsider the initial evaluation of the competence, capabilities and objectivity of the management's expert as the audit progresses. 	<p>[Incorporated into paragraphs A66–A67]</p>
<p>A52. A broad range of circumstances may threaten objectivity, for example, self-interest threats, advocacy threats, familiarity threats, self-review threats and intimidation threats. Safeguards may reduce such threats, and may be created either by external structures (for example, the management's expert's profession, legislation or regulation), or by the management's expert's work environment (for example, quality control policies and procedures).</p>	<p>Objectivity</p> <p>A68. A broad range of circumstances may influence the professional judgments of the management's expert, which may threaten the management expert's objectivity, for example, self-interest threats, advocacy threats, familiarity threats, self-review threats and intimidation threats. Interests and relationships creating threats may include:</p>

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	<ul style="list-style-type: none"> • Financial interests. • Business and personal relationships. • Provision of other services. <p>Safeguards may reduce such threats, and may be created either by external structures (e.g., the management's expert's profession, legislation or regulation), or by the management's expert's work environment (e.g., quality management policies or procedures).</p>
<p>A53. Although safeguards cannot eliminate all threats to a management's expert's objectivity, threats such as intimidation threats may be of less significance to an expert engaged by the entity than to an expert employed by the entity, and the effectiveness of safeguards such as quality control policies and procedures may be greater. Because the threat to objectivity created by being an employee of the entity will always be present, an expert employed by the entity cannot ordinarily be regarded as being more likely to be objective than other employees of the entity.</p>	<p>A69. Although safeguards cannot eliminate all threats to a management's expert's objectivity, threats such as intimidation threats may be of less significance to a management's expert engaged by the entity than to a management's expert employed by the entity, and the effectiveness of safeguards such as quality management policies or procedures may be greater. The threat to objectivity created by being an employee of the entity will always be present, and therefore a management's expert employed by the entity cannot ordinarily be regarded as being more likely to be objective than other employees of the entity.</p>
<p>A54. When evaluating the objectivity of an expert engaged by the entity, it may be relevant to discuss with management and that expert any interests and relationships that may create threats to the expert's objectivity, and any applicable safeguards, including any professional requirements that apply to the expert; and to evaluate whether the safeguards are adequate. Interests and relationships creating threats may include:</p> <ul style="list-style-type: none"> • Financial interests. 	<p>[Incorporated into paragraph A68]</p>

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<ul style="list-style-type: none"> • Business and personal relationships. • Provision of other services. 	
Obtaining an Understanding of the Work of the Management's Expert	Obtaining an Understanding of the Work Performed by the Management's Expert
<p>A55. An understanding of the work of the management's expert includes an understanding of the relevant field of expertise. An understanding of the relevant field of expertise may be obtained in conjunction with the auditor's determination of whether the auditor has the expertise to evaluate the work of the management's expert, or whether the auditor needs an auditor's expert for this purpose.¹⁵</p>	<p>A70. Matters relevant to the auditor's understanding of the work performed by the management's expert may include:</p> <ul style="list-style-type: none"> • The relevant field of expertise; • The nature, scope and objectives of the management's expert's work; • Whether there are professional or other standards, and regulatory or legal requirements that apply in preparing the information; • How the information has been prepared by the management's expert, including: <ul style="list-style-type: none"> ○ The assumptions and methods used by the management's expert, and whether they are generally accepted within that expert's field and appropriate for financial reporting purposes; and ○ The underlying information used by the management's expert; and • The relevance and reasonableness of that expert's findings or conclusions, their consistency with other audit evidence,

¹⁵ ISA 620, paragraph 7

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	and whether they have been appropriately reflected in the financial statements.
	A71. The auditor may decide to involve an auditor's expert ¹⁶ to assist in understanding the work performed, including the information prepared, by, the management's expert. For example, the auditor may not have sufficient knowledge or expertise in the management expert's field.
<p>A56. Aspects of the management's expert's field relevant to the auditor's understanding may include:</p> <ul style="list-style-type: none"> • Whether that expert's field has areas of specialty within it that are relevant to the audit. • Whether any professional or other standards, and regulatory or legal requirements apply. • What assumptions and methods are used by the management's expert, and whether they are generally accepted within that expert's field and appropriate for financial reporting purposes. • The nature of internal and external data or information the management's expert uses. 	[Incorporated into paragraph A70]
<p>A57. In the case of a management's expert engaged by the entity, there will ordinarily be an engagement letter or other written form of agreement between the entity and that expert. Evaluating that agreement when obtaining an understanding of the work of the management's expert may assist the auditor in</p>	[Incorporated into paragraphs A68 and A69]

¹⁶ ISA 620, paragraph 7

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<p>determining the appropriateness of the following for the auditor's purposes:</p> <ul style="list-style-type: none"> • The nature, scope and objectives of that expert's work; • The respective roles and responsibilities of management and that expert; and • The nature, timing and extent of communication between management and that expert, including the form of any report to be provided by that expert. 	
<p>A58. In the case of a management's expert employed by the entity, it is less likely there will be a written agreement of this kind. Inquiry of the expert and other members of management may be the most appropriate way for the auditor to obtain the necessary understanding.</p>	<p>[Incorporated into paragraphs A68 and A69]</p>
Evaluating the Appropriateness of the Management's Expert's Work	
<p>A59. Considerations when evaluating the appropriateness of the management's expert's work as audit evidence for the relevant assertion may include:</p> <ul style="list-style-type: none"> • The relevance and reasonableness of that expert's findings or conclusions, their consistency with other audit evidence, and whether they have been appropriately reflected in the financial statements; • If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods; 	<p>[Incorporated into paragraphs A70 and A72–A74, including the attributes in A49]</p>

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<ul style="list-style-type: none"> • If that expert's work involves significant use of source data the relevance, completeness, and accuracy of that source data; and • If that expert's work involves the use of information from an external information source, the relevance and reliability of that information. 	
	Obtain an Understanding of How the Information Prepared by the Management's Expert has Been Used by Management in the Preparation of the Financial Statements
	<p>A72. Understanding how management has considered the appropriateness of the information prepared by the management's expert may assist the auditor in evaluating the relevance and reliability of the information intended to be used as audit evidence.</p> <p>[Examples not included]</p>
	<p>A73. In some circumstances, management may need to modify the information prepared by the management's expert, such as when the information provided is too general and requires adjustment to reflect the circumstances unique to the entity. Modifications made by management to the information prepared by the management's expert could affect the reliability of such information. For example, management's adjustments may give rise to bias, or management may not have the appropriate competence and capabilities to adapt or adjust the information, which may cause the information to be inaccurate, incomplete or lack credibility. Accordingly, understanding the modifications made by management to the information prepared by the management's expert may assist the</p>

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	auditor in evaluating whether the information is relevant and reliable for the auditor's purposes in accordance with paragraph 10.
	A74. The auditor's understanding of how information prepared by the management's expert has been used by management in the preparation of the financial statements may indicate a deficiency in internal control. ISA 265 deals with the auditor's responsibility to communicate deficiencies in internal control to those charged with governance and management.
<i>Information Produced by the Entity and Used for the Auditor's Purposes</i>	[See note ¹⁷]
A60. In order for the auditor to obtain reliable audit evidence, information produced by the entity that is used for performing audit procedures needs to be sufficiently complete and accurate. For example, the effectiveness of auditing revenue by applying standard prices to records of sales volume is affected by the accuracy of the price information and the completeness and accuracy of the sales volume data. Similarly, if the auditor intends to test a population (for example, payments) for a certain characteristic (for example, authorization), the results of the test will be less reliable if the population from which items are selected for testing is not complete.	[Incorporated into paragraphs A47–A56]

¹⁷ Paragraph 9 of proposed ISA 500 (Revised), including the relevant application material, applies to all information intended to be used as audit evidence (i.e., the proposed standard does not distinguish between information produced by the entity and other sources of information).

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<p>A61. Obtaining audit evidence about the accuracy and completeness of such information may be performed concurrently with the actual audit procedure applied to the information when obtaining such audit evidence is an integral part of the audit procedure itself. In other situations, the auditor may have obtained audit evidence of the accuracy and completeness of such information by testing controls over the preparation and maintenance of the information. In some situations, however, the auditor may determine that additional audit procedures are needed.</p>	<p>[Incorporated into paragraphs A47–A56 and A59]</p>
<p>A62. In some cases, the auditor may intend to use information produced by the entity for other audit purposes. For example, the auditor may intend to make use of the entity's performance measures for the purpose of analytical procedures, or to make use of the entity's information produced for monitoring activities, such as reports of the internal audit function. In such cases, the appropriateness of the audit evidence obtained is affected by whether the information is sufficiently precise or detailed for the auditor's purposes. For example, performance measures used by management may not be precise enough to detect material misstatements.</p>	<p>[Incorporated into paragraphs A47–A56]</p>