

Agenda Item 12-B

Extant Paragraph	Proposed ISA 501 (Redrafted) – Mapped Document (Marked showing changes from extant ISA 501)	
	Introduction Scope of this ISA	
<p>1</p> <p>New</p>	<p>1. The purpose of t<u>This International Standard on Auditing (ISA) deals with the obtaining of sufficient appropriate audit evidence regarding is to establish standards and provide guidance additional to that in ISA 500, “Audit Evidence” with respect to certain certain assertions and related considerations for, and the presentation and disclosure of, specific financial statement account balances and other disclosures. It establishes requirements and provides guidance additional to that contained in ISA 315 (Redrafted), ISA 330 (Redrafted) and other relevant ISAs, expanding on how the auditor’s responsibilities therein are applied in an audit of financial statements.</u></p>	
<p>2</p>	<p>Application of the standards and guidance provided in this ISA will assist the auditor in obtaining audit evidence with respect to the specific financial statement account balances and other disclosures addressed.</p>	
<p>3</p>	<p>This ISA comprises the following parts:</p> <p>Attendance at Physical Inventory Counting.</p> <p>Superseded by ISA 505—Part B has been deleted.</p> <p>Inquiry Regarding Litigation and Claims.</p> <p>Valuation and Disclosure of Long-term Investments.</p> <p>Segment Information.</p>	
	Effective Date	
<p>New</p>	<p>2. <u>This ISA is effective for audits of financial statements for periods beginning on or after [December 15, 2009].</u></p>	
	Objective	
<p>New</p>	<p>3. <u>The objective of the auditor is to obtain sufficient appropriate audit evidence regarding:</u></p> <p><u>(a) The existence and condition of inventory in the financial statements;</u></p> <p><u>(b) The completeness of litigation and claims involving the entity;</u></p> <p><u>(c) The valuation and presentation and disclosure of long-term investments in the financial statements in accordance with the applicable financial reporting</u></p>	

	<u>framework; and</u> <u>(d) The presentation and disclosure of segment information in the financial statements in accordance with the applicable financial reporting framework.</u>
	Requirements
	<u>Part A: Attendance at Physical Inventory Counting</u>
5.1	4. When inventory is material to the financial statements, the auditor <u>shall</u> should obtain sufficient appropriate audit evidence regarding its existence and condition by, <u>unless impracticable</u> , attendance at <u>the entity's physical inventory counting (or counts)</u> unless impracticable and ; (Ref: Para. A1-A3)
12.1 10	(a) The auditor would review <u>Evaluating</u> management's instructions regarding and procedures for recording and controlling the results of the entity's physical inventory count, including, where applicable, those used to estimate physical quantities <u>If the entity uses procedures to estimate the physical quantity, such as estimating a coal pile, the auditor would need to be satisfied regarding the reasonableness of those procedures;</u> (Ref: Para. A4)
9	(b) When the quantities are to be determined by a physical inventory count and the auditor attends such a count, or when the entity operates a perpetual system and the auditor attends a count one or more times during the year, the auditor would ordinarily observe <u>Inspecting the inventory and observing management's count procedures;</u> and (Ref: Para. A5-A6) (c) Pperforming <u>test counts;</u> and (Ref: Para. A7)
17	(d) The auditor p <u>Performing</u> s audit procedures over the <u>entity's final inventory records</u> listing to determine whether <u>they</u> it accurately reflects actual inventory counts <u>results</u> . (Ref: Para. A8)
15.1 and 15.3	5. For practical reasons, the <u>If the entity's physical inventory count may be is</u> conducted at a date other than <u>the date of the financial statements period end</u> , the auditor shall, in addition to the procedures required by paragraph 4: (a) The auditor would determine whether, through the p <u>Performance of</u> appropriate <u>audit procedures; to obtain audit evidence about whether</u> changes in inventory between the count date and <u>the date of the financial statements period end</u> are <u>properly</u> correctly recorded; and
16	(b) When-If the entity <u>maintains</u> operates a perpetual inventory system which is used to determine the period end <u>inventory</u> balance, the auditor would perform additional audit procedures to <u>evaluate</u> whether, through the performance of additional procedures; (i) <u>The</u> reasons for any significant differences between the physical count and

	the perpetual inventory records are understood; and <u>(ii) Whether the entity's inventory</u> records are properly adjusted. (Ref: Para. A9)	
6	6. If <u>the auditor is</u> unable to attend the <u>entity's</u> physical inventory count on the date planned due to unforeseen circumstances, the auditor <u>shall</u> should may take or observe some physical counts on an alternative date and, when necessary, perform audit procedures on intervening transactions.	
7.1	7. If Where attendance <u>at the entity's physical inventory count</u> is impracticable, due to factors such as the nature and location of the inventory, the auditor <u>shall</u> should consider <u>obtain whether alternative procedures provide</u> sufficient appropriate audit evidence <u>regarding of the</u> existence and condition <u>of inventory by performing alternative audit procedures to conclude that the auditor need not make reference to a scope limitation.</u> If it is not possible to do so, the auditor shall modify the auditor's opinion in accordance with [proposed] ISA 705 (Revised and Redrafted). (Ref: Para. A10-A11)	
18.1	8. If inventory is under the custody and control of a third party, the auditor <u>shall</u> would <u>ordinarily</u> ; (a) Request obtain direct confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity; <u>or</u> (Ref: Para. A12) (b) <u>Perform inspection and other audit procedures appropriate in the circumstances to obtain sufficient appropriate audit evidence regarding the existence and condition of that inventory.</u> (Ref: Para. A13)	
	<u>Part C: Procedures Regarding Litigation and Claims</u>	
32.1	9. The auditor <u>shall</u> should carry out <u>design and perform</u> audit procedures in order to become aware of any litigation and claims involving the entity which may <u>give rise to a risk of</u> result in a material misstatement of the financial statements, including:-	
32.2., including b.1 and b.2	(a) Such procedures would include the following: Make appropriate <u>Inquiries</u> of management <u>and others within the entity, including, where applicable, in-house legal counsel</u> including obtaining representations; and (b) Review of minutes of those charged with governance and correspondence with the entity's <u>external</u> legal counsel. (Ref: Para. A14-A15) <u>Audit evidence obtained for purposes of identifying litigation and claims that may give rise to a risk of material misstatement also may provide audit evidence regarding other relevant assertions, such as valuation or measurement, regarding litigations and claims. [Proposed] ISA 540 (Revised and Redrafted) establishes requirements and provides guidance relevant to the auditor's consideration of litigation and claims requiring accounting estimates or related disclosures in the financial statements.</u>	
New		

33.1	10. When the auditor assesses a risk of material misstatement regarding litigation or claims that have been identified or when the auditor believes <u>that unidentified litigation or claims they</u> may exist, the auditor shall <u>should</u> , <u>in addition to the procedures required by other ISAs:</u>
34.1	(a) S <u>seek</u> direct communication with the entity's <u>external</u> legal counsel. The through a letter of general inquiry, which should be prepared by management and sent by the auditor, should <u>requesting</u> the entity's <u>external</u> legal counsel to communicate directly with the auditor.; <u>and</u>
36.1	(b) When considered necessaryIn certain circumstances, for example, where the auditor determines that the matter is a significant risk, the matter is complex or there is disagreement between management and the entity's legal counsel, it may be necessary for the auditor to meet with the entity's <u>external</u> legal counsel to discuss the likely outcome of litigation and claims. (Ref: Para. A16-A18)
34.2	11. If <u>When</u> it is considered unlikely that the entity's <u>external</u> legal counsel will respond <u>appropriately</u> to a <u>letter of</u> general inquiry, the letter shall <u>would ordinarily</u> specify the following:
	a) A list of litigation and claims.
	b) Management's assessment of the outcome of <u>each of</u> the <u>identified</u> litigation and/or <u>claims</u> and its estimate of the financial implications, including costs involved.
	c) A request that the entity's legal counsel confirm the reasonableness of management's assessments and provide the auditor with further information if the list is considered by the entity's legal counsel to be incomplete or incorrect.
37	12. If:
	(a) M <u>management</u> refuses to give the auditor permission to communicate with the entity's <u>external</u> legal counsel this would be a scope limitation and should ordinarily lead to a qualified opinion or a disclaimer of opinion; or
	(b) Where <u>t</u> The entity's <u>external</u> legal counsel refuses to respond in an appropriately manner to the letter of inquiry, referred to in paragraphs 10 and 11, and the auditor is unable to obtain sufficient appropriate audit evidence by applying alternative audit procedures,
	the auditor <u>shall modify the auditor's opinion in accordance with [proposed] ISA 705 (Revised and Redrafted)</u> would consider whether there is a scope limitation which may lead to a qualified opinion or a disclaimer of opinion.-
35.1	13. The auditor <u>shall obtain audit evidence about</u> considers the status of <u>legal matters</u> litigations and claims involving the entity which may <u>give rise to a risk of result in a material misstatement of the financial statements</u> up to, <u>and including</u> , the date of

	the audit report. (Ref: Para. A19)	
New, based on ref to representations in 32.b1.	14. <u>The auditor shall request management, and where appropriate, those charged with governance, to provide written representations that all known actual or possible litigation and claims whose effects should be considered when preparing financial statements have been disclosed to the auditor and appropriately dealt with in the financial statements.</u>	
	Part D: Valuation and Disclosure of Long-term Investments	
38	15. When long-terms investments are material to the financial statements, the auditor should <u>shall</u> obtain sufficient appropriate audit evidence regarding their valuation and presentation and disclosure <u>in the financial statements in accordance with the applicable financial reporting framework, by designing and performing audit procedures to:-</u>	
39	(a) Where relevant under the applicable financial reporting framework, Audit procedures regarding long-term investments ordinarily include obtaining audit evidence as to whether evaluate management's intent and the entity's has the ability to continue to hold the investments on a long term basis and discussing with management whether the entity will continue to hold the investments as long-term investments and obtaining written representations to that effect. (Ref: Para. A20-A22)	
New	(b) <u>Determine the appropriateness of the amounts recorded and related disclosures in the financial statements.</u> (Ref: Para. A23)	
	Part E: Segment Information	
42	16. When segment information is material to the financial statements, the auditor should <u>shall</u> obtain sufficient appropriate audit evidence regarding its presentation and disclosure <u>in the financial statements</u> in accordance with the applicable financial reporting framework, <u>by:</u> (Ref: Para. A24)	
45.1	(a) The auditor would discuss with management <u>Obtaining an understanding of</u> the methods used <u>by management</u> in determining segment information, and consider whether such methods are likely to result in disclosure in accordance with the applicable financial reporting framework; and perform audit procedures over the application of such methods. (Ref: Para. A25)	
44	(b) <u>Performing a</u> Audit procedures regarding segment information ordinarily consist of analytical procedures and other audit procedures as appropriate in the circumstances. (Ref: A26)	
	Application and Other Explanatory Material	

	Inventory <i>Attendance at the Entity's Physical Inventory Count</i> (Ref: Para. 4)
4	A1. Management ordinarily establishes procedures under which inventory is physically counted at least once a year to serve as a basis for the preparation of the financial statements <u>and/or</u> to ascertain the reliability of the perpetual inventory system, <u>if applicable</u> .
5.2-5.3	A2. The auditor's attendance <u>at the entity's physical inventory counting</u> serves as a test of controls or substantive procedure over inventory depending on the auditor's risk assessment and planned approach. Such attendance enables the auditor to: <ul style="list-style-type: none"> • <u>Inspect the inventory to determine its existence and evaluate its condition, and perform test counts.</u> • <u>Observe compliance with the operation of management's instructions and procedures for recording and controlling the results of the physical inventory count.</u> • <u>Obtain</u> audit evidence as to the reliability of management's procedures.
8	A3. <u>Matters relevant in planning attendance at the entity's physical inventory count (or in designing and performing audit procedures pursuant to paragraphs 4-8 of this ISA) include, for example:</u> <ul style="list-style-type: none"> • The risks of material misstatement related to inventory. • The nature of the internal control related to inventory. • Whether adequate procedures are expected to be established and proper instructions issued for physical inventory counting. • The timing of the <u>physical inventory</u> count. • The locations at which inventory is held, <u>including the materiality of the inventory and the risks of material misstatement at different locations, in deciding at which locations attendance is appropriate</u>
11	<ul style="list-style-type: none"> • <u>When inventory is situated in several locations, the auditor would consider at which locations attendance is appropriate, taking into account the materiality of the inventory and the risk of material misstatement at different locations.</u> • Whether <u>the assistance of an auditor's expert's assistance</u> is needed.
	Management's Instructions and Procedures (Ref: Para. 4(a))
12	A4. <u>Matters relevant in evaluating management instructions and count procedures for recording and controlling the results of the physical inventory count include whether they address, for example</u>

Derived from 10	<p><u>instructions regarding:</u></p> <p>The application of <u>appropriate</u> control activities, for example, collection of used <u>physical inventory count records</u>stock sheets, accounting for unused <u>physical inventory count records</u>stock sheets, and count and re-count procedures.;</p> <p><u>The a</u>Accurate identification of the stage of completion of work in progress, of slow moving, obsolete or damaged items and of inventory owned by a third party, for example, on consignment.;</p> <p><u>The procedures used to estimate physical quantities, where necessary, such as may be needed in estimating the physical quantity of a coal pile.</u></p> <p><u>Whether appropriate arrangements are made regarding</u> <u>Control over</u> the movement of inventory between areas and the shipping and receipt of inventory before and after the cutoff date.</p>	
	Inspecting Inventory and Observing Management's Count Procedures (Ref: Para. 4(b))	
New	A5. <u>Inspecting inventory when attending the entity's physical inventory count assists the auditor in determining the existence of the inventory (though not necessarily its ownership), and in identifying, for example, obsolete, damaged or ageing inventory.</u>	
14	A6. <u>Observing management's count procedures assists the auditor in obtaining audit evidence that management's instructions and count procedures, for example those relating to the control over the movement of inventory before, during and after the count, are adequately designed and implemented. -In addition, tThe auditor may obtain copies of also considers cutoff information, such as procedures including details of the movement of inventory, just prior to, during and after the count to assist the auditor in performing audit procedures over so that the accounting for such movements can be checked at a later date.</u>	
	Test Counts (Ref: Para. 4(c))	
13.1-2	A7. <u>To obtain audit evidence that management's control activities are adequately implemented, the auditor would observe employees' procedures and perform test counts. When performing test counts, the auditor performs procedures over both audit evidence about the completeness and the accuracy of the management's physical inventory count records may be obtained by tracing items selected from those count records to the physical inventory, and tracing items selected from the physical inventory to management's the count records.</u>	
	Final Inventory Records (Ref: Para. 4(d))	
13.3	A8. <u>When attending the entity's physical inventory count, in addition to recording the auditor's test counts, the auditor may obtain copies of management's completed physical inventory count records to assist the auditor in performing subsequent</u>	

	<u>audit procedures to determine whether the entity's final inventory records accurately reflect actual inventory count results. The auditor considers the extent to which copies of such count records need to be retained for subsequent audit procedures and comparison.</u>
	<i>Physical Inventory Counting Conducted Other Than At The Date of The Financial Statements</i> (Ref: Para. 5)
15.1-.2	A9. For practical reasons, the <u>entity's</u> physical inventory count may be conducted at a date, <u>or dates</u> , other than <u>the date of the financial statements period end</u> . <u>This may be done irrespective of whether management determines inventory quantities by an annual physical inventory count or maintains a perpetual inventory system. In either case, This will ordinarily be adequate for audit purposes only when the entity has effectiveness of the designed, and implemented and maintenance of controls over changes in inventory determines whether the conduct of a physical inventory count at a date other than the date of the financial statements is appropriate for audit purposes.</u>
	<i>Attendance at the Entity's Physical Inventory Counting is Impracticable</i> (Ref: Para. 7)
7.2	A10. <u>Attendance at the entity's physical inventory count may be impracticable due to, for example, the nature and location of the inventory. In some such cases, alternative audit procedures, f</u> For example; <u>inspection of</u> documentation of the subsequent sale of specific inventory items acquired or purchased prior to the physical inventory count, <u>may provide sufficient appropriate audit evidence of the existence and condition of inventory.</u>
New	A11. <u>In other cases, however, it may not be possible to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by performing alternative audit procedures. In such cases, the auditor is required to modify the auditor's opinion as a result of the scope limitation.</u>
	<i>Inventory Under the Custody and Control of a Third Party</i>
	Confirmation (Ref: Para. 8(a))
New	A12. <u>[Proposed] ISA 505 (Revised and Redrafted) establishes requirements and provides guidance for performing external confirmation procedures.</u>
	Other Audit Procedures (Ref: Para. 8(b))
18.2	A13. Depending on <u>the circumstances, for example the</u> materiality of the is inventory under the custody and control of a third party <u>or information obtained about the integrity and independence of the third party</u> , the auditor may also consider the following <u>it appropriate to perform other audit procedures instead of, or in addition to, confirmation with the third party, for example:</u>

	<ul style="list-style-type: none"> • The integrity and independence of the third party. • AttendingObserving, or arranging for another auditor to attendobserve, the third party's physical inventory count of inventory, if practicable. • Obtaining another auditor's report, or a service auditor's report, on the adequacy of the third party's internal control for ensuring that inventory is properlycorrectly counted and adequately safeguarded. • Inspecting documentation regarding inventory held by third parties, for example, warehouse receipts, or • Requesting obtaining confirmation from other parties when such inventory has been pledged as collateral. 	
	Litigation and Claims <i>Completeness of Litigations and Claims</i> (Ref: Para. 9)	
31	A14. Litigation and claims involving an entity may have a material effect on the financial statements and thus may be required to be disclosed and/or provided for in the financial statements.	
32.2	A15. In addition to the procedures identified in paragraph 9, the auditor may consider reviewing legal expense accounts and examining related source documents such as invoices for legal expenses. Further, the use of information obtained through risk assessment procedures carried out as part of obtaining an understanding of the entity and its environment may also assist the auditor to become aware of litigation and claims involving an entity. Such procedures would include the following: <ul style="list-style-type: none"> • Make appropriate inquiries of management including obtaining representations. • Review minutes of those charged with governance and correspondence with the entity's legal counsel. • Examine legal expense accounts. • Use any information obtained regarding the entity's business including information obtained from discussions with any in-house legal department. 	
	<i>Communication with the Entity's External Legal Counsel</i> (Ref: Para. 10)	
33.2	A16. Such Direct communication with the entity's external legal counsel will assists the auditor in obtaining sufficient appropriate audit evidence as to whether potentially material litigation and claims are known and management's estimates of the financial implications, including costs, are reasonable reliable.	
36	A17. In certain circumstances, for example, where the auditor determines that the matter is a significant risk, the matter is complex or there is disagreement between	

	<p>management and the entity's legal counsel, it <u>the auditor</u> may <u>consider it</u> be necessary for the auditor to meet with the entity's <u>external</u> legal counsel to discuss the likely outcome of litigation and claims, <u>for example where:-</u></p> <ul style="list-style-type: none"> <u>The auditor determines that the matter is a significant risk (see also paragraph A18).</u> <u>The matter is complex.</u> <u>There is disagreement between management and the entity's legal counsel.</u> <p><u>Ordinarily, s</u>Such meetings <u>require</u> would take place with management's permission and, preferably, <u>are held</u> with a representative of management in attendance.</p>
33.3	<p>A18. <u>ISA 315 (Redrafted) establishes requirements and provides guidance on the determination of significant risks.</u> When the auditor <u>has</u> determines that the risk of material misstatement is a significant risk <u>exists</u>, the auditor <u>is required to obtain an understanding of the entity's controls, including control activities, relevant to that risk</u> evaluates the design of the entity's related controls and determines whether they have been implemented. Paragraphs 108-114 of ISA 315, "Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement" provides further guidance on the determination of significant risks.</p>
	<p><i>Status of Litigation and Claims Up to, and Including, the Date of the Audit Report</i> (Ref: Para. 13)</p>
35.2	<p>A19. <u>Audit evidence about the status of litigation and claims up to, and including, the date of the audit report, the auditor may be obtained by inquiry of management, including in-house legal counsel, responsible for dealing with the relevant matters.</u> In some instances, the auditor may need to obtain updated information from <u>the</u> entity's <u>external</u> legal counsel.</p>
	<p>Long-Term Investments <i>Intent and Ability</i> (Ref: Para. 15(a))</p>
New	<p>A20. <u>The valuation and presentation and disclosure of long-term investments in accordance with the applicable financial reporting framework may depend on management's intent and the entity's ability to hold the investments on a long-term basis. Management often documents plans and intentions relevant to such investments and the financial reporting framework may require it to do so. The auditor's procedures may include the following:</u></p> <ul style="list-style-type: none"> <u>Review of management's history of carrying out its stated intentions.</u> <u>Review of written plans and other documentation, including, where applicable, formally approved budgets, authorizations, minutes, etc.</u> <u>Inquiry of management about its reasons for a particular course of action.</u>

	<ul style="list-style-type: none"> • <u>Review of events occurring subsequent to the date of the financial statements and up to, and including, the date of the auditor's report.</u> • <u>Evaluation of the entity's ability to carry out a particular course of action given the entity's economic circumstances, including the implications of its existing commitments.</u> 	
New	A21. <u>[Proposed] ISA 580 (Revised and Redrafted) establishes requirements and provides guidance regarding the use of written representations. In accordance with that ISA, the auditor may conclude that it is necessary to obtain written representation regarding management's intent and the entity's ability to hold the investments on a long-term basis.</u>	
	Considerations Specific to Public Sector Entities	
New	A22. <u>In the public sector, the entity's ability to hold investments on a long term basis may be influenced by the intentions and decisions of other levels of government, of which management may or may not be aware.</u>	
	<i>Appropriateness of Recorded Amounts and Related Disclosures</i> (Ref: Para. 15(b))	
41 40	A23. <u>The applicable financial reporting framework may require adjustment to the carrying amounts of long-term investments where the estimated value of an investment does not exceed its carrying amount, or where there is uncertainty about whether the carrying amount will be recovered, and may require related disclosures.</u> If such values do not exceed the carrying amounts, the auditor would consider whether a write-down is required. If there is an uncertainty as to whether the carrying amount will be recovered, the auditor would consider whether appropriate adjustments and/or disclosures have been made. Other a <u>Audit procedures would ordinarily may include considering obtaining related financial statements and other information, such as market quotations, which provide an indication of value and comparing such values to the carrying amounts of the investments up to, and including, the date of the auditor's report. [Proposed] ISA 540 (Revised and Redrafted) establishes requirements and provides guidance relevant to the auditor's consideration of accounting estimates where there is estimation uncertainty.</u>	
	Segment Information (Ref: Para. 16)	
43	A24. <u>Depending on the applicable financial reporting framework, the entity may be required or permitted to disclose segment information in the financial statements.</u> The auditor's responsibility regarding the presentation and disclosure of segment information is in relation to the financial statements taken as a whole. Accordingly, the auditor is not required to apply audit procedures that would be necessary to express an opinion on the segment information presented on a stand alone basis.	
	<i>Understanding of the Methods Used by Management</i> (Ref: Para. 16(a))	

45.2	<p>A25. <u>Matters that may be relevant when obtaining an understanding of the methods used by management in determining segment information and designing and performing audit procedures to obtain sufficient appropriate audit evidence regarding the presentation and disclosure of segment information include, for example</u>The auditor would consider:</p> <ul style="list-style-type: none"> • <u>S</u>ales, transfers and charges between segments, <u>and</u> elimination of inter-segment amounts; • <u>C</u>omparisons with budgets and other expected results, for example, operating profits as a percentage of sales;<u>and</u> • <u>T</u>he allocation of assets and costs among segmentsincluding. • <u>C</u>onsistency with prior periods, and the adequacy of the disclosures with respect to inconsistencies.
	<i>Audit Procedures</i> (Ref: Para. 16(b))
44 New	<p>A26. Audit procedures regarding segment information ordinarily may consist of, <u>for example:</u></p> <ul style="list-style-type: none"> • <u>Testing the application of the methods used by management in determining segment information.</u> • <u>A</u>analytical procedures.<u>and</u> • <u>O</u>ther audit procedures as appropriate in the circumstances.