

Meeting: IAASB Consultative Advisory Group (CAG)

Meeting Location: Virtual Zoom Meeting

Meeting Dates: September 8–9, 2020

Agenda Item

D

Audit Evidence – Cover and Report Back

Objective of Agenda Item

1. The objectives of this agenda item are to:
 - (a) Report back on the CAG representatives' comments on Audit Evidence made at the March 2020 meeting;
 - (b) Update Representatives on the on the results of the Audit Evidence Working Group's (AEWG) information-gathering and research activities, including the Board's consideration of such results; and
 - (c) Obtain Representatives' views on the draft Audit Evidence Project Proposal.

Project Status

2. Since the March 2020 IAASB CAG meeting, the AEWG finalized its information gathering and research activities on the topic of audit evidence, in the context of ISA 500.¹ The results of the activities, together with the AEWG's recommendations for possible further actions, were discussed by the Board at its June 2020 meeting. Key overall messages communicated to the Board included that:
 - Issues creating the most difficulties in practice were generally closely related to the auditor's consideration of information to be used as audit evidence, the evaluation of whether sufficient appropriate audit evidence has been obtained and the definitions of "sufficiency" and "appropriateness." Further, the evolution of technology has created additional challenges in relation to the evaluation of whether sufficient appropriate audit evidence has been obtained.
 - Notwithstanding the evolution in technology, the relevance of many of the audit evidence issues identified were further emphasized and supported in light of the COVID-19 pandemic.
 - A project to revise ISA 500, including conforming and consequential amendments to other ISAs, was broadly noted as the desired approach by stakeholders to address the identified audit evidence issues. Accordingly, the AEWG recommended, and the Board supported, prioritizing those issues that were directly related to a project to revise ISA 500, and only making conforming and consequential amendments to related standards.
3. **Appendix A** to this paper provides a history of previous discussions with the IAASB CAG and IAASB on the topic of Audit Evidence.

¹ ISA 500, *Audit Evidence*

IAASB CAG Discussion in September 2020

4. For the purpose of the IAASB CAG discussion, the following materials have been provided to the Representatives:
- *Presentation* — The presentation will be used to guide the discussion and include key matters in relation to the development of a project proposal that the AEWG would like to highlight to the Representatives (**Agenda Item D.1**).
 - *Draft Audit Evidence Project Proposal* — The project proposal will be presented to the Board for approval at the Board's December 2020 meeting (**Agenda Item D.2**).

Feedback

5. Extracts from the draft March 2020 IAASB CAG meeting minutes, as well as an indication of how the Working Group or IAASB has responded to the Representatives' comments, are included in the table below.

Representatives' Comments	IAASB or Working Group Response
OVERVIEW OF THE INFORMATION GATHERING AND TARGETED OUTREACH ACTIVITIES CONDUCTED TO DATE	
Mr. Sobel highlighted some of the unique challenges associated with blockchain technology which may not be associated with other types of evolving technologies. Given these challenges, Mr. Sobel asked whether blockchain was being considered as a separate workstream in the information gathering and outreach activities.	Point noted. Mr. Dohrer acknowledged the importance of understanding the accuracy and completeness of the underlying data when using technology. He explained that the discussions have been focused more broadly on the application of professional skepticism and the credibility of the sources of information, and in the context of blockchain, that a key issue is who has access to the blockchain. Mr. Dohrer also explained that the approach is to explore possible principle-based solutions that may apply to technology more broadly, and that blockchain has not been a specific point of focus.
Ms. Shiffman asked whether the AEWG has solicited input from preparers of financial statements regarding audit evidence.	Point noted. Mr. Dohrer noted the difficulty in engaging with preparers on audit-related topics, however he welcomed further dialogue with Ms. Shiffman to discuss and explore the perspectives of preparers in relation to audit evidence. Mr. Dohrer highlighted that the scope of the information gathering and outreach activities extends to the entity's use of technology in preparing financial statements and how this may affect the audit. Subsequent to the IAASB CAG meeting in March 2020, Messrs. Dohrer and Minnaar liaised with Ms. Shiffman on audit evidence related issues from the perspective of preparers of financial statements.
Ms. Landell-Mills noted concern in relation to the explanations in key audit matters in auditor's reports	Point noted. Mr. Dohrer acknowledged the concern, in particular related to accounting estimates, and emphasized the importance of exercising professional skepticism in challenging management's

<p>that often appear overly focused on information used by management and lack references to sources of evidence outside of management.</p>	<p>information. He added that in developing ISA 540 (Revised),² the Board deliberated the extent to which external sources of information should be considered, which may not be practicable in every instance. Mr. Dohrer further noted that extant ISA 500³ requires the auditor to obtain evidence about the accuracy and completeness of information produced by the entity, however, since external information is not subject to the same requirement, stakeholders have expressed concern about the auditor's responsibility to consider the accuracy and completeness of such information. He added that the AEWG is exploring this issue, particularly in circumstances when external information contradicts management's information.</p>
<p>Ms. Robert asked for clarification regarding the scope of the project, noting that the presentation by Mr. Dohrer appeared to suggest that the scope has been broadened to include the revision of other ISAs.</p>	<p>Point noted. Mr. Dohrer confirmed that the scope of the project remains on the topic of audit evidence, as contemplated by ISA 500, however the issues associated with audit evidence may also be relevant to other ISAs. Mr. Dohrer explained that as part of considering the feedback from the information gathering and outreach activities and the AEWG's recommended further actions, the feedback on the other ISAs would be considered but standard setting may not necessarily be the resulting action. Mr. Seidenstein agreed, adding that the information gathering and outreach activities were intended to provide evidence to support proper scoping of the activities of the Board related to audit evidence, in line with the IAASB's new 'Framework of Activities.'⁴</p> <p>As noted in the 'Project Status' section, the Board supported the AEWG's recommendation to prioritize issues that were directly related to a project to revise ISA 500, and only making conforming and consequential amendments to related standards.</p>
<p>Mr. Dalkin noted the current project undertaken by the Auditing Standards Board of the American Institute of Certified Professional Accountants' (AICPA) to revise AU-C section 500, <i>Audit Evidence</i>. Mr. Dalkin asked about the extent of consultation with the AICPA to leverage their work.</p>	<p>Point noted. Mr. Dohrer expressed his support for coordination or knowledge sharing with national standards setters. Mr. Dohrer added that the work being undertaken by the AICPA is one of the sources of information that will be referenced in presenting findings and recommendations to the Board in June 2020.</p>

² ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

³ ISA 500, paragraph 9

⁴ As part its Strategy for 2020–2023 and Work Plan for 2020–2021, the IAASB is developing a *Framework for Activities*, the concept of which is to better articulate how the IAASB organize its efforts to deliver on committed actions.

Material Presented – IAASB CAG Papers

Agenda Item D.1 Presentation

Agenda Item D.2 Draft Audit Evidence Project Proposal

Material Presented – IAASB CAG Reference Papers

Agenda Item D.3 – Agenda Item 7 – IAASB Refer [\[link\]](#)
Audit Evidence issues paper (June 2020)

Appendix A

Project Details and History

Link to IAASB Project Page: [Project Page](#)

Working Group Members

The Audit Evidence Working Group comprises:

- Bob Dohrer, IAASB Member and Working Group Chair
- Susan Jones, IAASB Technical Advisor
- Kai-Uwe Marten, IAASB Member (supported by Wolf Böhm, IAASB Technical Advisor)
- Jamie Shannon, IAASB Technical Advisor
- Eric Turner, IAASB Member

Summary of Discussions

	IAASB CAG Meeting	IAASB Meeting
Preliminary discussions, information gathering and the development of the Audit Evidence Workstream Plan	March 2019 June 2019 September 2019 March 2020	June 2019 September 2019 June 2020

IAASB CAG Discussions: Detailed References

Preliminary discussions, information gathering and the development of Audit Evidence Workstream Plan	<u>March 2019</u> See IAASB CAG meeting material (Agenda Item D): https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-1 <u>September 2019</u> See IAASB CAG meeting material (Agenda Item E): https://www.ifac.org/cag/meetings-IAASB-CAG-Agenda_Item-E <u>March 2020</u> See IAASB CAG meeting material (Agenda Item I) https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-3
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