

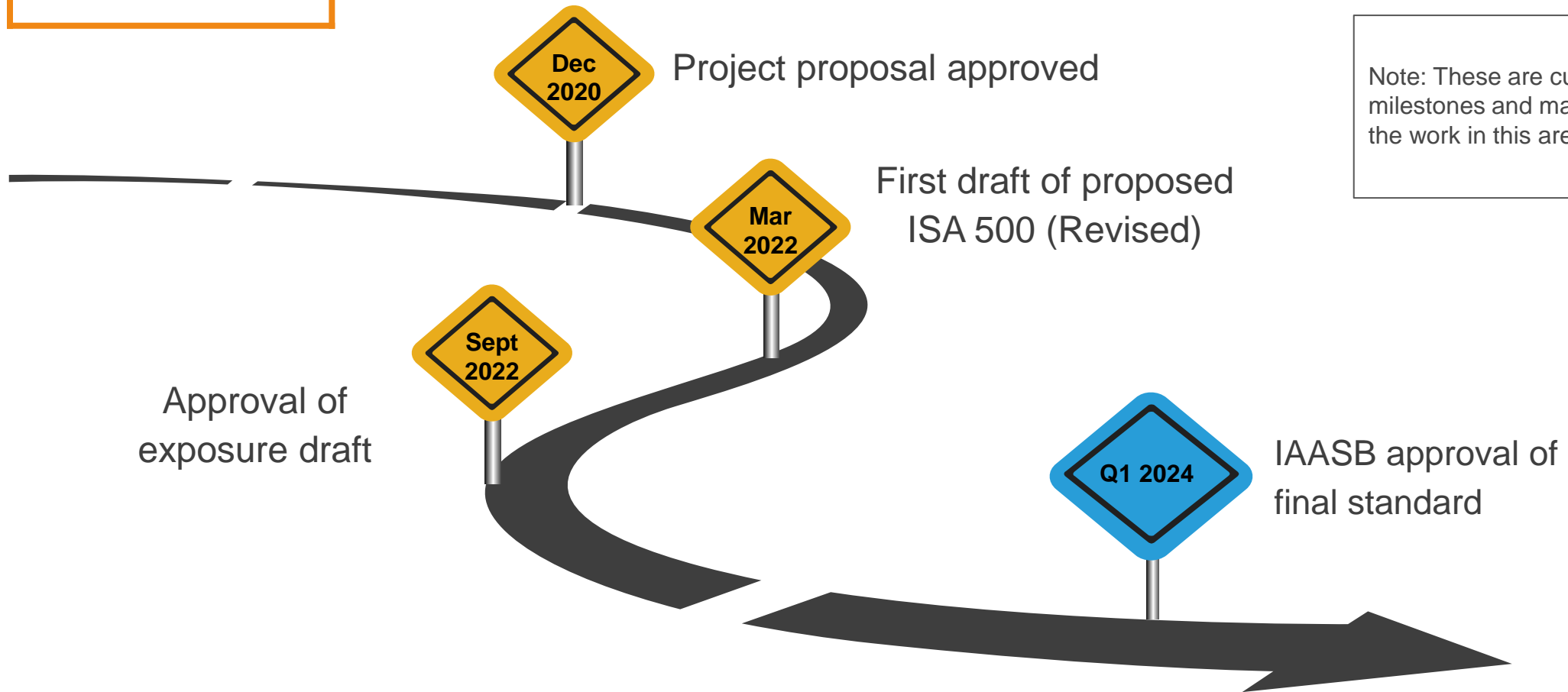
Audit Evidence

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IAASB CAG Meeting
March 8–9, 2022



Timeline for Audit Evidence



Progress Since September 2021

- Responding to IAASB (July 2021) and CAG (September 2021) discussions to address issues in the public interest, including:
 - Relevance and reliability of information intended to be used as audit evidence
 - Reinforcing the exercise of professional skepticism with respect to audit evidence
 - The purpose and scope of ISA 500 and the requirements that the standard should address
 - Addressing the concept of detection risk
- Coordination with the IAASB's Technology and Professional Skepticism Consultation Groups, and the IAASB's Fraud Task Force
- Implementation of the IAASB's draft Complexity, Understandability, Scalability and Proportionality (CUSP) Guidelines

Progress Since September 2021

- Recap of public interest issues:
 - Responding to **changes in the information** that is being used by auditors, including the nature and source of the information;
 - Modernizing and supporting a principles-based standard that recognizes the **evolution in technology**; and
 - Fostering the maintenance of **professional skepticism** when making judgments about information to be used as audit evidence and sufficient appropriate audit evidence (SAAE)

In this presentation, all the proposals are based on, or in response to, prior discussions with the Board. Some proposals may have been limited to conceptual discussions only, in which case the Board may not have seen initial drafting proposals. In this presentation, such proposals (i.e., possible drafting is considered for the first time) are highlighted with the following marker: ★

Progress to Date: Purpose and Scope

Project objective:

Clarify purpose and scope of ISA 500 and relationship with other standards

- Proposed meaning of audit evidence and audit procedures:
 - Information intended to be used as audit evidence (the input) needs to be subject to audit procedures to become audit evidence (the output)
 - All procedures performed to comply with all ISA requirements are audit procedures for the purpose of obtaining SAAE
- Relationship of ISA 500 with other ISAs – proposals include:
 - ISA 500 is a reference framework throughout the audit when making judgments in relation to audit evidence, i.e., applies to all audit evidence obtained through designing and performing audit procedures in accordance with the ISAs

Paragraphs 7(b) and A2 of Agenda Item E.2

Paragraphs 1–4 of Agenda Item E.2



Progress to Date: Purpose and Scope

- Board expressed mixed views about whether a requirement is needed in ISA 500 to conclude on whether SAAE has been obtained
 - **Proposal** – Proposed ISA 500 (Revised) requires the auditor to evaluate whether the audit evidence obtained meets the auditor’s purposes, as a basis for concluding whether SAAE has been obtained in accordance with ISA 330
- Objective of proposed ISA 500 (Revised)
 - **Proposal** – the objective focuses on the evaluation of audit evidence to provide a basis for concluding whether SAAE has been obtained
 - Objective is outcome based
 - Moving away from an objective that focuses on the responsibility to “design and perform audit procedures”

Paragraph 13 of
Agenda Item E.2

Paragraph 6 of
Agenda Item E.2



Progress to Date: Information to be Used as Audit Evidence

Project objective:

- Enhance and clarify auditor's responsibility for information to be used as audit evidence (internal and external sources) and evaluating sufficiency and appropriateness of audit evidence
 - Develop principles-based approach to considering and making judgments about information to be used as audit evidence and evaluating sufficiency and appropriateness of audit evidence
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- Proposals to address the relevance and reliability of information to be used as audit evidence
 - Principles-based requirement that applies to all sources of information used in performing all audit procedures
 - Work effort for the requirement – the auditor needs to:
 - Evaluate the relevance and reliability of information, and in doing so:
 - Consider source of the information
 - Consider accuracy and completeness of the information, as necessary

Paragraph 9 of Agenda Item E.2

Paragraph 9(a) of Agenda Item E.2

Paragraph 9(b) of Agenda Item E.2



Progress to Date: Information to be Used as Audit Evidence

- Proposals to address the relevance and reliability of information to be used as audit evidence (continued)
 - Application material describing various matters, such as
 - Attributes of relevance and reliability, and emphasizing attributes should not be used as a “checklist”
 - Availability and accessibility of information
 - Factors that may affect the auditor’s professional judgment when considering:
 - Attributes of relevance and reliability that are applicable in the circumstances
 - The degree of the auditor’s work effort in evaluating the relevance and reliability of information

Paragraphs A47–A50
of Agenda Item E.2

Paragraphs A36–A38
of Agenda Item E.2

Paragraphs A51–A56
of Agenda Item E.2

Progress to Date: Information to be Used as Audit Evidence

- Proposals to address SAAE and the persuasiveness of audit evidence
 - Definitions of “appropriateness of audit evidence” and “sufficiency of audit evidence” – in substance the definitions of extant ISA 500 were retained, however some changes were necessary to align with other proposals or to comply with the CUSP Guidelines
 - Application material explains the concepts of, and the relationship between, SAAE and the persuasiveness of audit evidence
 - The guidance explains the three factors that affect the sufficiency and appropriateness of audit evidence, and therefore its persuasiveness
 - Assessed risks of material misstatement and results of audit procedures
 - Information to be used as audit evidence
 - Design and performance of audit procedures, i.e., whether they are appropriate in the circumstances and have been appropriately applied

Paragraphs 7(a) and 7(d)
of Agenda Item E.2

Paragraphs A9–A15
of Agenda Item E.2



Paragraphs A13–A15
of Agenda Item E.2

Progress to Date: Information to be Used as Audit Evidence

- **Proposals** when using information prepared by management's expert
 - Emphasizing that the requirement in paragraph 10 is subject to the overarching principles-based requirement in paragraph 9
- **Proposals** in the application material to address sources of information
 - Sources of information may be different, examples of possible information sources (including External Information Source)
 - Sources of information may affect the attributes of information that are applicable in the circumstances and the auditor's work effort in evaluating relevance and reliability, for example
 - The work effort related to an external information source may be straight-forward
 - Management's influence on the source may impact its reliability (bias)
 - Obtaining audit evidence in an unbiased manner may involve obtaining information from multiple sources

Paragraphs 9 and 10
of Agenda Item E.2



Paragraphs A41–A42
of Agenda Item E.2



Paragraphs A43–A45, A57
of Agenda Item E.2



Progress to Date: Technology

Project objective:

Modernize ISA 500 to be adaptable to the current business and audit environment, and to better reflect the digital era

- Proposed approach:
 - Principles-based requirements that can be applied when technology is used
 - Application material explains that the auditor may use manual or automated tools and techniques (ATT) to perform audit procedures to obtain audit evidence, including:
 - There may be circumstances where the use of ATT may be more effective
 - The use of ATT by the auditor may reduce the risk of certain biases but may give rise to the risk of automation bias
 - Possible steps the auditor may take to mitigate the risk of automation bias

Paragraphs 8–13
of Agenda Item E.2

Paragraphs A3, A18–A19
of Agenda Item E.2



Progress to Date: Technology

- Proposed approach (continued):
 - Based on work of the Technology Consultation Group, application material includes:
 - Examples to demonstrate how the principles of proposed ISA 500 (Revised) may apply when the auditor uses ATT
 - Guidance about auditor bias when the auditor uses information that has been generated by automated systems (i.e., other than the auditor's use of ATT)
 - Guidance on the auditor's work effort when identifying outliers or exceptions when using automated tools and techniques when performing audit procedures
 - Separate publication – examples that may not be suitable for an ISA (e.g., it may be necessary to refer to a specific technology and may become easily redundant or outdated)
 - To be developed concurrently with the revisions to the standard and issued with the revised standard
 - Obtain input from the Technology Consultation Group

Paragraph A61
of Agenda Item E.2



Paragraph A80
of Agenda Item E.2



Progress to Date: Professional Skepticism

Project objective:

Emphasize the role of professional skepticism when making judgments about information to be used as audit evidence and evaluating audit evidence obtained

- Proposed new requirements or enhance existing requirements in ISA 500 to reinforce professional skepticism, including:
 - Designing and performing audit procedures in a manner that is not biased towards obtaining audit evidence that may corroborate the assertions in the financial statements, or towards excluding audit evidence that may be contradict the assertions in the financial statements
 - When there are doubts about relevance or reliability of information intended to be used as audit evidence, obtaining additional information
 - If audit evidence is inconsistent with other audit evidence, the auditor needs to resolve the matter and consider the effect of the matter, if any, on the audit

Paragraphs 8(b), 11 and 12
of Agenda Item E.2

Progress to Date: Professional Skepticism

- Proposed new requirement in ISA 500 to reinforce professional skepticism (continuing):
 - Evaluating whether the audit evidence obtained meets the auditor's purposes, as a basis for concluding whether SAAE has been obtained in accordance with ISA 330
- Other proposals that address professional skepticism include:
 - Elaboration on the proposed meaning of a "critical assessment of audit evidence"
 - Application material explains how auditor biases may affect the engagement team's professional judgments in designing and performing audit procedures, including:
 - Different types of biases, with linkages to ISA 220 (Revised), and actions the auditor may take to mitigate the impediments to the auditor's exercise of professional skepticism
 - The linkage between audit evidence and quality management at the engagement level (i.e., the concept of detection risk)

Paragraph 13
of Agenda Item E.2

Paragraph 4
of Agenda Item E.2



Paragraphs A16–A17
of Agenda Item E.2



Paragraphs A21–A22
of Agenda Item E.2

Questions for Representatives

The Representatives are asked for their views on the following proposals related to proposed ISA 500 (Revised):

1. Whether the proposals:
 - (a) Support a principles-based standard that recognizes the evolution in technology.
 - (b) Reinforce the auditor's exercise of professional skepticism. In providing such views, the CAG is asked specifically to provide input on the application material to address automation bias, as presented in paragraphs A18–A19 of **Agenda Item E.2**.
 - (c) Address the public interest issues in the approved project proposal, as noted on slide 4.
2. Whether there are any other matters the Task Force should consider as it progresses the development of an exposure draft of proposed ISA 500 (Revised).



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