

**SUPPLEMENT TO EXPOSURE DRAFT,  
PROPOSED ISA 501 (REDRAFTED):  
MAPPING DOCUMENTS**

This supplement to the International Auditing and Assurance Standards Board (IAASB) Exposure Draft, proposed ISA 501 (Redrafted), “Audit Evidence Regarding Specific Financial Statement Account Balances and Disclosures” has been prepared by IAASB staff to demonstrate how the material in extant ISA 501, “Audit Evidence—Additional Considerations for Specific Matters” has been reflected in proposed ISA 501 (Redrafted).

Exhibit 1 identifies sentences describing auditor actions in the present tense and other relevant statements in extant ISA 501 and indicates whether they are treated as a requirement or as application and other explanatory material in proposed ISA 501 (Redrafted).

Exhibit 2 maps the text of extant ISA 501 (which may have been reworded as necessary) to proposed ISA 501 (Redrafted). The highlighted text identifies material that is proposed to be deleted. An explanation of the proposed deletion and other comments are provided, where appropriate.

Exhibit 3 presents proposed ISA 501 (Redrafted) and shows the source of the text from extant ISA 501 (which may have been reworded as necessary).

The material included herein is provided only to assist readers of the Exposure Draft of proposed ISA 501 (Redrafted). It is for information purposes only and does not form part of the Exposure Draft. The IAASB has not approved, disapproved, or otherwise acted upon this supplement. It is neither authoritative nor an official pronouncement nor statement of the IAASB.

**Exhibit 1**

**Proposed Disposition of the Present Tense and Other Statements**

**I. Those That Have Been Elevated to a Requirement (Except as Noted)**

Para.	Statements in extant ISA 501	New para. ref.	Rationale and comment (as necessary)
<b>Inventory</b>			
9	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 count procedures and perform test counts.	4(b)	Essential to the objective and the consistent application of the related extant requirement. Applicable in all cases.
12	The auditor would review management’s instructions regarding:	4(a)	Essential to the objective and the

Para.	Statements in extant ISA 501	New para. ref.	Rationale and comment (as necessary)
	<p>(a) The application of control activities, for example, collection of used stocksheets, accounting for unused stocksheets and count and re-count procedures;</p> <p>(b) 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; and</p> <p>(c) Whether appropriate arrangements are made regarding the movement of inventory between areas and the shipping and receipt of inventory before and after the cutoff date.</p>	A4	<p>consistent application of the related extant requirement. Applicable in all cases.</p> <p>Specific areas of review may vary depending on the circumstances, and are in the nature of guidance in terms of applying the proposed new requirement in 4(a). Accordingly, not elevated.</p>
13.1	To obtain audit evidence that management’s control activities are adequately implemented, the auditor would observe employees’ procedures and perform test counts.	4(b)	Essential to the objective and the consistent application of the related extant requirement. Applicable in all cases.
15.3	... The auditor would determine whether, through the performance of appropriate audit procedures, changes in inventory between the count date and period end are correctly recorded.	5	Essential to the objective and the appropriate audit treatment in the circumstances. The procedure would be applicable in virtually all cases in such circumstances. Conditional nature reflected in proposed redrafting.
17	The auditor performs audit procedures over the final inventory listing to determine whether it accurately reflects actual inventory counts.	4(c)	Essential to the objective and the consistent application of the related extant

<b>Para.</b>	<b>Statements in extant ISA 501</b>	<b>New para. ref.</b>	<b>Rationale and comment (as necessary)</b>
			requirement. Applicable in all cases.
18	When inventory is under the custody and control of a third party, the auditor would ordinarily obtain direct confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity.	8(a)	Essential to the objective and the appropriate audit treatment in the circumstances. Note, however, that
18	Depending on materiality of this inventory the auditor would also consider the following:	8(b)	confirmation request is not mandated, consistent with proposed ISA 505 (Revised and Redrafted).
18	<ul style="list-style-type: none"> <li>• The integrity and independence of the third party.</li> <li>• Observing, or arranging for another auditor to observe, the physical inventory count.</li> <li>• Obtaining another auditor’s report on the adequacy of the third party’s internal control for ensuring that inventory is correctly counted and adequately safeguarded.</li> <li>• Inspecting documentation regarding inventory held by third parties, for example, warehouse receipts, or obtaining confirmation from other parties when such inventory has been pledged as collateral.</li> </ul>	A15	Performance of the listed procedures would depend on the circumstances and none are individually applicable in virtually all cases; they are guidance to the application of the proposed requirement. Accordingly, the procedures have not been elevated.
<b>Litigation and Claims</b>			
32.2	<p>... Such procedures would include the following:</p> <ul style="list-style-type: none"> <li>• Make appropriate inquiries of management including obtaining representations.</li> <li>• Review minutes of those charged with governance and correspondence with the entity’s legal counsel.</li> </ul>	<p>9(a), 13</p> <p>9(b)</p>	Bullets 1 and 2 are procedures that would be applied in virtually all cases; it is considered appropriate to specify procedures that would at a minimum be expected in order for the auditor

Para.	Statements in extant ISA 501	New para. ref.	Rationale and comment (as necessary)
			to become aware of litigations and claims.
32.2	<ul style="list-style-type: none"> <li>• Examine legal expense accounts.</li> </ul>	A17	Bullet 3 has not been elevated. It may not be a practicable or effective procedure in audits of larger entities or in fact provide the auditor with information sufficient to identify a material litigation or claim.
32.2	<ul style="list-style-type: none"> <li>• Use any information obtained regarding the entity’s business including information obtained during discussion with any in-house legal department.</li> </ul>	A17	Bullet 4 is in effect covered by ISA 315 (Redrafted). Accordingly, it is inappropriate to elevate it to a requirement.
35.1	The auditor considers the status of legal matters up to the date of the audit report ...	12	Essential to the objective and the consistent application of the related extant requirement, as well as of the general requirements in ISA 560 (Redrafted). Applicable in all cases.
36.1	In certain circumstances, for example ..., it may be necessary for the auditor to meet with the entity’s legal counsel to discuss the likely outcome of litigation and claims.	10(b)	Essential to the consistent application of the related extant requirement. Applicable in all cases.
37.2	... Where the entity’s legal counsel refuses to respond in an appropriate manner and the auditor is unable to obtain sufficient appropriate audit evidence by applying alternative audit procedures, the auditor would consider whether there is a scope limitation which may lead to a	11(b)	Elevated on the basis that there is no conceivable situation where the combined situation, as described in the extant ISA, would

Para.	Statements in extant ISA 501	New para. ref.	Rationale and comment (as necessary)
	qualified opinion or a disclaimer of opinion.		not result in a scope limitation requiring consideration of the effect on the auditor's opinion in accordance with proposed ISA 705 (Revised and Redrafted). Accordingly, applicable in all cases.
<b>Segment Information</b>			
44	Audit procedures regarding segment information ordinarily consist of analytical procedures and other audit procedures as appropriate in the circumstances.	14	Essential to the objective and the consistent application of the related extant requirement. Applicable in all cases.
45.1	The auditor would discuss with management the methods used 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 ...	14(a), 4(b)	Essential to the objective and the consistent application of the related extant requirement. Applicable in all cases.

## II. Those That Have Been Treated as Application and Other Explanatory Material and Redrafted

Para.	Statements in extant ISA 501	New para. ref.	Rationale and comment (as necessary)
<b>Inventory</b>			
8	<p>In planning attendance at the physical inventory count or the alternative procedures, the auditor considers the following:</p> <ul style="list-style-type: none"> <li>• The risks of material misstatement related to inventory.</li> <li>• The nature of the internal control related to inventory.</li> <li>• Whether adequate procedures are expected to be established and proper instructions issued for physical inventory counting.</li> <li>• The timing of the count.</li> <li>• The locations at which inventory is held.</li> <li>• Whether an expert’s assistance is needed.</li> </ul>	A3	<p>Application guidance in nature, and relates to actions arising from consideration in other ISAs (for example, action in bullets 1-3 derive from auditor considerations in ISAs 315 (Redrafted) and 330 (Redrafted); bullets 4-5 come from obtaining an understanding of an entity and factor into planning considerations addressed by ISA 300 (Redrafted); bullet 5 is addressed by proposed ISA 620 (Revised and Redrafted)).</p>
10	<p>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.</p>	A4.b3	<p>Paragraph 4(a) establishes the new general requirement to evaluate management’s count instructions and procedures. This material provides guidance to the application of that requirement in the context of specified circumstances. Accordingly, application guidance in nature.</p>
11	<p>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.</p>	A3.b5	<p>Application guidance in nature, and addressed in principle by considerations under ISAs 315 (Redrafted), 330 (Redrafted) and proposed 320 (Revised and</p>

Para.	Statements in extant ISA 501	New para. ref.	Rationale and comment (as necessary)
			Redrafted).
13.2-.3	... When performing test counts, the auditor performs procedures over both the completeness and the accuracy of the count records by tracing items selected from those records to the physical inventory and items selected from the physical inventory to the count records. The auditor considers the extent to which copies of such count records need to be retained for subsequent audit procedures and comparison	A7, A8	Application guidance in nature.
14	The auditor also considers cutoff procedures including details of the movement of inventory just prior to, during and after the count so that the accounting for such movements can be checked at a later date.	A5	Application guidance in nature.
15.1-.2	For practical reasons, the physical inventory count may be conducted at a date other than period end. This will ordinarily be adequate for audit purposes only when the entity has designed and implemented controls over changes in inventory ...	A9	Application guidance in nature. Further, the principal consideration of this, as for any similar interim type work, is addressed in ISA 330 (Redrafted).
16	When the entity operates a perpetual inventory system which is used to determine the period end balance, the auditor would evaluate whether, through the performance of additional procedures, the reasons for any significant differences between the physical count and the perpetual inventory records are understood and the records are properly adjusted.	A10	Paragraph 5 establishes the new general requirement to obtain evidence about changes in inventory when the entity's physical count is conducted at a date other than the date of the financial statements. This material provides guidance to the application of that requirement in the context of a perpetual inventory system. Accordingly, application guidance in nature.
<b>Litigation and Claims</b>			
34.2	... When it is considered unlikely that the entity's legal counsel will respond to a general inquiry, the letter would	A21	Paragraph 10(a) establishes the new requirement for the

Para.	Statements in extant ISA 501	New para. ref.	Rationale and comment (as necessary)
	<p>ordinarily specify the following:</p> <ul style="list-style-type: none"> <li>• A list of litigation and claims.</li> <li>• Management’s assessment of the outcome of the litigation or claim and its estimate of the financial implications, including costs involved.</li> <li>• 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.</li> </ul>		<p>auditor to use a letter of general inquiry or a letter of specific inquiry. This material provides guidance as to the context of a letter of specific inquiry. It is application guidance in nature.</p>
<b>Segment Information</b>			
43	<p>The auditor considers segment information in relation to the financial statements taken as a whole, and is not ordinarily required to apply audit procedures that would be necessary to express an opinion on the segment information standing alone.</p>	A24	<p>Explanation of responsibility, as generally understood, and not in the nature of a performance requirement.</p>
43	<p>However, the concept of materiality encompasses both quantitative and qualitative factors and the auditor’s procedures recognize this.</p>	-	<p>Deleted; covered by proposed ISA 320 (Revised and Redrafted).</p>
45.2	<p>...The auditor would consider sales, transfers and charges between segments, elimination of inter-segment amounts, comparisons with budgets and other expected results, for example, operating profits as a percentage of sales, and the allocation of assets and costs among segments including consistency with prior periods and the adequacy of the disclosures with respect to inconsistencies.</p>	A25	<p>Application guidance in nature.</p>

**Exhibit 2**

**Mapping Document**

This mapping document demonstrates how the material in extant ISA 501 has been reflected in the proposed redrafted ISA. Highlighted material identifies material that is proposed to be eliminated or repositioned to another ISA (as needed) as a result of redrafting. An explanation of any proposed deletions and other comments are provided, where appropriate.

<b>Extant ISA 501</b>	<b>New para. ref.</b>	<b>Comment on proposed deletion or reposition of highlighted material, significant edits, and other notes</b>
<b>Introduction</b>		
1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance additional to that contained in ISA 500, “Audit Evidence” with respect to certain specific financial statement account balances and other disclosures.	1	Reference to ISA 500 has been changed to ISA 330 (Redrafted) as the linkage to ISA 500 is less relevant as a result of redrafting that ISA.
2. 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.	1	Redrafted and incorporated as part of redrafted scope para 1.
3. This ISA comprises the following parts: (a) Attendance at Physical Inventory Counting. (b) Superseded by ISA 505—Part B has been deleted.	-	Deleted; no longer necessary.

Extant ISA 501	New para. ref.	Comment on proposed deletion or reposition of highlighted material, significant edits, and other notes
<p>(c) Inquiry Regarding Litigation and Claims.</p> <p>(d) Valuation and Disclosure of Long-term Investments.</p> <p>(e) Segment Information.</p>		
<b>Part A: Attendance at Physical Inventory Counting</b>		
<p>4. 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 or to ascertain the reliability of the perpetual inventory system.</p>	A1	
<p>5. <b>When inventory is material to the financial statements, the auditor should obtain sufficient appropriate audit evidence regarding its existence and condition by attendance at physical inventory counting unless impracticable.</b></p> <p>The auditor's attendance 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 inspect the inventory, to observe compliance with the operation of management's procedures for recording and controlling the results of the count and to provide audit evidence as to the reliability of management's procedures.</p>	<p>4</p> <p>A2</p>	<p>Covered in principle by ISA 330 (Redrafted).</p>
<p>6. <b>If unable to attend the physical inventory count on the date planned due to unforeseen circumstances, the auditor should take or observe some physical counts on an alternative date and, when necessary, perform audit procedures on intervening transactions.</b></p>	6	
<p>7. <b>Where attendance is impracticable, due to factors such as the nature and location of the inventory, the auditor should consider whether alternative procedures provide sufficient</b></p>	7	<p>Substantially redrafted for clarity.</p>

Extant ISA 501	New para. ref.	Comment on proposed deletion or reposition of highlighted material, significant edits, and other notes
<p><b>appropriate audit evidence of existence and condition to conclude that the auditor need not make reference to a scope limitation.</b></p> <p>For example, documentation of the subsequent sale of specific inventory items acquired or purchased prior to the physical inventory count may provide sufficient appropriate audit evidence.</p>	A12	
<p>8. In planning attendance at the physical inventory count or the alternative procedures, the auditor considers the following:</p> <ul style="list-style-type: none"> <li>• The risks of material misstatement related to inventory.</li> <li>• The nature of the internal control related to inventory.</li> <li>• Whether adequate procedures are expected to be established and proper instructions issued for physical inventory counting.</li> <li>• The timing of the count.</li> <li>• The locations at which inventory is held.</li> <li>• Whether an expert’s assistance is needed.</li> </ul>	A3	
<p>9. 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 count procedures and perform test counts.</p>	4(b)	Deleted; not considered necessary.
<p>10. 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.</p>	A4.b3	Substantially redrafted as application material; reference to

Extant ISA 501	New para. ref.	Comment on proposed deletion or reposition of highlighted material, significant edits, and other notes
		“reasonableness” removed as the proposed new requirement appropriately requires the auditor to evaluate management’s instructions and count procedures for purposes of obtaining sufficient appropriate audit evidence regarding the existence and condition of inventory.
<p>11. 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.</p>	A3.b5	
<p>12. The auditor would review management’s instructions regarding:</p> <ul style="list-style-type: none"> <li>(a) The application of control activities, for example, collection of used stocksheets, accounting for unused stocksheets and count and re-count procedures;</li> <li>(b) 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; and</li> <li>(c) Whether appropriate arrangements are made regarding the movement of inventory between areas and the shipping and receipt of inventory before and after the cutoff date.</li> </ul>	<p>4(a), A4</p> <p>A4</p>	

Extant ISA 501	New para. ref.	Comment on proposed deletion or reposition of highlighted material, significant edits, and other notes
<p>13. <b>To obtain audit evidence that management’s control activities are adequately implemented,</b> the auditor would observe employees’ procedures and perform test counts.</p> <p>When performing test counts, the auditor performs procedures over both the completeness and the accuracy of the count records by tracing items selected from those records to the physical inventory and items selected from the physical inventory to the count records.</p> <p>The auditor considers the extent to which copies of such count records need to be retained for subsequent audit procedures and comparison.</p>	<p>4(b)</p> <p>A7</p> <p>A8</p>	<p>Deleted; ancillary to the objective of this ISA, and ISAs 315 (Redrafted) and 330 (Redrafted) set out the general requirements related to this matter.</p>
<p>14. The auditor also considers cutoff procedures including details of the movement of inventory just prior to, during and after the count so that the accounting for such movements can be checked at a later date.</p>	<p>A5</p>	
<p>15. For practical reasons, the physical inventory count may be conducted at a date other than period end. This will ordinarily be adequate for audit purposes only when the entity has designed and implemented controls over changes in inventory.</p> <p>The auditor would determine whether, through the performance of appropriate audit procedures, changes in inventory between the count date and period end are correctly recorded.</p>	<p>A9</p> <p>5</p>	<p>Substantially redrafted.</p>
<p>16. When the entity operates a perpetual inventory system which is used to determine the period end balance, the auditor would evaluate whether, through the performance of additional procedures, the reasons for any significant differences between the physical count and the perpetual inventory records are understood and the records are properly adjusted.</p>	<p>A10</p>	
<p>17. The auditor performs audit procedures over the final inventory listing to determine whether it accurately reflects actual inventory counts.</p>	<p>4(c)</p>	

Extant ISA 501	New para. ref.	Comment on proposed deletion or reposition of highlighted material, significant edits, and other notes
<p>18. When inventory is under the custody and control of a third party, the auditor would ordinarily obtain direct confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity.</p> <p>Depending on materiality of this inventory the auditor would also consider the following:</p> <ul style="list-style-type: none"> <li>• The integrity and independence of the third party.</li> <li>• Observing, or arranging for another auditor to observe, the physical inventory count.</li> <li>• Obtaining another auditor’s report on the adequacy of the third party’s internal control for ensuring that inventory is correctly counted and adequately safeguarded.</li> <li>• Inspecting documentation regarding inventory held by third parties, for example, warehouse receipts, or obtaining confirmation from other parties when such inventory has been pledged as collateral.</li> </ul>	<p>8(a)</p> <p>8(b)</p> <p>A15</p>	<p>Substantially redrafted.</p>
<p><b>Part B: Superseded by ISA 505 (paragraphs 19-30 have been deleted)</b></p>		
<p><b>Part C: Procedures Regarding Litigation and Claims</b></p>		
<p>31. 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.</p>	<p>A16</p>	
<p>32. <b>The auditor should carry out audit procedures in order to become aware of any litigation and claims involving the entity which may result in a material misstatement of the financial statements.</b></p>	<p>9</p>	
<p>33. Such procedures would include the following:</p>		

Extant ISA 501	New para. ref.	Comment on proposed deletion or reposition of highlighted material, significant edits, and other notes
<ul style="list-style-type: none"> <li>• Make appropriate inquiries of management including obtaining representations.</li> <li>• Review minutes of those charged with governance and correspondence with the entity’s legal counsel.</li> <li>• Examine legal expense accounts.</li> <li>• Use any information obtained regarding the entity’s business including information obtained from discussions with any in-house legal department.</li> </ul>	<p>9(a), 14 9(b)  A17.1 A17.2</p>	
<p>34. <b>When the auditor assesses a risk of material misstatement regarding litigation or claims that have been identified or when the auditor believes they may exist, the auditor should seek direct communication with the entity’s legal counsel.</b></p> <p>Such communication will assist 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 reliable.</p> <p>When the auditor determines that the risk of material misstatement is a significant risk, the auditor 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>10(a)          A19</p>	<p>Deleted as it duplicates the requirements of ISA 315 (Redrafted).</p>
<p>35. <b>The letter, which should be prepared by management and sent by the auditor, should request the entity’s legal counsel to communicate directly with the auditor.</b></p> <p>When it is considered unlikely that the entity’s legal counsel will respond to a general inquiry, the letter would ordinarily specify the following:</p>	<p>10(a)          A21</p>	

Extant ISA 501	New para. ref.	Comment on proposed deletion or reposition of highlighted material, significant edits, and other notes
<ul style="list-style-type: none"> <li>• A list of litigation and claims.</li> <li>• Management’s assessment of the outcome of the litigation or claim and its estimate of the financial implications, including costs involved.</li> <li>• 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.</li> </ul>		
<p>36. The auditor considers the status of legal matters up to the date of the audit report. In some instances, the auditor may need to obtain updated information from entity’s legal counsel.</p>	<p>12 A23</p>	
<p>37. 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 management and the entity’s legal counsel, it may be necessary for the auditor to meet with the entity’s legal counsel to discuss the likely outcome of litigation and claims. Such meetings would take place with management’s permission and, preferably, with a representative of management in attendance.</p>	<p>10(b), A22</p>	
<p>38. <b>If management refuses to give the auditor permission to communicate with the entity’s legal counsel, this would be a scope limitation and should ordinarily lead to a qualified opinion or a disclaimer of opinion.</b> Where the entity’s legal counsel refuses to respond in an appropriate manner and the auditor is unable to obtain sufficient appropriate audit evidence by applying alternative audit procedures, the auditor would consider whether there is a scope limitation which may lead to a qualified opinion or a disclaimer of opinion.</p>	<p>11</p>	<p>Substantially redrafted.</p>

Extant ISA 501	New para. ref.	Comment on proposed deletion or reposition of highlighted material, significant edits, and other notes
<b>Part D: Valuation and Disclosure of Long-term Investments</b>	-	See Explanatory Memorandum accompanying ED-ISA 501 (Redrafted).
39. <b>When long-term investments are material to the financial statements, the auditor should obtain sufficient appropriate audit evidence regarding their valuation and disclosure.</b>	-	
40. Audit procedures regarding long-term investments ordinarily include obtaining audit evidence as to whether the entity 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.	-	
41. Other audit procedures would ordinarily include considering related financial statements and other information, such as market quotations, which provide an indication of value and comparing such values to the carrying amount of the investments up to the date of the auditor’s report.	-	
42. 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.	-	
<b>Part E: Segment Information</b>		
43. <b>When segment information is material to the financial statements, the auditor should obtain sufficient appropriate audit evidence regarding its presentation and disclosure in accordance</b>	14	

Extant ISA 501	New para. ref.	Comment on proposed deletion or reposition of highlighted material, significant edits, and other notes
<b>with the applicable financial reporting framework.</b>		
44. The auditor considers segment information in relation to the financial statements taken as a whole, and is not ordinarily required to apply audit procedures that would be necessary to express an opinion on the segment information standing alone. <b>However, the concept of materiality encompasses both quantitative and qualitative factors and the auditor’s procedures recognize this.</b>	A24.2-.3	Deleted; the matter of materiality in an audit is adequately addressed by proposed ISAs 320 (Revised and Redrafted) and 450 (Revised and Redrafted).
45. Audit procedures regarding segment information ordinarily consist of analytical procedures and other audit procedures as appropriate in the circumstances.	14	
46. The auditor would discuss with management the methods used 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.  The auditor would consider sales, transfers and charges between segments, elimination of inter-segment amounts, comparisons with budgets and other expected results, for example, operating profits as a percentage of sales, and the allocation of assets and costs among segments including consistency with prior periods and the adequacy of the disclosures with respect to inconsistencies.	14(a)  A25	

**Exhibit 3**

<b>Paragraph of extant ISA 501</b>	<b>Proposed ISA 501 (Redrafted)</b>
	<b>Introduction</b>
	<b>Scope of this ISA</b>
1	1. <del>The purpose of 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 assertions and related considerations for specific financial statement account balances and other disclosures. It establishes requirements and provides guidance additional to that contained in ISA 330 (Redrafted) and other relevant ISAs.</del>
2	<del>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.</del>
3	<del>This ISA comprises the following parts:  Attendance at Physical Inventory Counting.  Superseded by ISA 505— Part B has been deleted.  Inquiry Regarding Litigation and Claims.  Valuation and Disclosure of Long-term Investments.  Segment Information.</del>
	<b>Effective Date</b>
New	2. <del>This ISA is effective for audits of financial statements for periods beginning on or after [December 15, 2009].</del>
	<b>Objective</b>
New	3. <del>The objective of the auditor is to obtain sufficient appropriate audit evidence regarding:  (a) The existence and condition of inventory;  (b) The completeness of litigation and claims involving the entity; and  (c) The presentation and disclosure of segment information in accordance with the applicable financial reporting framework.</del>

	<b>Requirements</b>
	<b>Part A: Attendance at Physical Inventory Counting</b>
5.1	4. When inventory is material to the financial statements, the auditor <del>shall</del> <u>should</u> obtain sufficient appropriate audit evidence regarding its existence and condition <u>by, unless impracticable, attendance at the entity's physical inventory counting (or counts) unless impracticable and:</u> (Ref: Para. A1-A3)
12.1	(a) <del>The auditor would review</del> <u>Evaluating</u> management's instructions <del>regarding and procedures for recording and controlling the results of the entity's physical inventory count;</del> (Ref: Para. A4)
9	(b) <del>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</del> <u>Observe</u> management's count procedures, <u>inspecting the inventory,</u> and performing test counts; <u>and</u> (Ref: Para. A5-A7)
17	(c) <del>The auditor p</del> <u>Performing</u> audit procedures over the <u>entity's</u> final inventory <u>records</u> <del>listing</del> to determine whether <u>they</u> <del>it</del> accurately reflect actual inventory counts <u>results</u> . (Ref: Para. A8)
15.1 and 15.3	5. <del>For practical reasons, the</del> <u>If the entity's</u> physical inventory count <u>may be</u> <del>is</del> conducted at a date other than <u>the date of the financial statements period end,</u> <del>the auditor shall, in addition to the procedures required by paragraph 4,</del> <u>The auditor would determine whether, through the performance of appropriate 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> <del>correctly</del> recorded. (Ref: Para. A9-A10)
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 <del>shall</del> <u>should</u> <del>not</del> take or observe some physical counts on an alternative date and, <del>when necessary,</del> perform audit procedures on intervening transactions.
7.1	7. <del>If</del> <u>Where</u> attendance <u>at the entity's physical inventory count</u> is impracticable, <del>due to factors such as the nature and location of the inventory,</del> the auditor <del>shall</del> <u>should</u> <del>consider</del> <u>obtain</u> whether alternative procedures provide sufficient appropriate audit evidence <u>regarding</u> <del>of the</del> existence and condition <u>of inventory by performing alternative audit procedures</u> <del>to conclude that the auditor need not make reference to a scope limitation. 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).</del> (Ref: Para. A11-A13)
18.1	8. <u>When</u> <del>If</del> inventory <u>is</u> under the custody and control of a third party <u>is material to</u>

<p>New, derived from 18.2</p>	<p><u>the financial statements</u>, the auditor <del>shall</del><u>would ordinarily</u> either:</p> <p>(a) <del>Request obtain direct</del> confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity; <u>or</u> (Ref: Para. A14)</p> <p>(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. A15)</p>
	<p><b><u>Part C: Procedures Regarding Litigation and Claims</u></b></p>
<p>32.1</p>	<p>9. The auditor <del>shall</del> <u>should</u> <del>carry out</del> <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 result in a</u> material misstatement <del>of the financial statements, including:-</del></p>
<p>32.2., including b.1 and b.2</p>	<p>(a) <del>Such procedures would include the following: Make appropriate</del> <u>Inquiries</u> of management <u>and others within the entity, including, where applicable, in-house legal counsel</u> <del>including obtaining representations;</del> <u>and</u></p> <p>(b) Review of minutes of <u>meetings of</u> those charged with governance and correspondence with the entity's <u>external</u> legal counsel. (Ref: Para. A16-A18)</p>
<p>33.1</p> <p>34.1</p> <p>36.1</p>	<p>10. When the auditor assesses a risk of material misstatement regarding litigation or claims that have been identified, <u>or when the auditor believes that other litigation or claims they</u> may exist, the auditor <del>shall</del><u>should</u>, <u>in addition to the procedures required by other ISAs:</u></p> <p>(a) <del>S</del><u>seek</u> direct communication with the entity's <u>external</u> legal counsel through <u>a letter of general inquiry or specific inquiry</u>, <del>which should be</del> prepared by management and sent by the auditor, <del>should</del><u>requesting</u> the entity's <u>external</u> legal counsel to communicate directly with the auditor; <u>and</u> (Ref: Para. A19-A21)</p> <p>(b) <del>When considered necessary</del><u>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 management and the entity's legal counsel, it may be necessary for the auditor to</u> meet with the entity's <u>external</u> legal counsel to discuss the likely outcome of <u>the</u> litigation <u>and</u> claims. (Ref: Para. A22)</p>
<p>37</p>	<p>11. <u>The auditor shall modify the auditor's opinion in accordance with [proposed] ISA 705 (Revised and Redrafted) when</u><del>it</del>:</p> <p>(a) <del>M</del><u>management</u> refuses to give the auditor permission to communicate with the entity's <u>external</u> legal counsel <del>this would be a scope limitation and should ordinarily lead to a qualified opinion or a disclaimer of opinion;</del> <u>or</u></p> <p>(b) <del>Where</del> <del>t</del><u>The</u> entity's <u>external</u> legal counsel refuses to respond <del>in an</del> <u>appropriately manner to the letter of inquiry, referred to in paragraph 10(a).</u></p>

	and the auditor is unable to obtain sufficient appropriate audit evidence by applying alternative audit procedures, <del>the auditor would consider whether there is a scope limitation which may lead to a qualified opinion or a disclaimer of opinion.</del>
35.1	12. The auditor <del>shall obtain audit evidence about</del> <u>considers</u> 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 the date of the auditor's report. (Ref: Para. A23)
New, based on ref to representations in 32.b1.	13. <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 the financial statements have been disclosed to the auditor and appropriately dealt with in the financial statements.</u>
	<b>Part E: Segment Information</b>
42 44	14. <del>When segment information is material to the financial statements, the auditor shall should</del> obtain sufficient appropriate audit evidence regarding <del>the its</del> presentation and disclosure <u>of segment information</u> in accordance with the applicable financial reporting framework <u>by performing Audit procedures regarding segment information ordinarily consist of</u> analytical procedures and other audit procedures <del>as</del> appropriate in the circumstances, <u>including</u> : (Ref: Para. A24)
45.1	(a) <del>The auditor would discuss with management</del> <u>Obtaining an understanding of</u> the methods used <u>by management</u> in determining segment information, and <del>consider</del> whether such methods are likely to result in disclosure in accordance with the applicable financial reporting framework; and (Ref: Para. A25)  (b) <del>Where appropriate, testing perform audit procedures over</del> the application of <del>thesuch</del> methods <u>used by management in determining segment information.</u>
	<b>Application and Other Explanatory Material</b>
	<b>Inventory</b>
	<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 <del>and/or</del> 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 count serves as a test</u>

	<p><del>of controls or substantive procedure over inventory depending on the auditor's risk assessment and planned approach. Such attendance</del> enables the auditor to:</p> <ul style="list-style-type: none"> <li>• <del>I</del><u>inspect the inventory to determine its existence and evaluate its condition, and perform test counts.</u></li> <li>• <del>, to o</del><u>Observe compliance with <del>the operation of</del> management's <u>instructions and</u> procedures for recording and controlling the results of the <u>physical inventory count</u>, <del>and</del></u></li> <li>• <del>to provide</del><u>Obtain</u> audit evidence as to the reliability of management's procedures.</li> </ul>
<p>8</p> <p>11</p>	<p>A3. <u>Matters relevant i</u>n planning attendance at the <u>entity's</u> physical inventory count (or <u>in designing and performing audit procedures pursuant to paragraphs 4-8 of this ISA</u>)<del>the alternative procedures, the auditor considers the following include, for example:</del></p> <ul style="list-style-type: none"> <li>• The risks of material misstatement related to inventory.</li> <li>• The nature of the internal control related to inventory.</li> <li>• Whether adequate procedures are expected to be established and proper instructions issued for <u>the</u> physical inventory count<u>ing</u>.</li> <li>• The timing of the <u>physical inventory</u> count.</li> <li>• 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><del>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.</del></li> <li>• Whether <u>the assistance of an auditor's expert's assistance</u> is needed.</li> </ul>
	<p>Management's Instructions and Procedures (Ref: Para. 4(a))</p>
<p>12</p> <p>Derived</p>	<p>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><del>The auditor would review management's instructions regarding:</del></p> <p>The application of <u>appropriate</u> control activities, for example, collection of used <u>physical inventory count records</u><del>støcksheets</del>, accounting for unused <u>physical inventory count records</u><del>støcksheets</del>, 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</u></p>

from 10	<p><u>may be needed in estimating the physical quantity of a coal pile.</u></p> <p><del>Whether appropriate arrangements are made regarding Control over</del> the movement of inventory between areas and the shipping and receipt of inventory before and after the cutoff date.</p>
	Observing Management’s Count Procedures, Inspecting Inventory, and Performing Test Counts (Ref: Para. 4(b))
14	<p>A5. <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.</u> <del>-In addition, t</del>The auditor <u>may obtain copies of</u> <del>also considers</del> cutoff <u>information, such as</u> <del>procedures including</del> details of the movement of inventory, <del>just prior to, during and after the count</del> <u>to assist the auditor in performing audit procedures over so</u> <del>that</del> the accounting for such movements <del>can be checked</del> at a later date.</p>
New	<p>A6. <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></p>
13.1-2	<p>A7. <del>To obtain audit evidence that management’s control activities are adequately implemented, the auditor would observe employees’ procedures and perform test counts.</del> When performing test counts, <del>the auditor performs procedures over both</del> <u>audit evidence about</u> the completeness and the accuracy of <del>the</del> <u>management’s physical inventory</u> count records <u>may be obtained</u> by tracing items selected from those <u>count</u> records to the physical inventory, and <u>tracing</u> items selected from the physical inventory to <u>management’s</u> <del>the</del> count records.</p>
	Final Inventory Records (Ref: Para. 4(c))
13.3	<p>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 audit procedures to determine whether the entity’s final inventory records accurately reflect actual inventory count results.</u> <del>The auditor considers the extent to which copies of such count records need to be retained for subsequent audit procedures and comparison.</del></p>
	<i>Physical Inventory Count Conducted Other Than At The Date of The Financial Statements</i> (Ref: Para. 5)
15.1-2	<p>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> <del>This</del> <u>may be done irrespective of whether management determines inventory</u></p>

	<p><u>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></p>
16	<p>A10. <del>When-If</del> the entity <del>maintains</del><sup>operates</sup> a perpetual inventory system which is used to determine the period end <u>inventory</u> balance, the auditor <del>would</del> <u>may</u> <u>consider the following matters in evaluating whether, through the performance of additional procedures, the reliability of the inventory quantity information included in the entity's perpetual inventory records:</u></p> <ul style="list-style-type: none"> <li>• <u>The reasons for any significant differences between the information obtained during the physical count and the perpetual inventory records are understood, and</u></li> <li>• <u>Whether the perpetual inventory records are properly adjusted.</u></li> </ul>
	<p><i>Attendance at the Entity's Physical Inventory Count is Impracticable</i> (Ref: Para. 7)</p>
7.1	<p>A11. <u>In some cases, attendance at the entity's physical inventory count may be impracticable. This may be due to factors such as the nature and location of the inventory, for example where inventory is held in a location that may pose threats to the safety or well-being of the auditor. The matter of general inconvenience to the auditor, however, is not sufficient to support a decision by the auditor that attendance is impracticable.</u></p>
7.2	<p>A12. <u>In some cases where attendance is impracticable, alternative audit procedures, f</u><del>For</del><u> example, inspection of</u> documentation of the subsequent sale of specific inventory items acquired or purchased prior to the physical inventory count, may provide sufficient appropriate audit evidence <u>of the existence and condition of inventory.</u></p>
New	<p>A13. <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></p>
	<p><i>Inventory Under the Custody and Control of a Third Party</i></p>
	<p>Confirmation (Ref: Para. 8(a))</p>
New	<p>A14. <u>[Proposed] ISA 505 (Revised and Redrafted) establishes requirements and provides guidance for performing external confirmation procedures.</u></p>
	<p>Other Audit Procedures (Ref: Para. 8(b))</p>

18.2	<p>A15. Depending on <u>the circumstances, for example materiality of this inventory under the custody and control of a third party where information is obtained that raises doubt about the integrity and independence of the third party</u>, the auditor may <del>also consider the following</del> <u>it appropriate to perform other audit procedures instead of, or in addition to, confirmation with the third party, for example:</u></p> <ul style="list-style-type: none"> <li>• <del>The integrity and independence of the third party.</del></li> <li>• <u>Attending</u><del>Observing</del>, or arranging for another auditor to <u>attend</u><del>observe</del>, the <u>third party's physical inventory count of inventory, if practicable.</u></li> <li>• Obtaining another auditor's report, <u>or a service auditor's report</u>, on the adequacy of the third party's internal control for ensuring that inventory is <u>properly</u><del>correctly</del> counted and adequately safeguarded.</li> <li>• Inspecting documentation regarding inventory held by third parties, for example, warehouse receipts, <del>or</del></li> <li>• <u>Requesting</u><del>obtaining</del> confirmation from other parties when such inventory has been pledged as collateral.</li> </ul>
	<b>Litigation and Claims</b>
	<i>Completeness of Litigations and Claims</i> (Ref: Para. 9)
31	A16. 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	<p>A17. <u>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 the entity. Such procedures would include the following:</u></p> <ul style="list-style-type: none"> <li>• <del>Make appropriate inquiries of management including obtaining representations.</del></li> <li>• <del>Review minutes of those charged with governance and correspondence with the entity's legal counsel.</del></li> <li>• <del>Examine legal expense accounts.</del></li> <li>• <del>Use any information obtained regarding the entity's business including information obtained from discussions with any in-house legal department.</del></li> </ul>

New	A18. <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>
	<i>Communication with the Entity’s External Legal Counsel</i> (Ref: Para. 10(a))
33.2	A19. <del>Such</del> <u>Direct</u> communication <u>with the entity’s external legal counsel will</u> assist <u>the auditor</u> 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 <u>reasonable</u> <del>reliable</del> .
New	A20. <u>In some cases, the auditor may seek direct communication with the entity’s legal counsel through a letter of general inquiry. For this purpose, a letter of general inquiry requests the entity’s external counsel to inform the auditor of any litigation and claims that the counsel is aware of, together with an assessment of the outcome of the litigation and claims, and an estimate of the financial implications, including costs involved.</u>
34.2	A21. <del>If</del> <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 general inquiry</u> , <u>the auditor may seek direct communication through a letter of specific inquiry. For this purpose, a letter of specific inquiry includes</u> <del>the letter would ordinarily specify the following:</del> (a) A list of litigation and claims; (b) Management’s assessment of the outcome of <u>each of the identified</u> litigation <del>and</del> <u>claims</u> and its estimate of the financial implications, including costs involved; <del>and</del> (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.
	<i>Meeting with the Entity’s External Legal Counsel</i> (Ref: Para. 10(b))
36	A22. In certain circumstances, <del>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</del> <u>the auditor</u> may <u>consider it be</u> necessary <del>for the auditor</del> to meet with the entity’s <u>external</u> legal counsel to discuss the likely outcome of <u>the</u> litigation <del>and</del> <u>claims, for example where:</u> <ul style="list-style-type: none"> <li>• <u>The auditor determines that the matter is a significant risk.</u></li> </ul>

	<ul style="list-style-type: none"> <li>• <u>The matter is complex.</u></li> <li>• <u>There is disagreement between management and the entity’s legal counsel.</u></li> </ul> <p><u>Ordinarily, s</u>Such meetings <u>require</u> <del>would take place with</del> management’s permission and, preferably, <u>are held</u> with a representative of management in attendance.</p>
	<i>Status of Litigation and Claims Up to the Date of the Auditor’s Report</i> (Ref: Para. 12)
35.2	A23. <u>Audit evidence about the status of litigation and claims up to the date of the auditor’s report 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.
	<b>Segment Information</b> (Ref: Para. 14)
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. 14(a))
45.2	A25. <u>Matters that may be relevant when obtaining an understanding of the methods used by management in determining segment information include, for example</u> <del>The auditor would consider:</del> <ul style="list-style-type: none"> <li>• <u>S</u>sales, transfers and charges between segments, <u>and</u> elimination of inter-segment amounts<del>.</del></li> <li>• <u>C</u>omparisons with budgets and other expected results, for example, operating profits as a percentage of sales<del>.</del><u> and</u></li> <li>• <u>T</u>he allocation of assets and costs among segments <u>including</u>.</li> <li>• <u>C</u>onsistency with prior periods<del>.</del> and the adequacy of the disclosures with respect to inconsistencies.</li> </ul>