

**Meeting:** IAASB Consultative Advisory Group (CAG)

**Meeting Location:** Virtual Zoom Meeting

**Meeting Dates:** March 8–9, 2021

## Agenda Item

**F**

### Audit Evidence – Cover and Report Back

#### Objective of Agenda Item

1. The objectives of this agenda item are to:
  - (a) Update Representatives on the activities of the project since the September 2020 IAASB CAG meeting; and
  - (b) Report back on the CAG Representatives' comments on Audit Evidence made at the September 2020 meeting.

#### Project Status

2. During the September 2020 IAASB CAG meeting, the Representatives considered a draft project proposal to revise ISA 500,<sup>1</sup> including conforming and consequential amendments to other standards (draft project proposal). Although supportive of a project to revise ISA 500, the Representatives recommended further enhancements to the draft project proposal. The comments and recommendations of the Representatives, as well as an indication of how the Audit Evidence Task Force (AETF) has responded to the Representatives' comments, are included in paragraph 11.
3. An updated draft project proposal was considered by the Board at its meeting in December 2020. The IAASB was supportive of a project to revise ISA 500 and recommended:
  - (a) Additional emphasis on a principles-based standard that would contribute to the standard being scalable to a wide variety of circumstances and fit for purpose.
  - (b) Clarifying that the scope of consequential amendments may include relocating requirements from extant ISA 500 to another standard, however the project does not include the broader revision of any other standard.
  - (c) Recognizing that the IAASB will explore whether, and if so, how, the material in ISA 220 (Revised)<sup>2</sup> in relation to professional skepticism may be drawn upon.
  - (d) Clarifying that future coordination activities will include the consideration of the work of the IAASB's Fraud Working Group, Audits of Less Complex Entities Working Group and the Complexity, Understandability, Scalability and Proportionality Working Group.
4. The IAASB approved the project proposal to revise ISA 500, including conforming and consequential amendments to other standards. The final version of the project proposal has been posted to the IAASB's Audit Evidence [Project Page](#).

<sup>1</sup> ISA 500, *Audit Evidence*

<sup>2</sup> ISA 220 (Revised), *Quality Management at Engagement Level*

5. In addition to the consideration of the project proposal in December 2020, the Board provided direction on key topics, including the purpose and scope of the standard; the concept and evaluation of sufficient appropriate audit evidence, including the concept of persuasiveness; and the relevance and reliability of information to be used as audit evidence.
6. Since the December 2020 IAASB meeting, the AETF focused its efforts on further developing the audit evidence-related issues, with the objective to develop an Exposure Draft for approval by the Board in March 2021. Proposals developed by the AETF, for consideration by the Board at its meeting in March 2021, relate to:
  - (a) The definition of audit evidence and the meaning of audit procedures;
  - (b) Information intended to be used as audit evidence (including the relevance and reliability of information, and sources of information);
  - (c) Sufficient appropriate audit evidence and the persuasiveness of audit evidence (including the definitions of appropriateness and sufficiency of audit evidence);
  - (d) Designing and performing audit procedures to obtain sufficient appropriate audit evidence (in the context of the effectiveness of the audit procedures and whether the audit procedures have been appropriately applied by the auditor); and
  - (e) Modernizing ISA 500 through incorporating technology.
7. Depending on the outcome of the March 2021 Board discussion, the AETF plans to present a full draft of ISA 500 at the June 2021 IAASB meeting.
8. **Appendix A** to this paper provides a history of previous discussions with the IAASB CAG and IAASB on the topic of Audit Evidence.

#### IAASB CAG Discussion in March 2021

9. The IAASB CAG discussion in March 2021 will be limited to a general update of the project. The presentation will also include an update on the progress made on key issues identified.
10. A presentation to guide the discussion has been provided (see **Agenda Item F.1**).

#### Feedback

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

Representatives' Comments	IAASB or AETF Response
GENERAL COMMENTS, INCLUDING THE DIRECTION AND SCOPE OF THE PROJECT	
Mr. Dalkin noted the recently completed project of the Auditing Standards Board of the American Institute of Certified Professional Accountants' (AICPA) to revise clarified (AU-C) Section 500 and asked about any key	Mr. Dohrer explained that the AICPA's project represents only one of many sources of information that are considered by the Audit Evidence Working Group. Nonetheless, by

<p>learnings that the Audit Evidence Working Group may leverage on in progressing the revision of ISA 500.</p>	<p>monitoring the AICPA's project, the Audit Evidence Working Group has observed that there is significant opportunity to modernize the standard, in particular to recognize the evolution of technology. In addition, the Audit Evidence Working Group has noted that many of the foundational concepts of ISA 500 remain appropriate, which therefore supports the preservation of a principles-based approach in revising ISA 500.</p>
<p>Dr. Norberg noted the importance of the project given continual developments in technology and supported the overall direction as indicated in the project proposal. Mr. Munter and Ms. Zietsman agreed. Dr. Norberg noted that changes to sources of information and technology may also affect preparers of financial statements and expressed his willingness to help the project by, for example, reaching out to Business Europe's stakeholders to obtain further perspectives about key aspects of the project.</p>	<p>Support noted.</p>
<p>Mr. Rees supported the overall direction of the project. In particular, Mr. Rees welcomed the emphasis on how professional skepticism could be reinforced when evaluating information to be used as audit evidence.</p>	<p>Support noted.</p>
<p>Mr. Munter noted that academic research indicates that the perceived resistance by auditors to use technology appears to be driven by two different factors:</p> <ul style="list-style-type: none"> <li>• Insufficient knowledge or familiarity with technology, coupled with a general resistance to change; and</li> <li>• Auditing standards do not sufficiently address the use of technology.</li> </ul> <p>In appropriately scoping the project to address the auditor's use of technology, Mr. Munter cautioned that each theme may require a different strategy or approach. He therefore encouraged the IAASB to carefully identify and be clear about the objectives of the project. Ms. Zietsman agreed and added that some of the issues identified may have broad implications which would be challenging to address</p>	<p>Points accepted.</p> <p>Mr. Dohrer agreed with the assertion that the scoping of the project is critical.</p>

<p>through targeted changes to ISA 500 and conforming and consequential amendments to other standards only. Nonetheless, Ms. Zietsman supported the scope of the proposed project, noting that the inclusion of other standards may be too onerous to effectively respond to key audit evidence related issues.</p>	
<p>PERSUASIVENESS OF AUDIT EVIDENCE</p>	
<p>Ms. Zietsman suggested to further emphasize and expand upon on the concept of the persuasiveness of audit evidence. Ms. Zietsman noted that the right type of audit evidence is already embedded in the current definition of sufficiency. Therefore, if the audit evidence is persuasive, only a limited amount of audit evidence may be sufficient. On the other hand, obtaining more of the same type of audit evidence may not compensate for its lack of appropriateness.</p>	<p>Point accepted.</p> <p>The approved project proposal notes that the IAASB will explore the notion of persuasiveness.</p> <p>The AETF supports the notion that if the audit evidence is persuasive, only a limited amount of audit evidence may be sufficient. This principle has been incorporated into the AETF's proposed revision of the definition of the sufficiency (of appropriate audit evidence). This proposal will be considered by the Board in March 2021.</p>
<p>TECHNOLOGY</p>	
<p>Ms. Zietsman noted the importance of coordination with the IAASB's Technology Working Group (TWG), in particular related to the appropriate allocation of responsibilities.</p>	<p>Point accepted.</p> <ul style="list-style-type: none"> <li>The approved project proposal acknowledges the importance of the appropriate allocation of responsibilities. In particular, it is noted that with the establishment of the Audit Evidence and Technology Workstream Plans, and the related allocation of responsibilities, the differentiation between the activities of these two working groups was clarified.</li> <li>Although the (draft) project proposal already included aspects of coordination with the TWG, the Board emphasized the importance of coordination with all relevant IAASB Task Forces or Working Groups. Nonetheless, in relation to technology, the project proposal was specifically updated to note that the AETF will consider whether, and if so, how, the work of the</li> </ul>

	TWG may be relevant in developing proposed revisions to ISA 500.
Ms. Zietsman noted that the use of technology to gather or obtain audit evidence may give rise to different risks which may give rise to possibly different audit procedures to respond to the assessed risks of material misstatement. However, the auditor's consideration of foundational concepts, such as 'sufficient appropriate audit evidence' should not be different.	<p>Point noted.</p> <p>The concept of sufficient appropriate audit evidence will be considered and is included in the scope of audit evidence-related issues that form the basis of the project proposal (see <b>Appendix 3</b> of the IAASB's <a href="#">Audit Evidence December 2020 Issues Paper</a>).</p>
Ms. Zietsman noted that the findings arising from the PCAOB's research project on data and technology. For example, there are concerns that standard-setting activities may impose requirements on auditors to use technology in performing an audit. In that regard, Ms. Zietsman supported the IAASB's objective to preserve the principles-based nature of ISA 500 which will continue to allow auditors to use more traditional techniques in obtaining audit evidence. Ms. McGeachy supported this notion and cautioned that any prescriptive requirements in relation to technology may adversely affect some small and medium practices that may not have access to the necessary resources to comply with such requirements.	<p>Point accepted.</p> <p>The approved project proposal notes that the intention is not to be prescriptive with respect to the use of technology, but rather recognize or accommodate the use of technology, for example, including application material to demonstrate how the principles may apply when technology is involved.</p>
Ms. Zietsman noted that the COVID-19 pandemic has provided a unique opportunity to observe how existing concepts and definitions of ISA 500 have stood up against technological developments and auditing practices in a virtual environment. Mr. Sobel and Ms. McGeachy agreed and noted that the issuance of non-authoritative guidance would be helpful given the effects that technology has on the audit and the anticipated approval of the standard in June 2023. As an example of where non-authoritative guidance may be helpful, Ms. McGeachy referred to application material in ISA 500 <sup>3</sup> which notes that audit evidence provided by original documents is more reliable than audit evidence provided by other types of documents, including documents that have been transformed into electronic form.	<p>Point noted.</p> <p>In developing revisions to ISA 500, the application material of ISA 500 may demonstrate how the principles of the standard apply when technology is involved. The AETF intends to also consider the appropriateness of the 'reliability generalizations' included in extant ISA 500 paragraph A31.</p> <p>The development of non-authoritative guidance in the context of technology forms part of the scope of the activities of the TWG, as also set out in the <a href="#">Technology Workstream Plan</a>.</p> <p>Guidance issued to date by the TWG has been posted on the IAASB's <a href="#">Technology Project Page</a>.</p>

<sup>3</sup> ISA 500, paragraph A31

PROFESSIONAL SKEPTICISM	
<p>Ms. Zietsman suggested to further emphasize and expand upon the concepts of contradictory and corroborating evidence when obtaining information to be used as audit evidence. Ms. Zietsman noted that the auditor should consider all evidence and, in doing so, should not dismiss evidence that may be contradictory. Although these principles are included in the recently approved ISA 540 (Revised)<sup>4</sup> and ISA 315 (Revised 2019), Ms. Zietsman suggested to establish and consolidate these principles in ISA 500. Mr. Rees agreed and noted that these principles are more important in today's audits given the greater use of accounting estimates and related management judgments because of new accounting standards.</p>	<p>Point accepted.</p> <p>The concepts of contradictory and corroborating audit evidence are included in the scope of audit evidence-related issues that form the basis of the project proposal (see <b>Appendix 3</b> of the IAASB's <a href="#">Audit Evidence December 2020 Issues Paper</a>).</p>

## Material Presented – IAASB CAG Papers

Agenda Item F.1

Presentation

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<sup>4</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

## Appendix A

### Project Details and History

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

#### Summary of Discussions

	IAASB CAG Meeting	IAASB Meeting
Preliminary discussions, information gathering and the development of the Audit Evidence Workstream Plan	March 2019 September 2019 March 2020	March 2019 June 2019 September 2019 June 2020
Project Proposal	September 2020	December 2020
Development of Exposure Draft		December 2020

#### IAASB CAG Discussions: Detailed References

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