

**Conforming and Consequential Amendments Arising from Draft Proposed ISA
540 (Revised)**

Marked from Extant ISA 500

ISA 500, *Audit Evidence*,

Definitions

5. For purposes of the ISA, the following terms have the meanings attributed below:

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(cA) External information source – An individual or organization, other than a management's expert, that provides publicly available information used by the entity in preparing the financial statements. (Ref: Para. A1A-A1C)

(d) 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.

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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. (Ref: Para. A26–A33J)

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: (Ref: Para. A34–A36)

(a) Evaluate the competence, capabilities and objectivity of that expert; (Ref: Para. A37–A43)

(b) Obtain an understanding of the work of that expert; and (Ref: Para. A44–A47)

(c) Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion. (Ref: Para. A48)

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:

(a) Obtaining audit evidence about the accuracy and completeness of the information; and (Ref: Para. A49–A50)

(b) Evaluating whether the information is sufficiently precise and detailed for the auditor's purposes. (Ref: Para. A51)

External Information Source (Ref: Para 5(cA))

A1A. In preparing the financial statements, management may make use of information obtained from an external information source. An important consideration in determining whether an individual or organization is acting as an external information source is whether the individual or organization meets the definition of a management's expert with respect to that information.

Indicators that an external organization may be acting as an external information source rather than as a management's expert include the following:

- The information is not specifically generated for the entity; and
- The information is generally available to the public.

Whether or not management pays a fee to access information from an external information source is not relevant in considering whether an individual or organization is acting as an external information source.

A1B. 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:

- 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.

A1C. Depending on the facts and circumstances, an individual or organization may, in respect of any particular set of information, be either an external information source or a management's expert but not both. Professional judgment may be needed to determine whether a specific organization is acting as an external information source or as a management's expert with respect to a particular set of information. For example:

- An external organization may be acting as an external information source with respect to data about real estate prices for a particular geographical region that it makes generally available to the public and that management uses in preparing the financial statements. The same external organization may at the same time be acting as a management's expert for the same entity in providing management with a valuation service with respect to the entity's real estate portfolio.
- Some actuarial organizations publish mortality tables for general use which, when used by an entity, may be information from an external information source, while the same actuarial organization may be a management's expert when helping management to calculate the pension liability for several of its pension plans.
- 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 specifically for the entity and which the entity uses in preparing its financial statements, the individual or organization is a management's expert. If, on the other hand, that individual or organization merely provides price data regarding private transactions to the public, and the entity uses that information in its own estimation methods, the individual or organization is an external information source.

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External Information Sources

A33A. Obtaining an understanding of why management uses an external information source, and how management considered the relevance and reliability of the information for use in preparing its financial statements, helps to inform the auditor's consideration of the relevance and reliability of that information.

A33B. Depending on the circumstances, the following factors may be important considerations about the relevance and reliability of information obtained from an external information source:

- The nature and authority of the external information source used by the entity. 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;
- The ability of management to influence the information obtained from the external information sources;
- The competence and reputation of the external information source with respect to that particular type of information;
- Past experience of the auditor with the reliability of the information provided by the external information source;
- When available, 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;
- The entity's controls over the information obtained from external information sources;
- Whether the information was developed taking into account the applicable financial reporting framework;
- The nature and extent of disclaimers or other restrictive language relating to the information obtained; and
- Whether information is available regarding the appropriateness of techniques, assumptions and inputs applied by the external information sources in developing the information obtained.

A33C. The ability of the auditor to consider the reliability of the information from the external information source may vary significantly depending on the source. In many circumstances, the auditor may not be able to consider the accuracy and completeness of the information received from an external information source as there may be no contractual relationship between the external information source and the entity requiring provision of information, or the external information source may refuse to provide information seen as its intellectual property. For example, when an entity uses a central bank's inflation rate to make an accounting estimate, the auditor is unlikely to be able to consider the bank's data and method other than what is made publicly available by the central bank. In such circumstances, the auditor may, depending on the significance of the information, consider the nature and authority of the source or, the auditor may obtain information from a different external information source, when available.

A33D. The availability of information to understand the methods and assumptions used by the external information source may influence the auditor's ability to consider the nature, timing and extent of procedures to test management's use of the sources. For example, pricing services often provide information about their methods and assumptions by asset class rather than individual securities. Brokers often provide only limited information about their inputs and assumptions when providing

broker indicative quotes for individual securities.

A33E. The observability of inputs and complexity of methods used to generate the information from the external information source may also influence the auditor's ability to consider the nature and extent of procedures that the auditor needs to perform to test the reliability of information from that source.

A33F. Possible approaches for the auditor to consider the relevance and reliability of information from external information sources may include one or more of the following:

- Obtain a service auditor's report that covers the controls over the information provided and consider whether the service auditor's report provides sufficient appropriate audit evidence about the effectiveness of the controls.¹
- Perform procedures at the external information source to understand the controls and processes, techniques, and assumption used, including procedures to verify the completeness of the information after it is obtained from the external information source.
- Test the controls management has in place to assess the reliability of the information from external information sources.
- Considering whether the information is intended to be used in the manner management is using it.
- When the information received from the external information source relates to security prices, the auditor may be able to obtain an independent price from another external information source or perform substantive analytical procedures.

A33G. For fair value measurement, additional considerations of the relevance and reliability of the information used may also include the following:

- (a) Whether fair values are based on trades of the same instrument or active market quotations;
- (b) When the fair values are based on transactions of comparable assets or liabilities, how those transactions are identified and considered comparable;
- (c) When there are no transactions either for the asset or liability or comparable assets or liabilities, how the information was developed including whether the inputs developed represent the assumptions that market participants would use when pricing the asset or liability, if applicable. and
- (d) When the fair value measurement is based on a broker quote, whether the broker quote:
 - (i) Is from a market maker who transacts in the same type of financial instrument;
 - (ii) Is binding or nonbinding, with more weight placed on quotes based on binding offers; and
 - (iii) Reflects market conditions as of the date of the financial statement.

A33H. In some situations, management and the auditor may use the same external information source, for example, because there is only one provider of certain information. When the information obtained from that external information source is used to make an accounting estimate, the auditor may consider whether using the same external information source as management is appropriate, or whether additional audit evidence is needed. In such cases, additional

¹ ISA 402, Audit Considerations Relating to an Entity Using a Service Organization

consideration may need to be given to whether the information from the external information source is accurate and complete. Additional consideration may be given whether the information from an external information source is accurate and complete. When another external information source is available, this may include the auditor accessing a different external information source from that used by management to evaluate the external information source used by management.