

Agenda Item 2-D Updated

CONFORMING AND CONSEQUENTIAL AMENDMENTS ARISING FROM DRAFT PROPOSED ISA 540 (REVISED)

Additional ISAs (and Glossary term) that were not included in the Exposure Draft of ISA 540 have been highlighted below.

All changes are shown as marked from ED-540.

Glossary of Terms

...

Further procedures—Procedures performed in response to assessed risks of *material* misstatement, including tests of controls (if any), tests of details and analytical procedures.

~~*Further audit procedures—Procedures which comprise:~~

~~(i) Tests of controls, when required by the ISA or when the auditor has chosen to do so; and~~

~~(ii) Substantive procedures, including tests of details and substantive analytical procedures.~~

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

Application and Other Explanatory Material

...

Sufficient Appropriate Audit Evidence and Audit Risk (Ref: Para. 5 and 17)

...

Audit Risk

...

Risks of Material Misstatement

...

A42. The ISAs do not ordinarily refer to inherent risk and control risk separately, but rather to a combined assessment of the “risks of material misstatement.” However, the auditor may make separate or combined assessments of inherent and control risk depending on preferred audit techniques or methodologies and practical considerations. Nonetheless, ISA 540 (Revised) highlights the importance of the auditor’s consideration of both inherent and control risk in designing and performing further audit procedures to respond to the assessed risks of material misstatement, including significant risks, at the assertion level in accordance with ISA 330.¹² The assessment of the risks of material misstatement may be expressed in quantitative terms, such as in percentages, or in non-quantitative terms. In any case, the need for the auditor to make appropriate risk assessments is more important than the different approaches by which they may be made.

Application Material to be Added to Proposed ISA 540 (Revised)

A95. Paragraph ~~A40~~~~A42~~ of ISA 200¹³ states that the ISAs do not ordinarily refer to inherent risk and control risk separately. However, the auditor may make separate or combined assessments of inherent and control risk. Although this ISA neither implies nor requires a separate assessment of inherent and control risk, it highlights the importance of the auditor’s consideration of both inherent and control risk in designing and performing further audit procedures to respond to the assessed risks of material misstatement, including significant risks, at the assertion level in accordance with ISA 330.

Commented [A1]: Track changes from ED-540, paragraph A95

¹² [ISA 330, The Auditor’s Responses to Assessed Risks, paragraph 7\(b\)](#)

¹³ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

ISA 540 — Conforming and Consequential Amendments - Updated
IAASB Main Agenda (December 2017)

ISA 230, Audit Documentation

Requirements

...

Note: Paragraph 8 is provided for reference purposes only.

Commented [A2]: No changes made for now. The ISA 540 Task Force will take into account the comments made by the Board and will consider further changes.

The areas highlighted in grey have not been updated by the Task Force

Formatted: Highlight

Documentation of the Audit Procedures Performed and Audit Evidence Obtained

Form, Content and Extent of Audit Documentation

8. The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand: (Ref: Para. A2–A5, A16–A17)
- (a) The nature, timing and extent of the audit procedures performed to comply with the ISAs and applicable legal and regulatory requirements; (Ref: Para. A6–A7)
 - (b) The results of the audit procedures performed, and the audit evidence obtained; and
 - (c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. (Ref: Para. A8–A11)

Formatted: Highlight

...

Application and Other Explanatory Material

...

- A10. Some examples of circumstances in which, in accordance with paragraph 8, it is appropriate to prepare audit documentation relating to the use of professional judgment include, where the matters and judgments are significant:
- The rationale for the auditor's conclusion when a requirement provides that the auditor "shall consider" certain information or factors, and that consideration is significant in the context of the particular engagement.
 - The basis for the auditor's conclusion on the reasonableness of areas of subjective judgments.
 - The basis for the auditor's evaluation of whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated.
 - The basis for the auditor's conclusions about the authenticity of a document when further investigation (such as making appropriate use of an expert or of confirmation procedures) is undertaken in response to conditions identified during the audit that caused the auditor to believe that the document may not be authentic.
 - When ISA 701 applies,¹⁴ the auditor's determination of the key audit matters or the determination that there are no key audit matters to be communicated.

Formatted: Highlight

¹⁴ ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

ISA 260 (Revised), *Communication with Those Charged with Governance*

Requirements

...

Matters to Be Communicated

...

Note: Paragraph 16 is provided for reference purposes only.

Significant Findings from the Audit

16. The auditor shall communicate with those charged with governance: (Ref: Para. A17–A18)
- a) The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. When applicable, the auditor shall explain to those charged with governance why the auditor considers a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be most appropriate to the particular circumstances of the entity; (Ref: Para. A19–A20)
 - b) Significant difficulties, if any, encountered during the audit; (Ref: Para. A21)
 - c) Unless all of those charged with governance are involved in managing the entity:
 - (i) Significant matters arising during the audit that were discussed, or subject to correspondence, with management; and (Ref: Para. A22)
 - (ii) Written representations the auditor is requesting;
 - d) Circumstances that affect the form and content of the auditor's report, if any; and (Ref: Para. A23–A25)
 - e) Any other significant matters arising during the audit that, in the auditor's professional judgment, are relevant to the oversight of the financial reporting process. (Ref: Para. A26–A28)

...

Application and Other Explanatory Material

...

Matters to Be Communicated

...

Significant Findings from the Audit

...

Significant Qualitative Aspects of Accounting Practices (Ref: Para. 16(a))

- A19. Financial reporting frameworks ordinarily allow for the entity to make accounting estimates, and judgments about accounting policies and financial statement disclosures, for example, in relation to the use of key assumptions in the development of accounting estimates for which there is significant measurement uncertainty. In addition, law, regulation or financial reporting frameworks may require disclosure of a summary of significant accounting policies or make reference to “critical accounting estimates” or “critical accounting policies and practices” to identify and provide additional information to users about the most difficult, subjective or complex judgments made by management in preparing the financial statements.
- A20. As a result, the auditor’s views on the subjective aspects of the financial statements may be particularly relevant to those charged with governance in discharging their responsibilities for oversight of the financial reporting process. For example, in relation to the matters described in paragraph A19, those charged with governance may be interested in the auditor’s views on the effects of complexity, subjectivity or other relevant risk factors on the methods, assumptions and data used in making an accounting estimate, and the evaluation of the reasonableness of the amount and related disclosures included in the financial statements. Open and constructive communication about significant qualitative aspects of the entity’s accounting practices also may include comment on the acceptability of significant accounting practices, including whether management’s decisions are the most appropriate in the circumstances of the entity when alternative acceptable accounting practices are available, and the quality of the disclosures. Appendix 2 identifies matters that may be included in this communication.

Appendix 1

(Ref: Para. 3)

Specific Requirements in ISQC 1 and Other ISAs that Refer to Communications with Those Charged With Governance

This appendix identifies paragraphs in ISQC 1¹⁵ and other ISAs that require communication of specific matters with those charged with governance. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs.

- ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* – paragraph 30(a)
- ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* – paragraphs 21, 38(c)(i) and 40-42
- ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements* – paragraphs 14, 19 and 22–24
- ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management* – paragraph 9
- ISA 450, *Evaluation of Misstatements Identified during the Audit* – paragraphs 12-13
- ISA 505, *External Confirmations* – paragraph 9
- ISA 510, *Initial Audit Engagements—Opening Balances* – paragraph 7
- ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures* – paragraph ~~22A~~26
- ISA 550, *Related Parties* – paragraph 27
- ISA 560, *Subsequent Events* – paragraphs 7(b)-(c), 10(a), 13(b), 14(a) and 17
- ISA 570 (Revised), *Going Concern* – paragraph 25
- ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* – paragraph 49
- ISA 610 (Revised 2013), *Using the Work of Internal Auditors* – paragraphs 20 and 31
- ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* – paragraph 46
- ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report* – paragraph 17
- ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report* – paragraphs 12, 14, 23 and 30
- ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* – paragraph 12
- ISA 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements* – paragraph 18
- ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information* – paragraph 17—19

¹⁵ ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

(Ref: Para. 16(a), A19–A20)

Qualitative Aspects of Accounting Practices

The communication required by paragraph 16(a), and discussed in paragraphs A19–A20, may include such matters as:

Accounting Policies

...

Accounting Estimates and Related Disclosures

- ~~For items for which estimates are significant, issues discussed in ISA 540 (Revised), including, for example:~~
 - ~~How management identifies transactions, other events and conditions that give rise to the need for, or changes in, accounting estimates to be recognized or disclosed in the financial statements, and related disclosures.~~
 - ~~Whether management's decisions relating to the recognition, measurement, presentation and disclosure of the accounting estimates and related disclosures in the financial statements are in accordance with the applicable financial reporting framework.~~
 - ~~Whether there has been or ought to have been a change from the prior period in the methods for making the accounting estimates and, if so, why, as well as the outcome of accounting estimates in prior periods.~~
 - ~~Whether management has applied appropriate specialized skills or knowledge or engaged appropriate experts.~~
 - ~~Whether management's methods for making the accounting estimates, including when management has used a model, are appropriate in the context of the measurement objectives and other requirements of the applicable financial reporting framework.~~
 - ~~Whether the significant data and significant assumptions used by management in making the accounting estimates are appropriate in the context of the requirements of the applicable financial reporting framework.~~
 - ~~Whether significant assumptions are consistent with each other and with those used in other accounting estimates, or with assumptions used in other areas of the entity's business activities.~~
 - ~~When relevant to the appropriateness of the significant assumptions or the appropriate application of the applicable financial reporting framework, whether management has the intent to carry out specific courses of action and has the ability to do so.~~
 - ~~The relevance and reliability of information obtained from an external information source.~~
 - ~~Risks of material misstatement.~~

ISA 540 — Conforming and Consequential Amendments - Updated

IAASB Main Agenda (December 2017)

- ~~Indicators of possible management bias.~~
- ~~How management has considered alternative assumptions or outcomes and why it has rejected them, or how management has otherwise addressed estimation uncertainty in making the accounting estimate.~~
- ~~The reasonableness of disclosures about estimation uncertainty in the financial statements.~~

ISA 500, **Audit Evidence**

Definitions

5. For purposes of the 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; 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.
- (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.
- (cA) External information source – An external individual or organization, ~~other than a management's expert, or service organization¹⁶, which provides information that: (Ref. Para. A1A–A1C)~~ is suitable for use by a broad range of users, and has been used ~~either by: (Ref. Para. A1A–A1C)~~
 - (i) the entity in preparing the financial statements, other than information obtained from a management's expert or a service organization;¹⁷ or
 - (ii) the auditor as audit evidence, other than evidence obtained from an auditor's expert.
- (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.
- (e) 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.

...

Requirements

...

¹⁶ ISA 402 paragraph 8

¹⁷ ISA 402 paragraph 8

Commented [A4]: The Task Force made changes to address the comment that the auditor's use of an EIS needed to be accommodated in the definition and throughout ISA 500.

Please note that the Task force did NOT discuss and address any of the other comments received on the conforming and consequential amendments to ISA 500.

Information to Be Used as Audit Evidence

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–A33JH)

...

Application and Other Explanatory Material

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 or may make use of a management's expert or service organization. ISA 402 addresses the responsibilities of the auditor in obtaining sufficient appropriate audit evidence when an entity uses a service organization. An external individual or organization may be acting as an external information source, rather than as a management's expert or service organization, in respect of a specific set of information, when the information obtained by the entity is suitable for use by a broad range of users. Such information may be obtained for free, if the information is in the public domain, or in return for payment of a fee to the relevant external information source. In such circumstances, it is less likely that management will be able to influence the external information source.

A1A33Aa. The auditor may also obtain information from an external information source as part of further audit procedures to consider the relevance and reliability of management's internally produced information

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. An individual or organization cannot, in respect of any individual set of information, be both an external information source and be both a management's expert, an auditor's expert or a service organization, as applicable and an external information source.

A1Ca. However, an individual or organization may provide a range of different information, some of which may be provided when acting as a management expert and other information when acting as an external information source, depending on the facts and circumstances. Professional judgment may be needed to determine whether an individual or 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 when that information is suitable for use by a broad range of users, for example, information generally available pertaining to a geographical region. The same external organization may also 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, if that information is specifically tailored for the entity's facts and circumstances.
- Some actuarial organizations publish mortality tables for general use which, when used by an entity, may be considered to be information from an external information source. The same actuarial organization may also be a management's expert if it provides entity-specific tailored information to help management determine the pension liability for several of the entity's 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 prices or pricing-related 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.

A1D. [Placeholder for potential guidance on when a service organization (as defined in ISA 402) may also provide information that would otherwise meet the definition of an external information source. The interaction of the definitions of service organization and external information source raises challenges. The instances may be rare and guidance not deemed necessary.]

...

Information to Be Used as Audit Evidence

...

Note: Paragraphs A27-A33 and A49-A51 are provided for reference purposes only, as an understanding of the content of these paragraphs is relevant to considering the application material exposed in ED-540 and the subsequent changes proposed by the Task Force.

Sufficient Appropriate Audit Evidence (Ref: Para. 6)

- A1. Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits (provided the auditor has determined whether changes have occurred since the previous audit that may affect its relevance to the current audit¹⁸) or a firm's quality control procedures for client acceptance and continuance. The entity's accounting records and other sources internal to the entity are important source of audit evidence. However, information that may be used as audit evidence may have been prepared using

¹⁸ ISA 315 (Revised), paragraph 9

the work of a management's expert or be obtained from an external information source. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. In addition, in some cases the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence.

...

Relevance and Reliability (Ref: Para. 7)

A26. As noted in paragraph A1, while audit evidence is primarily obtained from audit procedures performed during the course of the audit, it may also include information obtained from other sources such as, for example, external information sources, previous audits, in certain circumstances, and a firm's quality control procedures for client acceptance and continuance. The quality of all audit evidence is affected by the relevance and reliability of the information upon which it is based.

Relevance

A27. Relevance deals with the logical connection with, or bearing upon, the purpose of the audit procedure and, where appropriate, the assertion under consideration. The relevance of information to be used as audit evidence may be affected by the direction of testing. For example, if the purpose of an audit procedure is to test for overstatement in the existence or valuation of accounts payable, testing the recorded accounts payable may be a relevant audit procedure. On the other hand, when testing for understatement in the existence or valuation of accounts payable, testing the recorded accounts payable would not be relevant, but testing such information as subsequent disbursements, unpaid invoices, suppliers' statements, and unmatched receiving reports may be relevant.

A28. A given set of audit procedures may provide audit evidence that is relevant to certain assertions, but not others. For example, inspection of documents related to the collection of receivables after the period end may provide audit evidence regarding existence and valuation, but not necessarily cutoff. Similarly, obtaining audit evidence regarding a particular assertion, for example, the existence of inventory, is not a substitute for obtaining audit evidence regarding another assertion, for example, the valuation of that inventory. On the other hand, audit evidence from different sources or of a different nature may often be relevant to the same assertion.

A29. Tests of controls are designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level. Designing tests of controls to obtain relevant audit evidence includes identifying conditions (characteristics or attributes) that indicate performance of a control, and deviation conditions which indicate departures from adequate performance. The presence or absence of those conditions can then be tested by the auditor.

A30. Substantive procedures are designed to detect material misstatements at the assertion level. They comprise tests of details and substantive analytical procedures. Designing substantive procedures includes identifying conditions relevant to the purpose of the test that constitute a misstatement in the relevant assertion.

Reliability

A31. The reliability of information to be used as audit evidence, and therefore of the audit evidence itself,

is influenced by its source and its nature, and the circumstances under which it is obtained, including the controls over its preparation and maintenance where relevant. Therefore, generalizations about the reliability of various kinds of audit evidence are subject to important exceptions. Even when information to be used as audit evidence is obtained from sources external to the entity, circumstances may exist that could affect its reliability. For example, information obtained from an independent external source may not be reliable if the source is not knowledgeable, or a management's expert may lack objectivity. While recognizing that exceptions may exist, the following generalizations about the reliability of audit evidence may be useful:

- The reliability of audit evidence is increased when it is obtained from independent sources outside the entity.
- The reliability of audit evidence that is generated internally is increased when the related controls, including those over its preparation and maintenance, imposed by the entity are effective.
- Audit evidence obtained directly by the auditor (for example, observation of the application of a control) is more reliable than audit evidence obtained indirectly or by inference (for example, inquiry about the application of a control).
- Audit evidence in documentary form, whether paper, electronic, or other medium, is more reliable than evidence obtained orally (for example, a contemporaneously written record of a meeting is more reliable than a subsequent oral representation of the matters discussed).
- Audit evidence provided by original documents is more reliable than audit evidence provided by photocopies or facsimiles, or documents that have been filmed, digitized or otherwise transformed into electronic form, the reliability of which may depend on the controls over their preparation and maintenance.

A32. ISA 520 provides further guidance regarding the reliability of data used for purposes of designing analytical procedures as substantive procedures.¹⁹

A33. ISA 240 deals with circumstances where the auditor has reason to believe that a document may not be authentic, or may have been modified without that modification having been disclosed to the auditor.

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, including its accuracy and completeness, for use in preparing its financial statements, helps to inform the auditor's consideration of the relevance and reliability of that information.

~~A33Aa. The auditor may also obtain information from an external information source as part of further audit procedures to consider the relevance and reliability of management's internally produced information.~~

A33B. Depending on the circumstances, 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:

¹⁹ ISA 520, paragraph 5(a)

- 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;
- Any relationships between the entity and the information source and the ability of management to influence the information obtained;
- The competence and reputation of the external information source with respect to the information, including whether the information is routinely provided by the source;
- Past experience of the auditor with the reliability of the information provided by the external information source;
- ~~The Relevant entity's~~ controls over the information obtained;
- Whether the information was developed taking into account the applicable financial reporting framework;
- Whether the information is suitable for use in the manner in which ~~it is being used by management; or the auditor, is using it;~~
- The nature and extent of disclaimers or other restrictive language relating to the information obtained;
- 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; and
- When available, information regarding the appropriateness of assumptions and other data applied by the external information sources in developing the information obtained.

A33F. As part of the consideration of the relevance and reliability of information from external information sources, one or more of the following may be relevant:

- Performing procedures at the external information source to understand the processes, techniques, and assumption used, including identifying, understanding and, when relevant, testing the operating effectiveness of relevant controls.
- When relevant, testing of the operating effectiveness of controls management has in place to assess the reliability of the information from external information sources.
- Performing a comparison of information obtained from the external information source with information obtained from an alternative independent information source, if available.

A33Fa. As explained in paragraph A31, the reliability of information is influenced by its source, its nature, and the circumstances under which it is obtained. Consequently, the nature and extent of the auditor's further audit procedures to consider the reliability of the information may vary depending on the nature of these factors. For example:

- Information from a credible central bank or government, such as an inflation rate, may simply involve corroboration to the bank's website or government website.
- Information from an industry expert body may be corroborated to a report, or reports, issued by that body.

- When prices, or pricing related data, are obtained from a single external information source, specializing in such information, the auditor may seek an independent price from an alternative source, if available.
- When prices, or pricing related data, is obtained from multiple external information sources and provides evidence of consensus across those sources, the auditor may need to obtain less evidence about how individual sources developed their information.
- When information obtained from multiple information sources points to divergent market views the auditor would ordinarily seek to understand the estimation uncertainty involved and reasons for the diversity in views. For example, one source may be using current prices and another source using future prices. When there is inherent estimation uncertainty the auditor may need to consider the reasonableness of disclosures made in the financial statements. In such cases professional judgment is also important in the selection of appropriate assumptions.
- When information has been derived from a model, and the auditor is unable to obtain information about the model methodology, the auditor may consider whether it is necessary to recreate the model, depending on the significance of the use of the information obtained from the external information source.

A33G. For fair value measurement, additional considerations of the relevance and reliability of information obtained from external information sources 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 and used 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 statements, when required by the applicable financial reporting framework.

A33C. In many circumstances, information regarding the methods, assumptions and other data applied by the external information source in developing the information may not be available and the auditor may not be able to consider the accuracy and completeness of the information as there may be no contractual relationship between the external information source ~~and the entity~~ that requires the provision of information, or the external information source may refuse to provide information considered to be intellectual property.

A33D. The availability of sufficiently granular information to understand the methods, assumptions and other data used by the external information source may also be limited in some respects and consequently

influence the auditor's consideration of the nature, timing and extent of procedures to perform. 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. The complexity of the method may also influence the auditor's views as to the extent of procedures to perform to obtain sufficient appropriate evidence about the relevance and reliability of the information.

A33Ga. When the auditor is unable to obtain sufficient appropriate audit evidence to consider the relevance and reliability of information from an external information source, as a result of restrictions in the provision of information from that external information source, the auditor may have a limitation on scope if sufficient appropriate audit evidence cannot be obtained through alternative procedures. Any imposed limitation on scope is evaluated in accordance with the requirements of ISA 705.

A33H. In some situations, there may be only one provider of certain information. In such cases, the auditor's determination of the nature and extent of procedures that would be appropriate in the circumstances in considering the relevance and reliability of that information is influenced both by the nature and source of the information, as described in paragraphs A33A⁴ and A33B, as well as ~~the significance to the entity's financial reporting of how management~~, ~~or the auditor~~, has used that information. For example, in the absence of any alternative independent information source against which to compare, the auditor may determine that performing procedures at the external information source, as described in paragraph A33F, may be necessary in order to obtain sufficient appropriate audit evidence when the use of that information by the entity is significant to financial reporting. In other cases, for example, when the information is from an authoritative source or when the risk of material misstatement associated with management's use of that information is at the lower end of the spectrum, the extent of the auditor's further audit procedures may be less.

...

Information Produced by the Entity and Used for the Auditor's Purposes (Ref: Para. 9(a)–(b))

A49. 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.

A50. 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.

A51. 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.

ISA 580, *Written Representations*

Appendix 1

(Ref: Para. 2)

List of ISAs Containing Requirements for Written Representations

This appendix identifies paragraphs in other ISAs that require subject-matter specific written representations. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs.

- ISA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements – paragraph 39
- ISA 250, Consideration of Laws and Regulations in an Audit of Financial Statements – paragraph 16
- ISA 450, Evaluation of Misstatements Identified during the Audit – paragraph 14
- ISA 501, Audit Evidence—Specific Considerations for Selected Items – paragraph 12
- ISA 540 (Revised), Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures – paragraph 22~~5~~
- ISA 550, Related Parties – paragraph 26
- ISA 560, Subsequent Events – paragraph 9
- ISA 570 (Revised), Going Concern – paragraph 16(e)
- ISA 710, Comparative Information—Corresponding Figures and Comparative Financial Statements – paragraph 9
- ISA 720 (Revised), The Auditor's Responsibilities Relating to Other Information – paragraph 13(c)

ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

Requirements

...

Forming an Opinion on the Financial Statements

13. In particular, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework:
- (a) The financial statements appropriately disclose the significant accounting policies selected and applied. In making this evaluation, the auditor shall consider the relevance of the accounting policies to the entity, and whether they have been presented in an understandable manner; (Ref: Para. A4)
 - (b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;
 - (c) The accounting estimates and related disclosures made by management are reasonable;
 - (d) The information presented in the financial statements is relevant, reliable, comparable, and understandable. In making this evaluation, the auditor shall consider whether:
 - The information that should have been included has been included, and whether such information is appropriately classified, aggregated or disaggregated, and characterized.
 - The overall presentation of the financial statements has been undermined by including information that is not relevant or that obscures a proper understanding of the matters disclosed. (Ref: Para. A5)
 - (e) The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and (Ref: Para. A6)
 - (f) The terminology used in the financial statements, including the title of each financial statement, is appropriate.
