

# Agenda Item D.3 For Reference Only

Please note this paper represents the IAASB Audit Evidence Issues paper that was presented to the Board at its June 2020 meeting. The paper is provided to the CAG Representatives for reference only. Specific questions for CAG Representatives are included in Agenda Item D.1 (Audit Evidence Presentation)

## Audit Evidence Issues and Recommendations

### Objective

The objective of this paper is to:

- Provide feedback regarding the Audit Evidence Working Group's (AEWG) further information gathering and research activities on the topic of Audit Evidence;
- Obtain the Board's input on the results of these activities and related views of the AEWG; and
- Obtain the Board's agreement on the AEWG's recommendations for possible further actions.

### Introduction

1. ISA 500<sup>1</sup> deals with the auditor's responsibilities to design and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion. While the current version of ISA 500 has been in use for more than 10 years, the world has evolved with rapid changes in technology and the types of information sources available to auditors. Recognizing these changes, the AEWG developed an initial listing of possible issues related to audit evidence in the ISAs, using information obtained from various sources, such as outreach activities and previous IAASB consultations.<sup>2</sup>
2. Based on the issues identified, there are three main factors (or drivers) that are stimulating the need to consider whether enhancements to ISA 500 and possibly other standards are necessary:
  - Professional skepticism;
  - Changes in the information that is being used in the audit, including the source of the information and how the information is processed, communicated and used; and
  - Continual developments in technology.
3. The AEWG presented the issues and possible actions to address the identified issues to the Board in June 2019 (see **Appendix 2** for the meeting minutes).<sup>3</sup>
4. In determining whether ISA 500 and possibly other standards needed to be revised, the Board was of the view that further information-gathering and research (including outreach) were necessary. This would help to understand:

<sup>1</sup> International Standard on Auditing (ISA) 500, *Audit Evidence*,

<sup>2</sup> See March 2019 (Agenda Item 8) [IAASB Audit Evidence Issues Paper](#) and June 2019 (Agenda Item 7) [IAASB Audit Evidence Issues Paper](#)

<sup>3</sup> [20190617 IAASB Agenda Item 7 Audit Evidence Issues Paper](#)

- The extent to which the issues identified or other issues (if any) are creating challenges in practice, including the reasons or causes for it; and
  - How the issues may be best addressed.
5. The Board further recommended establishing a workstream plan to broadly outline what further information-gathering and research activities will be undertaken and the timeline for these activities. Through consultation with the IAASB's Steering Committee, the AEWG established an [Audit Evidence Workstream Plan](#) which outlines the following activities:
- Targeted outreach with IAASB stakeholders;
  - Exploring academic research on the topic of audit evidence; and
  - Other information gathering activities, including monitoring the activities of National Standard Setters (NSS) (in particular the Audit Evidence project of the American Institute of Certified Public Accountants' (AICPA) Auditing Standards Board (ASB) (AICPA project) which was already at an advanced stage in June 2019).

The Audit Evidence Workstream Plan also includes the objectives and scope of the above activities, including a timeline and expected outcome.

6. At the June 2019 IAASB meeting, the Board also noted the importance and pressing need for the development of guidance material to address the effect of technology when applying certain aspects of the ISAs. The Board recommended establishing a [Technology Workstream Plan](#), setting out a process for the identification, development and issuance of non-authoritative support materials. Through consultation with the IAASB's Steering Committee, the extant Data Analytics Working Group was renamed the Technology Working Group (TWG) and was tasked to develop the Technology Workstream Plan and the resulting non-authoritative support materials (among other activities). In developing the Technology Workstream Plan, the TWG considered those issues that were identified by the AEWG to be addressed by way of non-authoritative support materials.
7. With the establishment of the Audit Evidence and Technology Workstream Plans, and the related allocation of responsibility to the AEWG and TWG, the differentiation between the activities of these two working groups was clarified.
8. This paper provides feedback to the Board on key observations from the further information gathering and targeted outreach activities of the AEWG, including recommendations for possible further actions. The paper is organized as follows:
- Section I – Targeted Outreach Activities.
  - Section II – Academic Research.
  - Section III – Monitoring the Activities of Firms, Regulators, National Standard Setters and Professional Accountancy Organizations.
  - Section IV – Other Sources of Information About Audit Evidence Issues.
  - Section V – Recommended Actions.

9. This paper has the following appendices:
- Appendix 1 – Working Group Members and Activities, Including Outreach.
  - Appendix 2 – Extract from the Approved June 2019 IAASB Meeting Minutes.
  - Appendix 3 – Listing of Stakeholder Groups that Participated in the Targeted Outreach Activities.
  - Appendix 4 – List of Audit Evidence Related Issues Presented to Stakeholders.
  - Appendix 5 – Consideration of Other Issues Identified by Stakeholders.
  - Appendix 6 – Register of Academic Research for Purposes of Audit Evidence Information Gathering Activities.
  - Appendix 7 – Mapping the Key Observations from the AICPA Project to Revise AU-C Section 500.
10. The following papers are **for reference** purposes only:
- Supplement 1 to Agenda Item 7 – Reconciliation of Issues Presented to the Board in June 2019 to Issues Presented to Stakeholders for Purposes of Targeted Outreach Activities.
  - Supplement 2 to Agenda Item 7 – Mapping Key Aspects of Academic Research Papers to Audit Evidence Issues.
  - Supplement 3 to Agenda Item 7 – Other Information Sources.

## Coordination

11. In undertaking its information gathering activities, the AEWG has considered the activities of the Professional Skepticism Working Group (PSWG) and the TWG.
- The issues highlighted to the Board at its June 2019 meeting included concerns about professional skepticism only as it relates to specific aspects of audit evidence. In addition, the AEWG considered the work of the PSWG in relation to the IAASB's [\*'Invitation to Comment, Enhancing Audit Quality in the Public Interest'\*](#) (the ITC) – see **Section IV**. The AEWG will continue to coordinate with the PSWG when implementing the actions in relation to aspects of audit evidence.
  - The AEWG and TWG will continue to coordinate to ensure that relevant or overlapping issues are appropriately addressed in accordance with the remit of each group.

## Section I–Targeted Outreach Activities

### Background – Soliciting Input from Stakeholders

12. The following stakeholder groups were included in the AEWG's targeted outreach activities:
- Regulators and audit oversight bodies; including representatives from regulator inspection teams;
  - National Standard Setters (NSS);

- Accounting firms, including members of the Global Public Policy Committee (GPPC) and other members of the Forum of Firms (FOF);
- Public Sector Organizations;
- International Federation of Accountants’ (IFAC) Professional Accountancy Organization Members (PAO); and
- Preparers of financial statements.

In total 39 organizations provided input on the AEWG’s request for feedback, including two Monitoring Group members.<sup>4</sup> A list of organizations that provided input is included in **Appendix 3**.

13. To facilitate the targeted outreach activities, the AEWG developed a [Background Paper](#) to provide stakeholders with the necessary context and background information. The Background Paper also included a listing of audit evidence related issues (see **Appendix 4**). This listing of issues is based on the issues as presented to the Board in June 2019, but limited to core issues related to ISA 200,<sup>5</sup> ISA 500, ISA 501,<sup>6</sup> ISA 520<sup>7</sup> and ISA 330.<sup>8</sup> In presenting the issues to stakeholders, the issues were further consolidated and reorganized by the drivers of audit evidence as identified in paragraph 2. A reconciliation of the issues presented to the Board in June 2019 with the issues included in the Background Paper is included in **Supplement 1 to Agenda Item 7**.
14. To inform the AEWG’s understanding of the identified audit evidence related issues, and to determine whether there were any other issues, the following questions were asked to each stakeholder group:
  - (a) Which of the issues are creating the most difficulties in practice, and why is this the case?
  - (b) What other issues are there related to audit evidence that have not been identified in the Background Paper?
  - (c) How are firms, regulators, NSS and member bodies currently addressing these issues?
  - (d) What actions do you believe should the IAASB take, and how urgent are these?
15. It is important to note that the AEWG did not pose any restrictions or parameters on the extent or nature of stakeholder responses. For example, although some stakeholders prioritized ‘*issues that created the most difficulties in practice*,’ the AEWG did not impose any limit on the number of such issues, nor did the AEWG require or place any statistical or scientific weighting on the issues reported. Also, to encourage

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<sup>4</sup> International Forum of Independent Audit Regulators (IFIAR) and International Organization of Securities Commissions (IOSCO)

<sup>5</sup> ISA 200, *Overall Objectives of the Independent Audit and the Conduct of an Audit in Accordance with International Standards on Auditing*

<sup>6</sup> ISA 501, *Audit Evidence—Specific Considerations for Selected Items*

<sup>7</sup> ISA 520, *Analytical Procedures*

<sup>8</sup> ISA 330, *The Auditor’s Responses to Assessed Risks*

participation and given that the targeted outreach did not represent a formal IAASB public consultation process (e.g., as through a public Consultation or Discussion Paper), stakeholders were informed that:

- Feedback received will not be posted publicly via the IAASB website; and
- Information gathered and processed will be made public through IAASB Board issues papers and related project materials, but without attribution to any individual respondent.

16. Feedback from the targeted outreach activities is presented by question in paragraphs 17–32 below, except for the third question which is addressed in **Section III**.

### Issues that Are Creating the Most Difficulties in Practice

17. In considering this question, stakeholders broadly agreed that all the issues are valid and justify some action in the context that they arise. Stakeholders representing regulatory and audit oversight bodies encouraged the IAASB to prioritize all the issues as part of any future project(s). In addition, some stakeholders noted that:
- Many of the issues are exacerbated in light of the COVID-19 pandemic. For example, many auditors had to adapt their work practices by auditing remotely and considering electronic information.
  - Contrary to the perceived over-reliance on technology referred to in issues 12(e), 14(a) and 14(b) of **Appendix 4**, there was a consistent theme amongst accounting firms that some of the challenges identified are leading to a tendency to under-rely on technology, and a reluctance to use innovative automated tools and techniques instead of more traditional tools and techniques, and means of testing (such as those recognized by ISA 500, ISA 520 and ISA 530<sup>9</sup>). Accounting firms noted that regulatory perceptions can potentially discourage auditors from using automated tools and techniques. For example, this may be the case where regulatory inspections have consistently led to more challenge of engagement teams who have used such tools and techniques.
18. Through mapping each stakeholder group's '*most difficult issues*' to the listing of existing issues in **Appendix 4**, it was noted that all issues included in the listing were considered important for at least one stakeholder group, with the exception of issue 10 (related to ISA 560<sup>10</sup>) and issue 11 (related to ISA 570 (Revised)<sup>11</sup>). Therefore, all other issues create difficulties in practice, but to varying degrees as perceived by different groups.
19. The AEWG considered how best to prioritize and present the issues. Rather than identifying all the remaining issues as generally important, the AEWG concluded that it would be more appropriate to identify the most prominent issues based on the number of organizations identifying an issue as creating the most difficulties in practice and considering stakeholders' additional comments to further describe an issue, if applicable. The AEWG identified five issues, which are presented in the table below. The issues are presented in the order as listed in **Appendix 4** and the relevant stakeholder groups are identified in

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<sup>9</sup> ISA 530, *Audit Sampling*

<sup>10</sup> ISA 560, *Subsequent Events*

<sup>11</sup> ISA 570 (Revised), *Going Concern*

footnotes. These five issues should be considered in the overall context that all the identified issues, except for issues 10 and 11, were confirmed as issues creating difficulties in practice.

### Five Issues Most Commonly Highlighted as Creating Difficulties in Practice

#### Professional Skepticism – *Sufficient Appropriate Audit Evidence*

**Issue 1 in Appendix 4:<sup>12</sup> ISA 500 could more robustly address the need for professional skepticism when making judgments about whether sufficient appropriate audit evidence has been obtained.**

##### *Overview of Stakeholders' Comments:*

- Stakeholders broadly referred to 'professional skepticism' as an issue that creates difficulties in practice. As a general theme, difficulties in exercising professional skepticism about whether sufficient appropriate audit evidence was obtained, was prominent.
- Although recognizing the fundamental principle and importance of professional skepticism, accounting firms expressed concern with a possible requirement within the ISAs to seek contradictory or inconsistent evidence in all circumstances, in particular in relation to external sources where the reliability of that information may not be readily determinable (e.g. social media).<sup>13</sup>
- Stakeholders recommended the development of a framework that can be consistently applied to all information used as audit evidence, i.e. a framework for evaluating whether sufficient appropriate audit evidence has been obtained. Stakeholders believed that a robust framework could assist in addressing concerns that auditors may not be sufficiently skeptical when applying the requirements of ISA 500.

#### Nature and Sources of Information – *Sufficient Appropriate Audit Evidence*

**Issue 5 in Appendix 4:<sup>14</sup> The evolution in the number and nature of sources of information and use of technology to perform audit procedures brings into question:**

- **Whether the definitions of appropriateness of audit evidence and sufficiency of audit evidence<sup>15</sup> are appropriate.**
- **What factors are considered by the auditor in concluding whether sufficient appropriate audit evidence has been obtained.**

##### *Overview of Stakeholders' Comments:*

- The definition of sufficiency in ISA 500 focuses on the measure of the 'quantity' of audit evidence. Given the significant increase in sources of information, stakeholders questioned whether the definition should have a broader focus than quantity alone (e.g. the 'strength' or credibility of audit

<sup>12</sup> GPPC (1), FOF (5), NSS (3), PAO (6), Oversight Body (1), Monitoring Group Members (2)

<sup>13</sup> Note that this issue was considered by the IAASB in March 2018 and is referred to in the Supplement 3 To Agenda Item 7 (see paragraph 2)

<sup>14</sup> GPPC (4), FOF (7), NSS (4), PAO (6), Monitoring Group Member (1), Oversight Body (1).

<sup>15</sup> Paragraph 5(e) of ISA 500 describes the sufficiency of audit evidence as the measure of the quantity of audit evidence.

**Five Issues Most Commonly Highlighted as Creating Difficulties in Practice**

evidence), in considering “sufficiency” and “appropriateness” when obtaining and evaluating audit evidence.

- Stakeholders noted that the standards use the terms ‘information’ and ‘data’ and therefore questioned whether these terms are subject to different considerations when applying ISA 500.
- As noted in relation to “Issue 1”, above, stakeholders recommended the development of a framework that can be consistently applied to all information used as audit evidence, i.e. identifying relevant factors with respect to the source and nature of the audit evidence.

**Nature and Sources of Information – *Information to be Used as Audit Evidence***

**Aspects of Issue 6(c) in Appendix 4:**<sup>16</sup> The evolution in technology and the nature and number of sources of information has created challenges in considering the reliability of internal and external information. For example:

- **Considering the reliability of information from an external source is challenging in certain circumstances given access issues.**
- **There may be confusion as to when the information source is a service organization, and therefore when ISA 402<sup>17</sup> applies.**

***Overview of Stakeholders’ Comments:***

- Accounting firms cautioned that whilst it may be true that information from sources from outside of the entity are likely less susceptible to management bias, this is only one factor to consider when considering reliability. Entities with robust financial reporting processes, IT systems and controls may produce significantly more reliable information than external sources.
- Many stakeholders expressed concern about the distinction between internal versus external information, and the complexities about gaining access to certain types of information, such as service organization auditor reports, blockchain, cloud-based services or hosting, etc.

**Technology – *Audit Procedures***

**Issues 12(c) and (d) in Appendix 4):**<sup>18</sup>

- **New technologies have raised questions about where audit procedures performed using new technologies fit within:**
  - **The categories of audit procedures (i.e., inspection, observation, inquiry etc.); and**
  - **The nature of audit procedures (i.e., risk assessment, tests of controls, tests of details).**

<sup>16</sup> GPPC (3), FOF (5), NSS (4), PAO (3), Monitoring Group Member (1)

<sup>17</sup> ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*

<sup>18</sup> GPPC (3), FOF (5), NSS (3), PAO (3), Monitoring Group Members (2), Oversight Bodies (1), Public Sector (1)

### Five Issues Most Commonly Highlighted as Creating Difficulties in Practice

- **The use of new technology to perform audit procedures has raised questions about whether an audit procedure can be both a risk assessment procedure and a substantive procedure at the same time, i.e., a procedure that serves a dual purpose. This is particularly the case for certain data analytic tools.**<sup>19</sup>

#### *Overview of Stakeholders' Comments:*

- The question about whether an audit procedure could be both a risk assessment procedure and substantive procedure at the same time was raised by many stakeholders. Stakeholders noted that the capabilities of modern automated tools and techniques (such as data analytics) may allow the auditor to perform risk assessment procedures that go beyond traditional risk assessment procedures as the information is analyzed at a significantly more granular level. It was therefore questioned, for example:
  - Under which conditions (if any) do risk assessment procedures reduce risks of material misstatement to an acceptably low level; and
  - Can data analytics be designed in such a way to simultaneously serve the purpose of identifying and assessing risks of material misstatement and detecting material misstatements at the assertion level (and if so, when and how).
- Stakeholders noted that it was sometimes uncertain how to classify a substantive procedure in accordance with the procedures recognized and the context of testing, as presented in ISA 500, ISA 520 and ISA 530. For example, where a tool performs a recalculation or reconciliation of 100 percent of a population, there was uncertainty as to whether or when this was a substantive analytical procedure or a substantive test of details.

### Technology – ISA 330, *The Auditor's Responses to Assessed Risks*

**Issue 14(c) in Appendix 4:**<sup>20</sup> **The use of technology that enables the analysis of larger populations has raised questions about whether the auditor is required to follow up all exceptions identified, or whether the auditor is able to perform further testing only on a selection of exceptions, provided that the risk of material misstatement in the remaining population is at an acceptably low level.**

#### *Overview of Stakeholders' Comments:*

- Stakeholders generally agreed with the issue identified. They also noted that, when using data analytics, there is uncertainty and a lack of consensus about whether using sampling to test outliers is acceptable, and how the results of data analytics factor into the auditor's evaluation of the sufficiency and appropriateness of audit evidence. Insufficient guidance and the existence of mixed views have contributed to a lack of confidence amongst audit teams in using data analytics in the audit.

<sup>19</sup> Note that this issue is currently considered by the TWG in terms of the Technology Workstream Plan (development of non-authoritative guidance)

<sup>20</sup> GPPC (3), FOF (3), NSS (3), PAO (5), Monitoring Group Members (2), Oversight Bodies (1), Public Sector (1)



*AEWG Views*

20. The AEWG concluded that the issues creating the most difficulties in practice were generally closely related to the concept and evaluation of sufficient appropriate audit evidence. Existing challenges in relation to the evaluation of sufficient appropriate audit evidence are exacerbated by the evolution in technology and an increase in the sources of information.
21. As indicated in paragraph 17, accounting firms noted that regulatory perceptions can potentially discourage auditors from using automated tools and techniques on audit engagements. The AEWG believes these views demonstrate the importance of auditing standards acknowledging and addressing questions in relation to the use of technology, in particular in relation to audit evidence generated or accessed via technology and the nature and extent of work required to assess the reliability of such audit evidence.
22. The analysis of the issues that ‘*create the most difficulties in practice*,’ provides an important source of information in determining the AEWG’s recommendations for possible further actions (see **Section V**). The AEWG also believes that the highlighted areas provide an important step in determining public interest issues that may be further distilled into a project proposal.

**Other Issues Identified by Stakeholders that Were Not Included in the AEWG’s Original Listing of Issues**

23. Stakeholders were asked whether there are any other issues related to audit evidence that have not been identified in the Background Paper. An overview of other issues identified by stakeholders is included in **Appendix 5**.
24. The AEWG analyzed the issues and categorized them as follows:
  - Category I: The issue is related to or a subset of an existing issue as included in **Appendix 4**.
  - Category II: The issue represents a new issue and should be added to **Appendix 4**.
  - Category III: The issue is not within the scope of **Appendix 4**; i.e., the issue may be considered as part of the IAASB’s forward work plan.

Based on the analysis of the AEWG as presented in **Appendix 5**, the following two issues were added to list of audit evidence related issues in **Appendix 4**:<sup>21</sup>

- The scope of ISA 500 should be extended to clearly explain the relationship between ISA 500 and other ISAs, including ISA 315 (Revised 2019)<sup>22</sup> and ISA 330; and
  - The use of electronic platforms in obtaining external confirmations (aspect related to ISA 505)<sup>23</sup>.
25. Although specifically excluded from the scope of the targeted outreach activities,<sup>24</sup> many stakeholders asked for guidance on how the use of technology by the auditor affects documentation in accordance with

<sup>21</sup> See items 16 and 17 in **Appendix 4**

<sup>22</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

<sup>23</sup> ISA 505, *External Confirmations*

<sup>24</sup> See paragraph 5 of Background Paper

ISA 230.<sup>25</sup> In this regard, the AEWG notes that these concerns are addressed by the April 2020 publication of the TWG, [\*Non-Authoritative Support Material Related to Technology: Audit Documentation when Using Automated Tools and Techniques\*](#).

26. Furthermore, many stakeholders requested either specific standard setting activities or guidance on matters that are not directly related to the scope of the targeted outreach activities, for example:
- Over the years, the auditing profession has dealt with many expectations gaps, such as users believing that auditors are providing 100% assurance that financial statements are fairly stated, when in reality, auditors are only providing a reasonable assurance. Given the potential to perform certain audit procedures on 100% of the items in a population, it is possible that the use of automated tools and techniques could exacerbate the expectations gap. Such perceptions cannot be directly addressed through standard-setting. However, steps to modernize the standards and, as appropriate, revise requirements and application material to address underlying audit evidence related issues may contribute positively in this regard.
  - When using automated tools and techniques in an audit of financial statements, steps the auditor need to take to be able to rely on such tools (note: Resources, including the use of technological resources are addressed in proposed ISQM 1<sup>26</sup> (at firm level) and proposed ISA 220 (Revised)<sup>27</sup> (at engagement level)).
  - Other than conforming or consequential amendments arising from a revision of ISA 500, it was questioned why a more fundamental revision of ISA 330 is not being considered.

### **Actions the IAASB Should Take**

27. In suggesting possible actions the IAASB's should take to address the audit evidence related issues, stakeholders proposed either or both of the following:
- Revising ISA 500, including conforming and consequential amendments.
  - Developing non-authoritative guidance, including examples.
28. Regulatory and audit oversight bodies, in particular, noted that the IAASB should, as a priority, engage in a project to revise ISA 500. They also noted that technology will continue to evolve which raises additional risks around the suite of standards becoming outdated. While a project to the revise ISA 500 was broadly recognized as the desired approach, stakeholders acknowledged that such a project takes time. As a compromise, many stakeholders also supported the development of non-authoritative guidance to address the issues listed during the interim period.

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<sup>25</sup> ISA 230, *Audit Documentation*

<sup>26</sup> Proposed International Standard on Quality Management (ISQM) 1 (Previously International Standard of Quality Control (ISQC) 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

<sup>27</sup> Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

29. Although support for the revision of ISA 500 broadly relates to all the identified issues in **Appendix 4**, stakeholders emphasized current challenges in evaluating sufficient appropriate audit evidence, taking into account the evolution in technology and an increase of sources of information.
30. Two stakeholders<sup>28</sup> were of the view that a revision of ISA 500 is not necessary or not considered appropriate given the need to exercise professional skepticism and professional judgment in evaluating audit evidence. These stakeholders noted that the principle-based nature of ISA 500 is appropriate and should be preserved.
31. Other observations from stakeholders included that:
  - The standards should remain principles-based to be capable of being adapted to evolving circumstances.
  - The requirements in relation to professional skepticism and professional judgment in ISA 500 are adequate, but that it would be helpful to enhance the application material to further drive the desired behaviors.
32. Stakeholder specific view: The SMPC cautioned against ‘automation bias,’ i.e. bias towards the use of automated tools and techniques, when revising the standards. Auditors representing small and medium practices remain concerned about the associated costs to acquire and implement automated tools and techniques.

#### **Matters for IAASB Consideration:**

1. The Board is asked for its views on the targeted outreach activities as presented in Section I. In particular:
  - The AEWG’s conclusion that the issues creating the most difficulties in practice are closely related to the concept and evaluation of sufficient appropriate audit evidence.
  - Whether the Board agrees with the updated list of audit evidence related issues as included in **Appendix 4** (read together with the further context provided by the AEWG’s analysis of the five issues most commonly highlighted as creating difficulties in practice (see paragraph 19) and other issues identified by stakeholders (see **Appendix 5**)).

## **Section II – Academic Research**

### **Scope of Academic Research**

33. Through consultation with Prof. Kai-Uwe Marten,<sup>29</sup> the AEWG obtained a listing of academic research on audit evidence with a focus on research conducted in the last 5 years (see **Appendix 6**).
34. When considering the scope of available academic research, the AEWG noted that the literature was primarily focused on audit evidence through the lens of the ‘*evolution in technology*.’ As a subset of technology, the literature highlighted certain opportunities and challenges for the auditor, which

<sup>28</sup> GPPC (1), Preparer of Financial Statements (1)

<sup>29</sup> Prof. Dr. Marten is currently the Director of the Institute of Accounting and Auditing at the University of Ulm, Germany. He is also a member of the IAASB and the IAASB’s AEWG.

sometimes included concerns about extant standards not providing sufficient guidance about the evaluation of the reliability of information external to the entity (primarily ‘Big Data’). Given this viewpoint, the AEWG observed that important audit evidence concepts, such as aspects of professional skepticism and the criteria of sufficient appropriate audit evidence, including considerations of source, were not the core drivers of recent academic research.

35. To further explore and understand the nature and drivers of academic research, a review was performed of the academic literature included in **Appendix 6**. In summary, it was concluded that:
- The research focuses more on the use of technology by auditors and less on the development of criteria to evaluate and assess the sufficiency and reliability of audit evidence (in the context of the ISAs). The research is not developing any additional criteria or new indicators. In principle, new studies are initiated when new approaches become established in practice. The knowledge gained can then /be used for further development.<sup>30</sup>
  - The scope of the academic research is largely based and oriented towards theory and observations in practice. This may be attributed to the fact that the adoption of automated tools and techniques by the auditing profession is relatively new. Future empirical research is required to validate the theoretical findings or approaches resulting from the academic research.

## Key Findings

36. As noted, the academic research included in **Appendix 6** focuses on audit evidence through a technology lens. While many research findings openly question whether auditing standards sufficiently address the evolution of technology (see paragraph 37), a few research papers noted that existing auditing standards do not seem to constrain auditors, given its principle-based nature and taking a very expansive view of what constitutes audit evidence. Nonetheless, the same literature cautioned that this may in itself cause an ‘aversion’ by auditors to adopt technology techniques. For example, one research paper<sup>31</sup> states that *“this very lack of constraint makes a person question the extent to which auditors have fully exploited the freedom that the standards give them to be expansive in their use of audit data—failing to fully exploit traditional transactional financial data, much less the broader non-transactional information that comprises Big Data.”* This view is in line with one of the key observations from the feedback of respondents to the IAASB’s 2016 Request for Input, [\*Exploring the Growing Use of Technology in the Audit With a Focus on Data Analytics\*](#), in that the ISAs aren’t “broken” and should remain principles-based, but need to be updated to reflect the digital era.
37. A significant portion of the academic research focuses on the use (or lack thereof) of technology by auditors. In this context, the literature consistently suggests that while entities are progressively incorporating technology, the auditing profession have yet to take advantage of these innovations (for example by integrating technology into the auditing standards). This perceived resistance to the use technology appears to be driven by an underlying theme, which suggests that auditing standards:

<sup>30</sup> Similar *De Santis, F./D’Onza. G. (2019), p. 6.*

<sup>31</sup> *Alles, M. G. (2015): Drivers of the Use and Facilitators and Obstacles of the Evolution of Big Data by the Audit Profession, in: Accounting Horizons, Vol. 29, No. 2, pp. 439-449.*

- Do not sufficiently address the nature of evidential matter that will be necessary in the more complex and advanced technological environment; and
- Require auditors to gather audit evidence that is sufficient and appropriate to support their audit opinion; but the characteristics used to define ‘sufficient appropriate audit evidence’ may not be adequate.

### AEWG Views

38. The following table summarizes, per main area, the key aspects identified by the AEWG from its analysis of the academic research papers, mapped to the list of audit evidence related issues presented in **Appendix 4**.

Main Areas Identified from the Academic Research Papers <sup>32</sup>	Mapping to IAASB Audit Evidence Issues (in Appendix 4)
Sufficient appropriate audit evidence: The use of external information (Big Data) in an audit of financial statements	5, 6(b), 6(c), 6(d)
The use of data analytics in an audit of financial statements	12(a), 12(c)
Using drones in a physical inventory counting	15(a)
The possible use of specific technologies in the audit environment (Data mining, Artificial intelligence, Machine learning)	12(a) – 12(e)
Over-reliance on technology	6(c), 14(b)

The detailed analysis and mapping of key aspects resulting from the AEWG’s analysis of the academic research papers is included in **Supplement 2 to Agenda Item 7**.

39. The AEWG noted that some academics question whether the extant standards provide adequate guidelines to assist auditors in evaluating the concept of sufficient appropriate audit evidence. This theme is consistent with the results of the targeted outreach activities (**Section I**). Based on the summary presented in paragraph 38, the AEWG is of the view that all the main areas have been considered and that the issues identified in **Appendix 4** remain appropriate.

#### Matters for IAASB Consideration:

2. The Board is asked for its views on Section II, Academic Research. In particular whether the Board agrees with the AEWG’s conclusion that the list of audit evidence related issues in **Appendix 4** remains appropriate (together with the additional context that has been provided by the academic research papers).

<sup>32</sup> Concerns about the possible under-utilization of technology by auditors are pervasive across the academic research papers.

### Section III – Monitoring the Activities of Firms, Regulators, National Standard Setters and Professional Accountancy Organizations

40. The background paper included a question to determine whether, and if so how, firms, regulators, NSSs and PAOs are addressing audit evidence related issues (see question (c) in paragraph 14).
41. Although stakeholders broadly acknowledged that the identified audit evidence related issues are valid and justify some action in the context that they arise, only a limited number of NSSs are undertaking formal standard-setting activities in this regard. In addition, firms, regulators and oversight bodies or PAOs are addressing the issues through the development of guidance or training courses. Examples of how audit evidence issues are addressed include:
  - Firms: Training of personnel and the development of guidance that is available within the firm or network or incorporated into the network's or firm's audit methodology.
  - Regulators and oversight bodies: Facilitating the development of guidance and training programs, generally through preparing and publishing consolidated inspection findings to raise awareness of findings reported.
  - PAOs: Development of guidance or practice aids and facilitating technical support platforms and training programs.
42. A respondent<sup>33</sup> from a major global economy noted that many stakeholders are 'working around' the audit evidence issues included in **Appendix 4**. This respondent also noted that these issues act as a source of conflict between auditors and audit regulators and that the development of new audit technologies may be hampered by the lack of guidance where audit regulators take a narrow approach to the interpretation of auditing standards.

#### National Standard Setters

##### *Canada*

43. The Canadian Auditing and Assurance Standards Board (CAASB) has established an Audit Evidence Advisory Group (Advisory Group) to provide input to the CAASB on the IAASB's work on audit evidence. The Advisory Group discusses all issues or consultation papers and provides comments to the CAASB and the IAASB members from Canada before IAASB meetings.
44. As part of informing its work, the Advisory Group also gathers information, as appropriate, from other CPA Canada committees and evaluates whether there is a need for guidance in relevant areas.

##### *United Kingdom*

45. In March 2020, the United Kingdom Financial Reporting Council (UK FRC) issued:
  - An Audit Quality Review [Thematic Review](#), *The Use of Technology in the Audit of Financial Statements*. This report highlights enhanced audit quality as being a likely outcome of widespread use of technological resources, but also identified some additional challenges

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<sup>33</sup> PAO (1)

including the increasing involvement of third-party providers' tools in the audit process, particularly in the area of data extraction.

- A [Discussion Paper](#) on technological resources: *Using technology to enhance audit quality*. Building on its Thematic Review, the UK FRC is seeking further insight into the use of technology and its potential impact on audit quality.<sup>34</sup>

#### United States - AICPA

46. The AICPA's ASB, issued on June 20, 2019 an Exposure Draft related to the proposed Statement on Auditing Standards, AU-C section 500<sup>35</sup> (AU-C 500) and approved the revised standard on May 21, 2020. Given that extant AU-C 500 was converged with ISA 500, with the exception of the consequential amendments to ISA 500 resulting from ISA 540 (Revised)<sup>36</sup> (which was included in their current project), it follows that the scope and results of the AICPA project is of particular relevance to the IAASB's audit evidence information gathering and research activities.
47. The overall objective of the revisions to AU-C 500 was to address the evolving nature of the manner in which business and audit services are conducted, specifically:
- Use of emerging technologies by both preparers and auditors;
  - Use of technology, including audit data analytics;
  - The application of professional skepticism;
  - The expanding availability and use of external information sources as audit evidence; and
  - More broadly, the sufficiency, appropriateness, relevance and reliability of audit evidence.
48. Similar to ISA 500, AU-C 500 required the auditor to design and perform audit procedures that are appropriate in the circumstances for purposes of obtaining sufficient appropriate audit evidence. The revisions to AU-C 500 shifted the focus primarily to understanding attributes and factors of information to assist the auditor in evaluating information to be used as audit evidence. Substantially all respondents to the Exposure Draft of proposed AU-C 500 supported this shift in focus, as reflected in the revised objective.

Extant AU-C 500	Approved AU-C 500 (Revised)
<p><b>Objective</b></p> <p>04. The objective of the auditor is to design and perform audit procedures that enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.</p>	<p><b>Objective</b></p> <p>04. The objective of the auditor is to evaluate information to be used as audit evidence, including the results of audit procedures, to inform the auditor's overall conclusion about whether sufficient appropriate audit evidence has been obtained.</p>

<sup>34</sup> Comments are due by July 5, 2020

<sup>35</sup> AU-C section 500, *Audit Evidence*

<sup>36</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

## Key Issues Addressed by the ASB

49. The AEWG performed an analysis of the key changes resulting from the AICPA's project to revise AU-C 500 (over and above the change in the overall objective). The AEWG mapped the key observations in this regard to the listing of audit evidence related issues presented in **Appendix 4** to further inform the IAASB's understanding of the issues and to determine whether any other issues should be included. The detailed analysis and mapping are included in **Appendix 7** and may be summarized as follows:

Key Observations	Mapping to IAASB Audit Evidence Issues (in Appendix 4)
The role of professional judgement and professional skepticism in obtaining and evaluating audit evidence	1–3
Corroborating or contradictory audit evidence, as well as how contradictory audit evidence differs from inconsistent audit evidence	3
Attributes of information and factors to be used when evaluation information to be used as audit evidence	5
The definition of “sufficiency” of audit evidence and providing additional application material to describe what it is intended to cover in the context of the nature and sources of information	5
Distinguishing between different sources of information, i.e., information produced by the entity and information from external sources, and the factors and work effort related to evaluating the reliability of such information	6
Modernizing the standard through enhanced application material that addresses the effect and application of technology in an audit	12, 13, 15
Relationship between the audit evidence standard and other standards	16

50. The AEWG observed one key change to AU-C 500 that was not included in the listing of issues that was presented to stakeholders in the AEWG's Background Paper: The ASB added introductory paragraphs to explain the relationship between AU-C 500 (Revised) and other AU-C sections, for example AU-C section 330.<sup>37</sup> AU-C 330 requires that persuasive audit evidence be obtained and AU-C 500 (Revised) explains that “sufficiency” and “appropriateness” of audit evidence are elements of “persuasiveness.” As noted in paragraph 24, this issue was also identified through the targeted

<sup>37</sup> AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*



outreach activities and subsequently added to the listing of audit evidence related issues in **Appendix 4**.

#### *AEWG's Views*

51. Current or recent activities of NSS as observed by the AEWG are varied in terms of their nature and focus but are broadly consistent with the identified drivers of audit evidence related issues, namely professional skepticism, nature and sources of information, and technology. The activities of NSS also highlight a focus on the effects of technology, while indicating that issues related to technology and the nature and sources of information are closely related or inter-related. The completed AICPA project on AU-C 500 provides a good reference point and additional context for the IAASB's identified audit evidence related issues. Overall, the AEWG is of the view that no new issues were brought to light and that the issues identified in **Appendix 4** remain appropriate.

#### **Matters for IAASB Consideration**

3. The Board is asked for its views on the monitoring of the activities of NSS. In particular whether the Board agrees with the AEWG's conclusion that the list of audit evidence related issues in **Appendix 4** remains appropriate (together with the additional context that has been provided by the identified NSS activities).

### **Section IV – Other Sources of Information About Audit Evidence Issues**

52. The AEWG has observed various other sources of information that are relevant to the IAASB's information gathering activities, as well as any future work on audit evidence.

#### **Other Research**

53. The AEWG identified other research type-literature that provides insights to some of the more foundational concepts of audit evidence. The AEWG believes that these papers represent a source of information that may be drawn upon once a project proposal is developed in conjunction with possible actions to address issues identified. The relevant papers are listed in **Supplement 3 to Agenda Item 7**, paragraph 1.

#### **IAASB's Strategy for 2020–2023 and Work Plan for 2020–2021**

54. In February 2019, the IAASB issued a [Consultation Paper](#) on its proposed Strategy for 2020–2023 and Work Plan for 2020–2021 (Strategy and Work Plan). Respondents to the Strategy and Work Plan suggested that further consideration should be given to evaluating what changes may be necessary to the suite of standards related to technology (e.g. ISAs 500, ISA 505, ISA 520, ISA 530). In addition, one Monitoring Group member specifically encouraged the IAASB to focus on the audit evidence project and to evaluate the needs for enhancements of the standards for areas related to the determination of the level and quality of evidence required, including any related consideration of materiality, audit sampling and analytical procedures.
55. Given the feedback to the Consultation Paper, the approved IAASB's Strategy and Work Plan prioritizes the impact of technology as one of the key emerging public interest challenges. The

advancement in, and the use of technology, is therefore a key strategic driver that influences the IAASBs standards and activities for the period 2020–2023.

### Professional Skepticism

56. The ITC included a section and questions on professional skepticism. As part of its information gathering activities on audit evidence, the AEWG considered:

- High-level feedback from the responses to the ITC on professional skepticism;
- The PSWG’s detailed review of the responses to the ITC on professional skepticism; and
- The PSWG’s focused worked based on the review of responses to the ITC on professional skepticism.

These aspects of the ITC, including the work of the PSWG in response to the feedback, are summarized and included in **Supplement 3 to Agenda Item 7**, paragraphs 2–5.

### AEWG Views

57. The AEWG believes that the sources highlighted, above, should be drawn upon in responding to the issues identified in **Appendix 4**. Furthermore, the AEWG recognizes that additional information may be obtained as a matter of course through the IAASB’s regular outreach program with key stakeholders and any targeted outreach activities that may be undertaken as a workstream or project progresses.

#### Matters for IAASB Consideration:

4. The Board is asked whether there are any other information sources which should be considered in the context of progressing the IAASB’s work to address the audit evidence related issues in **Appendix 4**?

## Section V – Recommended Actions

58. As noted throughout the paper, **Appendix 4** includes a summary of the audit evidence related issues as originally identified in June 2019 and subsequently presented to stakeholders as part of the AEWG’s further information-gathering and research (including outreach). After evaluating the results of its activities, the AEWG proposed to add two additional issues to the listing (as explained in paragraph 24).
59. The AEWG observed that the results of the targeted outreach activities indicated that stakeholders broadly agreed that the issues listed in **Appendix 4** are valid and complete and, therefore, justify some action by the IAASB.
60. The AEWG took into account the final list of issues as presented in **Appendix 4** in identifying the actions that are available to address these issues. The AEWG also considered the various components of the Framework for Activities in the IAASB’s Strategy and Work Plan, which, among

other matters, highlights the consideration of mechanisms for addressing issues and challenges on a more timely basis. The AEWG is proposing the following two possible actions going forward:

Action A: A project to revise ISA 500, including conforming and consequential amendments to other standards.

Action B: Technology related issues to be addressed by another working group (other than the AEWG). Some of the issues may be addressed through non-authoritative support materials within the remit of the TWG. Other issues may have to be addressed through a targeted project to address relevant aspects of technology across the ISAs (i.e. possibly in the form of an omnibus standard focused on technology).

The AEWG has subsequently itemized each issue included in the table in **Appendix 4** against Actions A or B.

61. The AEWG recommends prioritizing issues categorized as ‘Action A’ and initiating work to address these issues as part of an Audit Evidence project. The AEWG is of the view that this is responsive to calls from stakeholders to proactively address the issues. In doing so, the AEWG proposes that the scope of standard setting efforts should focus on ISA 500 and only conforming and consequential amendments to related standards. In relation to the scope of the proposed consequential amendments, the AEWG recommends including at least ISA 330 to explain its relationship with ISA 500.
62. More fundamental revisions to other standards (including ISA 330, ISA 501, ISA 505, ISA 520 and ISA 530) will be deferred until future projects can be initiated in accordance with the IAASB’s Work Plan. Such revisions would have significant implications for the IAASB’s agenda, Board resources and demands on staff. The AEWG therefore does not believe it is practical or feasible to expand standard setting efforts beyond the scope as outlined above.
63. The actions identified in paragraph 60 only apply to the issues listed in **Appendix 4**. Based on the feedback from the targeted outreach activities, the AEWG also identified issues that were determined to be excluded from the scope of **Appendix 4**. These issues were categorized as ‘Category III’ items in **Appendix 5**. For these issues the AEWG is of the view that they should be considered in the context of possible topics for the IAASB’s forward work-plan

#### **Matters for IAASB Consideration:**

5. The Board is asked whether it agrees or not, that the AEWG prepares a project proposal in relation to Action A in paragraph 60 for December 2020, and continues in the interim period to evolve its approach, as presented in this Issues paper, to progress the revision of ISA 500 and conforming and consequential amendments to other standards?

## Appendix 1

### Working Group Members and Activities, Including Outreach

#### Working Group Members

1. The AEWG comprises:
  - Bob Dohrer, IAASB Member and Working Group Chair;
  - Susan Jones, IAASB Technical Advisor;
  - Kai-Uwe Marten, IAASB Member (supported by Wolf Boehm, IAASB Technical Advisor);
  - Eric Turner, IAASB Member; and
  - Jamie Shannon, IAASB Technical Advisor.
2. Further information about the project can be found [here](#).

#### Working Group Activities since the August 2019 IAASB Teleconference

3. The Working Group held three virtual meetings. Owing to the nature of the activities being undertaken, substantial work was also progressed via electronic circulation of materials between members of the AEWG and with IAASB staff.

#### Outreach Activities

4. In addition to the targeted outreach as set out in **Section I**, the Working Group Chair and IAASB staff participated in information sessions with NSS, PAO and members of the GPPC in January 2020. The objective of the sessions was to provide adequate background information on the identified audit evidence related issues, to enable the relevant stakeholders to solicit input from their networks of stakeholders and provide feedback to the IAASB by April 17, 2020.
5. IAASB's Consultative Advisory Group in September 2019 and March 2020.

## Appendix 2

### Extract from the Approved June 2019 IAASB Meeting Minutes

Mr. Dohrer explained the activities undertaken by the Audit Evidence Working Group (AEWG) in responding to the feedback from the IAASB's March 2019 meeting and further discussions by the Steering Committee. Mr. Dohrer noted the coordination activities undertaken with the Technology Working Group (TWG) and the Professional Skepticism Working Group (PSWG). Ms. Provost emphasized the importance of continued coordination between the AEWG and PSWG. She also explained the key areas of focus for the PSWG based on its most recent discussions, some of which may be addressed through the proposed actions related to audit evidence and technology.

#### ISSUES RELATED TO AUDIT EVIDENCE AND TECHNOLOGY

The Board agreed that the issues related to audit evidence, as primarily driven by technology, professional skepticism and sources of information, outlined in **Appendix 2 of Agenda Item 7** were comprehensive and indicated that the work undertaken to develop these issues is an important step in the information-gathering and research process. The Board recommended that the issues be prioritized. The Board also commented on particular issues that are more significant and provided suggestions for other actions that could be considered for certain issues.

The Board noted that technology may provide an opportunity to obtain more relevant and reliable audit evidence related to going concern, related parties and fraud. The Board therefore noted that the use of technology may positively affect the persuasiveness of audit evidence.

#### ACTIONS TO ADDRESS THE ISSUES RELATED TO AUDIT EVIDENCE AND TECHNOLOGY

Mr. Dohrer outlined the AEWG's recommendations for the proposed actions to be undertaken to address the issues related to audit evidence and technology. In relation to audit evidence, the Board did not support the development of a project proposal at this time, because, on balance, there was the view that further information-gathering and research activities are necessary to further understand:

- The issues outlined in **Appendix 2 of Agenda Item 7**, including whether, and the extent to which, the issues, are creating difficulties in practice (and the reasons for this);
- How individual issues may be best addressed (i.e., whether this could be done through standard-setting or some other action); and
- Whether there are any other issues that need to be considered.

The Board also recommended that the actions to address the issues related to technology and audit evidence be considered separately and addressed through a 'two-track' approach:

- Immediately initiating activities to develop non-authoritative guidance to address the effect of technology when applying certain aspects of the ISAs. The Board emphasized the urgency and importance of this guidance, and the need for it to be developed in an expedient manner.
- Undertaking further information-gathering and research activities on the issues related to audit evidence. The Board emphasized that such information would be important in determining if standards need to be revised or whether other actions would be more appropriate. As part of the

further information-gathering and research activities, the Board encouraged the AEWG to undertake outreach with stakeholders.

The Board further recommended establishing workstream plans that broadly outline the planned activities:

- In relation to non-authoritative guidance on technology, the Board recommended that the workstream plan include an outline of the issues to be addressed in the guidance, the form of guidance and the process for developing the guidance, including how Board input will be solicited, if any.
- In relation to audit evidence, the Board recommended that the workstream plan outline what further information-gathering and research activities are needed and the timeline for these activities, in order to further progress the activities on a timely basis. The Board also acknowledged that this approach to research and information gathering is in line with the new Framework for Activities proposed in the IAASB's '*Proposed Strategy for 2020–2023 and Work Plan for 2020–2021*.'

#### PROCESS FOR DEVELOPING GUIDANCE RELATED TO TECHNOLOGY

The Board highlighted the importance of the non-authoritative guidance being developed in a timely manner and therefore emphasized the need for agility. However, the Board expressed mixed views about the extent to which the Board should provide input to the non-authoritative guidance. The Board also noted the need to consider Staff and Board resources to progress such guidance, recognizing the urgency of the guidance and limitations on available time for the Board to consider the guidance.

#### OTHER MATTERS

The Board suggested identifying appropriate terminology to describe technology that is not associated with a specific type of technology, and can be adapted to future technologies, such as “automated tools and techniques” that was used in the revision of ISA 315 (Revised).

The Board encouraged more clarity in differentiating between the activities of the TWG, and those of the AEWG, however noted the need for close coordination between the two working groups in considering the issues given the close overlap of the issues. The Board also noted that there may be a need to involve specialists in dealing with the issues related to technology.

#### IAASB CAG CHAIR REMARKS

Mr. Dalkin noted that the CAG has a keen interest in technology. He also noted that the CAG was supportive of the proposals by the American Institute of Certified Public Accountants (AICPA) Auditing Standards Board (ASB) regarding the attributes and factors used to evaluate information to be used as audit evidence.

#### PIOB OBSERVER REMARKS

Prof. van Hulle supported the two-track approach to the work on technology and audit evidence and emphasized the need for guidance in relation to technology. He encouraged the Board to be innovative in how to develop guidance that does not need to be subject to formal due process.

Prof. van Hulle also supported undertaking further information gathering and research related to audit evidence, but urged the Board to develop a timeline so there is clarity regarding how the information-gathering and research will progress, and to give transparency to the work that the Board is undertaking in these areas.

#### WAY FORWARD

The AEWG and TWG will consider the input provided by the IAASB to differentiate their respective workstreams. The AEWG will also consider the input provided as it commences activities to further understand the key issues and identify areas of focus in scoping the activities for future work in relation to audit evidence.

## Appendix 3

### Listing of Stakeholder Groups that Participated in the Targeted Outreach Activities

1. The AEWG invited the following stakeholders to participate in the targeted outreach activities:
  - Regulator and Oversight Bodies
    - Monitoring Group members (IFIAR, IOSCO);
    - Representatives from the Committee of European Auditing Oversight Bodies;
    - UK FRC; and
    - Representatives from regulator inspection teams (Inspectors across all IFIAR member bodies were invited).
  - The IAASB's National Standard Setters Group (17 jurisdictions);
  - All the members of the FoF (Accounting Firms);
  - Representatives from the public sector;<sup>38</sup> and
  - 24 PAOs. The criteria for selecting a PAO were based on those PAOs who have responded to three or more of the following IAASB's public consultations: Exposure Draft of ISRS 4400 (Revised),<sup>39</sup> Exposure Drafts of the Quality Management standards, Exposure Draft of ISA 540 (Revised), Exposure Draft of ISA 315 (Revised 2019), and the ITC.
2. The AEWG followed two approaches in engaging with stakeholders:
  - Stakeholders were approached directly by the AEWG through tele- or videoconference (verbal feedback only):
    - Monitoring Group members (IFIAR, IOSCO);
    - Representatives from the Committee of European Auditing Oversight Bodies;
    - Representatives from regulator inspection teams; and
    - Preparers of Financial Statements.
  - Stakeholders were requested to solicit feedback from their own stakeholders and then provided feedback to the AEWG either in writing or by tele- or videoconference.
    - UK FRC (from Regulator and Oversight Bodies)
    - NSS;
    - Accounting Firms;

<sup>38</sup> The Chair of the AEWG was initially scheduled to present the Background Paper at the INTOSAI meeting via teleconference on March 25, 2020 (Kampala, Uganda) to solicit feedback from the public sector on audit evidence. However, due to the COVID-19 outbreak the meeting was cancelled and consequently invitations were extended to engage with representatives from the US Government Accountability Office and INTOSAI via teleconference

<sup>39</sup> International Standard on Related Services (ISRS) 4400 (Revised),<sup>39</sup> *Agreed-Upon Procedures Engagements*



- Representatives from the public sector; and
- PAOs.

### Detailed Listing of Stakeholders that Participated in Targeted Outreach Activities

#	Abbrev.	Respondent (Note: Members of the Monitoring Group are shown in bold).	Region
<b>Regulators and Oversight Bodies (4)</b>			
1.	CEAOB	Committee of European Auditing Oversight Bodies	EU
2.	<b>IFIAR</b>	<b>International Forum of Independent Audit Regulators</b>	<b>GLOBAL</b>
3.	<b>IOSCO</b>	<b>International Organization of Securities Commissions</b>	<b>GLOBAL</b>
4.	UK FRC	Financial Reporting Council – UK	EU
<b>Representatives from Regulator Inspection Teams (3)</b>			
5.	FML	Inspector from Dutch Authority for Financial Markets	EU
6.	BAO	Inspector from Botswana Oversight Authority	MEA
7.	ASC	Inspectors from Audit Oversight Board Securities Commission Malaysia	AP
<b>National Standard Setters (8)</b>			
8.	AICPA	American Institute of Certified Public Accountants	NA
9.	AUASB	Australian Auditing and Assurance Standards Board	AP
10.	CAASB	Canadian Auditing and Assurance Standards Board	NA
11.	CICPA	Chinese Institute of Certified Public Accountants	AP
12.	CNCC-CSOEC	Compagnie Nationale des Commissaires aux Comptes and the Conseil Supérieur de l'Ordre des Experts-Comptables	EU
13.	HK-CPA	Hong Kong Institute of CPAs	AP
14.	JICPA	The Japanese Institute of Certified Public Accountants	AP
15.	NZAASB	New Zealand Auditing and Assurance Standards Board	AP

<b>Accounting Firms (12)<sup>40 41</sup></b>			
16.	BT*	Baker Tilly	GLOBAL
17.	CI*	Crowe International	GLOBAL
18.	DTT*	Deloitte**	GLOBAL
19.	EY*	Ernst & Young**	GLOBAL
20.	FE*	FinExpertiza	GLOBAL
21.	GTI*	Grant Thornton**	GLOBAL
22.	KPMG*	KPMG**	GLOBAL
23.	KR*	Kreston	GLOBAL
24.	NE*	Nexia	GLOBAL
25.	PwC*	PWC**	GLOBAL
26.	RSM*	RSM	GLOBAL
27.	RTA*	RTAsean	GLOBAL
<b>Public Sector Organizations (2)</b>			
28.	INT	INTOSAI	GLOBAL
29.	GAO	US Government Accountability Office	NA
<b>IFAC Professional Accountancy Organization Members (9)</b>			
30.	ACCA-CAANZ	Association of Chartered Certified Accountants - Chartered Accountants Australia and New Zealand	GLOBAL
31.	CPAA	CPA Australia	AP
32.	EFAA	European Federation of Accountants and Auditors for SMEs	EU
33.	ICAEW	Institute of Chartered Accountants in England and Wales	EU
34.	ICAN	Institute of Chartered Accountants of Nigeria	MEA

<sup>40</sup> FoF members are indicated with a \*. The FoF is an association of international networks of accounting firms that perform transnational audits

<sup>41</sup> GPPC member firms are indicated with a \*\*

35.	ISCA	Institute of Singapore Chartered Accountants	AP
36.	MICPA	Malaysian Institute of Certified Public Accountants	AP
37.	SAICA	South African Institute of Chartered Accountants	MEA
38.	SMPC	IFAC Small and Medium Practices Committee	GLOBAL
<b>Preparers of Financial Statements (1)</b>			
39.	FEI	Financial Executives International	GLOBAL

## Appendix 4

## List of Audit Evidence Related Issues Presented to Stakeholders

- The table below includes the list of audit evidence related issues (issues 1 to 15) as presented to stakeholders in the Background Paper that was used for the targeted outreach activities of the AEWG. The issues are categorized by the following drivers:
  - Professional Skepticism;
  - Nature and Sources of Information; and
  - Technology.
- The listing recognized that some issues may overlap with more than one driver, in which case the issue was categorized by the driver that may have the greatest effect on audit evidence. However, the alternative driver(s) was identified with an asterisk (\*), as applicable.
- After evaluating the results from the targeted outreach activities in relation to any other issues identified by stakeholders (see analysis in **Appendix 5**), the AEWG proposes to add two additional issues (issues 16 and 17 included in the table below) to the listing (also see paragraph 24).
- The AEWG subsequently allocated each issue or sub-issue, as applicable, to the possible further actions as identified in paragraph 60.

#	Description of Issue	Proposed Action: <sup>42</sup>
<b>Professional Skepticism</b>		
ISA 500, <i>Audit Evidence</i>		
1.	<p><i>Sufficient Appropriate Audit Evidence</i></p> <p>Auditors are required to exercise professional judgment in concluding whether sufficient appropriate audit evidence has been obtained, and, if not, when to seek further evidence from additional sources. Given concerns about auditors appropriately exercising <b>professional skepticism</b>, questions have arisen about whether ISA 500 could more robustly address the need for professional skepticism when making such judgments.</p>	A
2.	<p><i>Information To Be Used as Audit Evidence</i></p> <p>Auditors are required to exercise professional judgment in considering the reliability of information to be used as audit evidence. Given concerns about auditors appropriately exercising <b>professional skepticism</b>, questions have arisen about whether ISA 500 could more robustly address the need for professional skepticism when making such judgments.</p>	A

<sup>42</sup> Proposed Actions as identified in paragraph 60.

#	Description of Issue	Proposed Action: <sup>42</sup>
3.	<p><i>Inconsistency in Audit Evidence</i></p> <p>Certain audit failures highlight concerns about the appropriateness of <b>professional skepticism</b> exercised by auditors. This includes concerns about the lack of the appropriate exercise of professional skepticism by the auditor resulting from a lack of objectivity and therefore bias towards seeking evidence to support management's assertions (consistent or corroborating evidence) rather than evidence that is inconsistent with management's assertions.</p>	A
<b>Nature and Sources of Information</b>		
ISA 500, <i>Audit Evidence</i>		
4.	Questions have arisen about the purpose of ISA 500 in the context of the other ISAs, in particular whether ISA 500 is intended to be a performance standard. <sup>43</sup>	A
5.	<p><i>Sufficient Appropriate Audit Evidence</i></p> <p>The evolution in the number and nature of sources of <b>information</b> and use of <b>technology*</b> to perform audit procedures have raised questions about the factors that are considered by the auditor in concluding whether sufficient appropriate audit evidence has been obtained. It brings into question:</p> <p>(a) Whether the definitions of appropriateness of audit evidence and sufficiency of audit evidence<sup>44</sup> are appropriate.</p> <p>(b) What factors are considered by the auditor in concluding whether sufficient appropriate audit evidence has been obtained.</p>	A
6.	<p><i>Information To Be Used as Audit Evidence</i></p> <p>(a) The evolution in the nature and number of sources of <b>information</b> has brought into question:</p> <ul style="list-style-type: none"> <li>The appropriateness of certain statements in the standards about <b>information</b> obtained internally and externally.<sup>45</sup> In some instances, there may be overreliance on certain information sources without appropriate <b>professional skepticism*</b> being exercised.</li> </ul>	A

<sup>43</sup> For example, the objective of ISA 500 indicates that "the objective of the auditor is to design and perform audit procedures", and paragraph 6 requires the auditor to "design and perform audit procedures."

<sup>44</sup> Paragraph 5(e) of ISA 500 describes the sufficiency of audit evidence as the measure of the quantity of audit evidence.

<sup>45</sup> For example, paragraph A31 of ISA 500 includes statements that may no longer be appropriate in today's environment, such as: 'The reliability of audit evidence is increased when it is obtained from independent sources outside the entity'

#	Description of Issue	Proposed Action: <sup>42</sup>
	<ul style="list-style-type: none"> <li>The differentiation in work effort regarding the reliability of information between information produced by the entity and other information sources.<sup>46</sup></li> </ul>	
	(b) Questions have arisen regarding whether all <b>information</b> to be used as audit evidence should be subject to the same rigor when considering the relevance and reliability of such information. For example, should information to be used in risk assessment procedures be subject to the same level of consideration as information to be used in a substantive analytical procedure?	A
	<p>(c) The evolution in technology and the nature and number of sources of <b>information</b> has created challenges in considering the reliability of internal and external information. For example:</p> <ul style="list-style-type: none"> <li>Considering the reliability of information from an external source is challenging in certain circumstances given access issues. In this case, considering the credibility of the source may be the only option available to the auditor.</li> <li>There may be confusion as to when the information source is a service organization, and therefore when ISA 402 applies. For example, in the case of information generated through a blockchain, questions have arisen about whether the blockchain could be considered a third-party service organization and whether it forms part of the entity's information system relevant to financial reporting.</li> <li>Auditors lack appropriate expertise in the algorithms underlying new technology that is used to generate information.</li> </ul>	<p>A</p> <p>A</p> <p>B</p>
	(d) The evolution in the nature and number of sources of <b>information</b> has brought into question the auditor's responsibilities in circumstances when there is information that contradicts management's assertions but the reliability of that information may not be determinable, for example, because of its source (e.g., social media).	A

<sup>46</sup> Paragraph 7 of ISA 500 indicates that when designing and performing audit procedures, the auditor shall **consider the relevance and reliability** of the information to be used as audit evidence. However, paragraph 9 imposes additional responsibilities when using information produced by the entity; it requires the auditor **to evaluate whether the information is sufficiently reliable** for the auditor's purposes. It is also notable that paragraph 5(b) of ISA 520 requires the auditor to **evaluate the reliability of data** from which the auditor's expectation of recorded amounts or ratios is developed, taking account of source, comparability, and nature and relevance of information available, and controls over preparation.

#	Description of Issue	Proposed Action: <sup>42</sup>
	(e) The factors considered in the evaluation of the reliability of <b>information</b> are different in ISA 500 compared to ISA 520, which creates confusion about the attributes of information that affect the reliability of information. <sup>47</sup>	A
	(f) The standards use the terms “ <b>information</b> ” and “ <b>data</b> ”, and this raises questions about whether they are different and should be subject to different considerations.	A
7.	<i>Use of Management’s Expert</i>  The evolution in the nature and number of sources of <b>information</b> and introduction of new application material dealing with external information sources has raised questions about the distinction between a management’s expert and an external information source.	A
Other ISAs		
8.	<i>ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing</i>  Evolution in <b>technology</b> <sup>*</sup> and the nature and number of sources of <b>information</b> raises questions about whether ISA 200 should be updated to reflect new technology and information sources. For example, the application material related to control risk, inherent risk and detection risk could discuss factors arising from technology that affect these risks.	B
9.	<i>ISA 210, Agreeing the Terms of Audit Engagements</i>  Evolution in <b>technology</b> <sup>*</sup> and the nature and number of sources of <b>information</b> raises questions about whether ISA 210 should be updated to reflect new technology and information sources. For example, the application material discussing the content of the engagement letter could include technology-related issues, such as the availability of algorithms and audit trails, access to key sources of internal and external data, security over data and arrangements with service providers (e.g., data warehouses).	B
10.	<i>ISA 560, Subsequent Events</i>  Evolution in the nature and number of <b>sources of information</b> raises questions about whether ISA 560 should be updated to reflect new technology and information sources, for example, new types of information sources may provide information about subsequent events (e.g., social media).	A

<sup>47</sup> Paragraph 9 of ISA 500 requires the auditor to evaluate whether the information is sufficiently reliable for the auditor’s purposes, including, as necessary in the circumstances (a) obtaining audit evidence about the accuracy and completeness of the information; and (b) evaluating whether the information is sufficiently precise and detailed for the auditor’s purposes. Paragraph 5(b) of ISA 520 describes the evaluation of the reliability of data as taking account of source, comparability, and nature and relevance of information available, and controls over preparation.

#	Description of Issue	Proposed Action: <sup>42</sup>
11.	<p><i>ISA 570 (Revised), Going Concern</i></p> <p>Evolution in the nature and number <b>of sources of information</b> raises questions about whether ISA 570 (Revised) should be updated to reflect new technology and information sources, for example, new types of information sources may provide an indication of whether events or conditions exist that could cast doubt on the entity's ability to continue as a going concern.</p>	A
<b>Technology</b>		
ISA 500, Audit Evidence		
12.	<p><i>Audit Procedures</i></p> <p>(a) Evolution in <b>technology</b> and the nature and number of sources of <b>information*</b> has resulted in descriptions in ISA 500 becoming outdated,<sup>48</sup> and raised questions as to whether ISA 500 should be updated to reflect new technology and information sources.</p>	A
	<p>(b) New <b>technologies</b> have given rise to confusion about whether certain technological tools (e.g. pictures from a drone) are audit procedures in their own right, or whether they provide information that the auditor performs audit procedures on. For example, there may be a lack of clarity on the differences between</p> <ul style="list-style-type: none"> <li>• “Information” (to be used as audit evidence),</li> <li>• “Evidence” in general as used in IAASB standards other than the ISAs,</li> <li>• “Audit evidence;” and</li> <li>• “Audit procedures.”</li> </ul>	A
	<p>(c) New <b>technologies</b> have raised questions about where audit procedures performed using new technologies fit within:</p> <ul style="list-style-type: none"> <li>• The categories of audit procedures (i.e., inspection, observation, inquiry etc.); and</li> <li>• The nature of audit procedures (i.e., risk assessment, tests of controls, tests of details).</li> </ul>	A

<sup>48</sup> For example, paragraph 5(a) of ISA 500 describes accounting records as 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.



#	Description of Issue	Proposed Action: <sup>42</sup>
	(d) The use of new <b>technology</b> to perform audit procedures has raised questions about whether an audit procedure can be both a risk assessment procedure and a substantive procedure at the same time, i.e., a procedure that serves a dual purpose. This is particularly the case for certain data analytic tools.	A
	(e) The use of new <b>technology</b> to perform audit procedures has raised questions about whether the auditor exercises appropriate <b>professional skepticism*</b> when evaluating whether the audit procedure is designed in a manner that provides the audit evidence needed about the relevant assertion being tested. For example, there may be overreliance on an audit procedure because of the use of technology in performing the procedure (i.e., a lack of due care or objectivity that impairs the exercise of professional skepticism).	A
13.	<i>Selecting Items for Testing</i>  The use of new <b>technologies</b> brings into question whether the requirements and application material dealing with the selection of items for testing are relevant and appropriate for certain types of audit procedures.	A
Other ISAs		
14.	<i>ISA 330, The Auditor's Responses to Assessed Risks</i>  (a) Evolution in <b>technology</b> has increased the risk of auditors over-relying on controls over the preparation of information and heightened the need for the standard to emphasize considerations about the relevance and reliability of information used in performing audit procedures.	A
	(b) Evolution in <b>technology</b> has increased the risk of auditors over-relying on technology used to perform audit procedures, and heightened the need for the standard to emphasize that the auditor should consider whether the audit procedures are responsive to the risks of material misstatement and the assertions being tested.	A
	(c) The use of <b>technology</b> that enables the analysis of larger populations has raised questions about whether the auditor is required to follow up all exceptions identified, or whether the auditor is able to perform further testing only on a selection of exceptions, provided that the risk of material misstatement in the remaining population is at an acceptably low level.	A

#	Description of Issue	Proposed Action: <sup>42</sup>
	<p>(d) Evolution in <b>technology</b> raises questions about whether ISA 330 should be updated to reflect new technology. For example:</p> <ul style="list-style-type: none"> <li>Paragraphs A4–A8 could be enhanced to describe how technology may affect the nature, timing and extent of further audit procedures.</li> <li>Paragraph A24 could be updated to include more modern examples of when substantive procedures alone may not provide sufficient appropriate audit evidence.</li> <li>The requirement in paragraph 10 regarding the nature and extent of tests of controls to obtain evidence about the operating effectiveness of controls may need updating for an automated environment, and may need to include factors such as the underlying data used to support the functioning of the control and the algorithms used in the technology.</li> <li>Paragraph A29 dealing with the consistency of IT processing may be outdated.</li> <li>The requirements and application material dealing with audit evidence obtained in previous audits may need reconsideration, in particular the requirement in paragraph 13 that describes the factors to be considered in determining whether it is appropriate to use previous evidence.</li> </ul>	B
	<p>(e) Evolution in <b>technology</b> and the nature and number of <b>sources of information</b>* has given rise to questions about the testing of information used by the auditor in performing audit procedures to respond to the risk of material misstatement.</p>	A
15.	<p><i>ISA 501, Audit Evidence—Specific Considerations for Selected Items</i></p> <p>Evolution in <b>technology</b> and the nature and number of <b>sources of information</b>* raises questions about whether ISA 501 should be updated to reflect new technology and information sources, for example:</p> <p>(a) Paragraph 4 requires attendance at physical inventory counting, which may, in some circumstances, be undertaken remotely using new technology, such as drones. The application material also appears outdated in this regard.</p> <p>(b) New types of information sources may provide information about litigation and claims, and the procedures described in paragraph 9 may inadvertently limit the extent to which auditors seek information from other sources.</p>	A

#	Description of Issue	Proposed Action: <sup>42</sup>
<b>Issues Added Based on the AEWG's evaluation of "Other Issues" Identified by Stakeholders – see Appendix 5</b>		
16.	The scope of ISA 500 should be extended to clearly explain the relationship between ISA 500 and other ISAs including ISA 315 (Revised 2019) and ISA 330. [see item f. in Appendix 5]	A
17.	The use of electronic platforms in obtaining external confirmations (aspect related to ISA 505). [see item p. in Appendix 5]	A

## Appendix 5

## Consideration of Other Issues Identified by Stakeholders

Stakeholders were asked whether there are any other issues related to audit evidence that have not been identified in the Background Paper. Each issue identified by stakeholders was considered by the AEWG to determine whether the listing of existing issues (**Appendix 4**) remains appropriate in terms of issues that need to be addressed. To this end, the AEWG allocated each “other issue” identified by stakeholders to one of the following categories, as reflected in the table below (also see paragraph 24):

Category I: The issue is related to or a subset of an existing issue as included in **Appendix 4**.

Category II: The issue represents a new issue and should be added to **Appendix 4**.

Category III: The issue is not within the scope of **Appendix 4**. The issue may be considered as part of the IAASB’s forward work plan.

Issues Identified by Stakeholders in Addition To Those Included in the AEWG’s Original Listing of Audit Evidence Related Issues (see Appendix 4)		Allocation		
		I <sup>49</sup>	II	III
a.	Challenges around the meaning and application of the concept of information produced by the entity, i.e. when is information produced by the entity classified as: <ul style="list-style-type: none"> <li>- Audit evidence, or</li> <li>- Management making an assertion regarding recognition, measurement and presentation of classes of transactions and events, account balances and disclosures.</li> </ul>	6(a)		
b.	Source of information are becoming more continuous. They are no longer based on a point in time (e.g., the export or report) that can be tied back to the point in time balance or original source. It was noted that there is no relevant guidance related to continuous sources of information and how these should be evaluated, relied upon, and reported.			X <sup>50</sup>
c.	Access to, and the right to use, secure (cloud) or client sensitive data.			X <sup>51</sup>

<sup>49</sup> If an issue was allocated to Category I, the issue was also mapped to the original listing of audit evidence related issues in **Appendix 4**.

<sup>50</sup> The view of the AEWG is that this issue may be related, but is not limited to, electronic audit evidence. It is therefore not unique to the evolution of technology and may also exist for manual procedures. For example, an auditor observing a physical inventory counting is subject to the same circumstances.

<sup>51</sup> The AEWG does not believe this matter falls within the scope of ISA 500, *Audit Evidence*. The auditor has a responsibility to comply with laws and regulations in accordance with ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*. If the auditor is unable to obtain access to or use certain data in performing planned procedures to obtain sufficient appropriate audit evidence, the auditor has to attempt to perform alternative or additional procedures to obtain further audit evidence. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall express a qualified opinion or disclaim an opinion on the financial statements (See ISA 330, *The Auditor’s Responses to Assessed Risks*, paragraph 27)

Issues Identified by Stakeholders in Addition To Those Included in the AEWG's Original Listing of Audit Evidence Related Issues (see Appendix 4)		Allocation		
		I <sup>49</sup>	II	III
d.	Guidance is needed for auditors on what is considered audit evidence in situations where entities are relying solely on a public blockchain to maintain their data, and not maintaining their own records.	6(c)		
e.	Clarify the evaluation of contradictory audit evidence and in particular the work effort required.	1-3		
f.	The scope of ISA 500 should be extended to clearly explain the relationship between ISA 500 and other standards including ISA 315 (Revised 2019), ISA 330, and ISA 700 (Revised). <sup>52</sup> It was also suggested to introduce a 'stand-back' in ISA 500, similar to those introduced in ISA 315 (Revised 2019) and ISA 540 (Revised).		X <sup>53</sup>	
g.	With respect to the definitions in ISA 500, it was noted that: <ul style="list-style-type: none"> <li>Definitions of accounting records – the current definition can often be interpreted to refer to financial records or the 'books of account'. Increasingly auditors may be looking to non-traditional and non-financial data (for example, social media, web-site metrics, etc.) as evidence to support their conclusions. To modernize this definition, more consideration of an electronic basis may be needed.</li> <li>Definition of external information source – It is unclear how an 'organization that provides information that has been used by the entity' is different from a 'service organization'.</li> <li>There may be a need for additional or expanded definitions and/or examples of relevance, reliability and quality.</li> </ul>	5		
h.	Concepts and definitions relating to evolving audits, requiring the audit of non-financial systems / information. For example, climate change (this would be over and above the current ISAE 3410) <sup>54</sup> .			X <sup>55</sup>

<sup>52</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

<sup>53</sup> The AEWG acknowledges that the relationship of ISA 500 with other standards may not be explained in extant ISA 500 to an appropriate degree. In relation to a stand-back provision, the AEWG noted that the evaluation as to whether sufficient appropriate audit evidence has been obtained is addressed in ISA 330, paragraphs 25-27, and this may need to be emphasized or clarified.

<sup>54</sup> ISAE 3410, *Assurance engagements on Greenhouse Gas Statements*.

<sup>55</sup> The AEWG believes that such concept and definitions are not included in the scope of ISA 500.

Issues Identified by Stakeholders in Addition To Those Included in the AEWG's Original Listing of Audit Evidence Related Issues (see Appendix 4)		Allocation		
		I <sup>49</sup>	II	III
i.	There are practices (especially in the IT industry) that aim to provide assurance about reliability and credibility of information, such as 'certification' that a particular process is followed in preparing information or a product. However, these practices are not reflected in the standards. Such practices, relating to critical aspects of information, are often neither from a management's expert or a service organization, but they may be relevant in relation to the reliability and credibility of non-financial information used by the entity.			X <sup>56</sup>
j.	Insufficient understanding of the need to apply professional skepticism to internal and external sources of information, in particular a robust examination of the reliability of the information to be used as audit evidence, including its accuracy and completeness. For example: <ul style="list-style-type: none"> <li>ISA 500 does not sufficiently emphasize management bias (particularly when information is produced using technology);</li> <li>Reliance on information from management experts; and</li> <li>External information sources.</li> </ul>	1-3 6(c)		
k.	Appropriateness (of audit evidence) – There is sometimes confusion about the difference between an internal or external source of information and the related work effort required in terms of being satisfied about the relevance and reliability of information from different sources. For example, it is not clear whether information from a service center is considered externally obtained information or internally produced information, or whether there may be instances where service organizations are considered management experts.	6(a), 6(c)		
l.	Some auditors publicly state that data analytics and technological developments allow them to perform 100% testing, which may create an expectation amongst users that audit has fundamentally evolved. In other words, in thinking that auditors can perform much more (if not integral) testing, users of the audit may have the expectation that every error is being detected.			X <sup>57</sup>

<sup>56</sup> The AEWG believes this matter is within the scope of existing standards, such as International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*, or the relevant ISAs on experts, whether it is a management or an auditor's expert. Guidance may be considered on the issue reported.

<sup>57</sup> The AEWG believes this matter cautions against unrealistic expectations of the users of audited financial statement in circumstances where the auditor used automated tools and techniques to analyze larger data sets. The AEWG does not believe that user expectations fall within the scope of Appendix 4.

Issues Identified by Stakeholders in Addition To Those Included in the AEWG's Original Listing of Audit Evidence Related Issues (see Appendix 4)		Allocation		
		I <sup>49</sup>	II	III
m.	When the entity uses a service organization, auditors have run into the issue of not being able to obtain the Service Organization Controls report for the sub-service provider. Stakeholders suggested to add guidance on the steps the auditor can take in such circumstances.			X <sup>58</sup>
n.	The provisions relating to physical inventory observation in ISA 501 are usually applied in the context of the entity carrying out a full count of the closing inventory. In practice, more and more entities are adopting the method of cycle counting to manage inventory, and some entities even adopt sampling technique (i.e., not counting all inventories). The current standard lacks guidance in this respect.			X <sup>59</sup>
o.	Stakeholders noted that in practice there are mainly two types of electronic confirmation platforms: one is a third-party platform that provides a confirmation service, or the confirming party uses its own electronic confirmation platform. In addition, a third party may open a special port that could be used by the auditor to query the information of the entity. ISA 505 does not provide specific guidelines for using electronic confirmation platforms to implement the confirmation process.		X <sup>60</sup>	X <sup>61</sup>

<sup>58</sup> It is the view of the AEWG that the auditor's inability to obtain an ISA 402 report is not directly related to the topic of audit evidence, but rather a possible scope limitation.

<sup>59</sup> The AEWG does not believe this matter is a unique consideration (for example, due to the evolution of technology) and may be addressed through non-authoritative support material.

<sup>60</sup> Electronic confirmation platforms may be regarded as a 'new' issue (related to modernization of the standards) that should be included in the list of audit evidence related issues.

<sup>61</sup> To the extent that this issue, together with other issues, may indicate a more fundamental reconsideration of ISA 505, it would be a matter for the IAASB's future work.

## Appendix 6

### Register of Academic Research for Purposes of Audit Evidence Information Gathering Activities

No:	Academic Research Title:
1	<i>Appelbaum, D.</i> (2016): Securing Big Data Provenance for Auditors: The Big Data Provenance Black Box as Reliable Evidence, in: <i>Journal of Emerging Technologies in Accounting</i> , Vol. 13, No. 1, pp. 17-36.
2	<i>Appelbaum, D./Kogan, A./Vasarhelyi, M. A.</i> (2017): Big Data and Analytics in the Modern Audit Engagement: Research Needs, in: <i>Auditing: A Journal of Practice &amp; Theory</i> , Vol. 36, No. 4, pp. 1-27.
3	<i>Appelbaum, D./Nehmer, R. A.</i> (2017): Using Drones in Internal and External Audits: An Exploratory Framework, in: <i>Journal of Emerging Technologies in Accounting</i> , Vol. 14, No. 1, pp. 99-113.
4	<i>Brown-Liburd, H./Issa, H./Lombardi, D.</i> (2015): Behavioral Implications of Big Data's Impact on Audit Judgment and Decision Making and Future Research Directions, in: <i>Accounting Horizons</i> , Vol. 29, No. 2, pp. 451-468.
5	<i>Brown-Liburd, H./Vasarhelyi, M. A.</i> (2015): Big Data and Audit Evidence, in: <i>Journal of Emerging Technologies in Accounting</i> , Vol. 12, pp. 1-18.
6	<i>Titera, W. R.</i> (2013): Updating Audit Standard - Enabling Audit Data Analysis, in: <i>Journal of Information Systems</i> , Vol. 27, No. 1, pp. 325-331.
7	<i>Yoon, K./Hoogduin, L./Zhang, L.</i> (2015): Big Data as Complementary Audit Evidence, in: <i>Accounting Horizons</i> , Vol. 29, No. 2, pp. 431-438.
8	<i>Alles, M. G.</i> (2015): Drivers of the Use and Facilitators and Obstacles of the Evolution of Big Data by the Audit Profession, in: <i>Accounting Horizons</i> , Vol. 29, No. 2, pp. 439-449.
9	<i>Alles, M. G./Gray, G. L.</i> (2016): Incorporating big data in audits: Identifying inhibitors and a research agenda to address those inhibitors, in: <i>International Journal of Accounting Information Systems</i> , Vol. 22, pp. 44-59.
10	<i>Cao, M./Chychyla, R./Stewart, T.</i> (2015): Big Data Analytics in Financial Statement Audits, in: <i>Accounting Horizons</i> , Vol. 29, No. 2, pp. 423-429.



11	<i>Commerford, B. P./Dennis, S. A./Joe, J. R./Wang, J. (2019): Complex Estimates and Auditor Reliance on Artificial Intelligence, available on the Internet under URL: <a href="https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3422591">https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3422591</a> (retrieved: 07/25/2019). 42 pages</i>
12	<i>Earley, C. E. (2015): Data analytics in auditing: Opportunities and challenges, in: Business Horizons, Vol. 58, Issue 5, pp. 493-500. 8 pages</i>
13	<i>Gray, G. L./Debreceeny, R. S. (2015): A taxonomy to guide research on the application of data mining to fraud detection in financial statement audits, in: International Journal of Accounting Information Systems, Vol. 15, pp. 357-380.</i>
14	<i>Issa, H./Sun, T./Vasarhelyi, M. A. (2016): Research Ideas for Artificial Intelligence in Auditing: The Formalization of Audit and Workface Supplementation, in: Journal of Emerging Technologies in Accounting, Vol. 13, No. 2, pp. 1-20.</i>
15	<i>Jans, M./Alles, M. G./Vasarhelyi, M. A. (2013): The case for process mining in auditing: Sources of value added and areas of application, in: International Journal of Accounting Information Systems, Vol. 14, Issue 1, pp. 1-20.</i>
16	<i>Kokina, J./Davenport, T. H. (2017): The Emergence of Artificial Intelligence: How Automation is Changing Auditing, in: Journal of Emerging Technologies in Accounting, Vol. 14, No. 1, pp. 115-122.</i>

## Appendix 7

**Mapping the Key Observations from the AICPA Project to Revise AU-C Section 500**

The AEWG performed an analysis of the key changes resulting from the AICPA's project to revise AU-C 500 (over and above the change in the overall objective). The table below summarizes the AEWG's key observations and their mapping of such to the list of audit evidence related issues in **Appendix 4**.

Key observations	Mapping to List of Issues in Appendix 4
<p><b>The role of professional judgement and professional skepticism in obtaining and evaluating audit evidence</b></p> <p>Introducing introductory paragraphs and application material to explain the role of professional judgment and professional skepticism. In doing so, the revised standard accepts the definitions, requirements and application material in relation to professional skepticism and professional judgment as set out in in AU-C Section 200 (converged with ISA 200). In its deliberations, the ASB concluded that having a separate section labelled “professional skepticism” or merely using the words “professional skepticism” throughout the proposed standard will not be sufficient to achieve the objectives as included in AU-C 200.</p>	1–3
<p><b>Corroborating or contradictory audit evidence, as well as how contradictory audit evidence differs from inconsistent audit evidence</b></p> <p>In addition to evaluating the relevance and reliability of information to be used as audit evidence (overarching requirement), a new requirement was introduced to also take into account whether the information to be used as audit evidence corroborates or contradicts assertions in the financial statements (i.e. as part of the overarching requirement). While the concept of ‘corroborate’ is new, the extant requirement does not directly deal with ‘contradiction,’ but rather with inconsistency of evidence obtained from different sources or doubts about reliability. Two pieces of information can be “inconsistent,” but not necessarily “contradictory” to assertions in the financial statements.</p>	3
<p><b>Attributes of information and factors to be used when evaluation information to be used as audit evidence</b></p> <ul style="list-style-type: none"> <li>• The attributes and factors to be used to evaluate whether information to be used as audit evidence is relevant, reliable, sufficient and appropriate for the auditor's intended purpose, include specifically its: <ul style="list-style-type: none"> <li>- Source</li> <li>- Accuracy</li> <li>- Completeness</li> </ul> </li> </ul>	5

<ul style="list-style-type: none"> <li>- Authenticity</li> <li>- Susceptibility to bias (both management and auditor), and</li> <li>- Whether the information is corroborative or contradictory</li> </ul> <ul style="list-style-type: none"> <li>• In addition to explaining what constitutes audit evidence in an audit of financial statements (i.e., information to which audit procedures have been applied and used by the auditor in arriving at the conclusions on which the auditor's opinion is based), the standard addresses how an auditor evaluates information to be used as audit evidence by setting out attributes of information.</li> </ul>	
<p><b>The definition of “sufficiency” of audit evidence and providing additional application material to describe what it is intended to cover in the context of the nature and sources of information</b></p> <p>With reference to the exposure draft of AU-C 500, the definition of “sufficiency” was initially changed to focus on the measure of the <i>persuasiveness</i> of audit evidence rather than emphasizing the <i>quantity</i> of audit evidence. Although the ASB decided to revert back to the extant definition (concerns about circularity in relation to sufficiency and persuasiveness), the ASB agreed that the notion of the persuasiveness remains relevant because other standards (e.g. AU-C section 330) require that the higher the assessment of the risks of material misstatement, the more persuasive the audit evidence the auditor is required to obtain. To this end, enhancements to the application material were agreed to by the ASB.</p>	5
<p><b>Distinguishing between different sources of information, i.e., information produced by the entity and information from external sources, and the factors and work effort related to evaluating the reliability of such information</b></p> <p>Extant AU-C 500 requires the auditor to <b>evaluate</b> certain aspects of information produced by the entity which are represented by the concepts of ‘<i>accuracy</i>,’ ‘<i>completeness</i>’ and ‘<i>sufficiently precise and detailed</i>,’ when using information produced by the entity as audit evidence (referred to hereafter as ‘IPE concepts’). Given the increasing variety of sources of information available to the auditor, the ASB agreed that, in principle, the required evaluation of these extant ‘IPE concepts’ should apply to <u>all</u> information to be used as audit evidence, notwithstanding its source. However, the ASB acknowledged that it may not always be possible to obtain evidence about the accuracy and completeness of information from external sources to be used as audit evidence to the same degree as IPE. Accordingly, although the concepts of ‘accuracy’ and ‘completeness’ were included as attributes of information required to be taken into account for all information to be used as audit evidence, the ASB agreed to include the clause “as necessary” to acknowledge the limitations described. This also recognizes that contradictory evidence obtained from an external source should not necessarily be heavily</p>	6

discounted simply because the ability to determine its accuracy and completeness was less than for example, IPE (runs to professional skepticism)	
<p><b>Modernizing the standard through enhanced application material that addresses the effect and application of technology in an audit</b></p> <p>Application material has been enhanced to better reflect the use of technology, including audit data analytics and emphasizing that the auditor may use audit data analytics in obtaining and evaluating audit evidence and that automated tools and techniques may be used as both a risk assessment procedure and a substantive procedures concurrently.</p>	12, 13, 15
<p><b>Relationship between the audit evidence standard and other standards</b></p> <p>AU-C 500 (Revised) introduced introductory paragraphs to also explain the scope of the standard and linkages to other standards.</p>	16