

Meeting: IAASB Consultative Advisory Group (CAG)
Meeting Location: Virtual Zoom Meeting
Meeting Dates: September 7–8, 2022

Agenda Item C

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 the project to revise ISA 500¹ made at the March 2022 meeting;
 - (b) Update the Representatives on the work performed by the Audit Evidence Task Force (the Task Force) since the March 2022 IAASB CAG meeting; and
 - (c) Obtain the Representatives' views on the proposed Exposure Draft of ISA 500 (Revised) (ED–500).

Project Status

2. The March 2022 IAASB CAG discussion comprised a high-level review of the first draft of proposed ISA 500 (Revised), with a focus on the key public interest issues identified:
 - (a) Responding to changes in the information that is being used by auditors, including the nature and source of the information;
 - (b) Modernizing and supporting a principles-based standard that recognizes the evolution in technology; and
 - (c) Fostering the maintenance of professional skepticism when making judgments about information to be used as audit evidence and sufficient appropriate audit evidence.

The meeting materials in March included [Agenda-Item-E.5](#), which presented a summary of how the project objectives, as included in the [Audit Evidence Project Proposal](#), have been addressed in proposed ISA 500 (Revised).

3. Since the March 2022 IAASB CAG meeting, the Audit Evidence Task Force has focused on revisions to proposed ISA 500 (Revised) based on the input received from the IAASB and IAASB CAG. In June 2022, the Task Force also provided an update to, and obtained feedback from, the IFAC SMP Advisory Group on the development of ED–500.
4. In the June 2022 IAASB meeting, the Task Force presented the second full draft of ED–500 and circulated a turnaround draft of selected requirements and application material paragraphs during the same meeting as presented in [Agenda-Item-3-B-UPDATED](#). As noted in the [IAASB June 2022 Meeting Highlights](#), the Board broadly supported the revisions to draft ED–500 that reflected the

¹ ISA 500, *Audit Evidence*

changes made by the Task Force based on the Board’s discussions.. In particular, such changes included:

- (a) A separate requirement to obtain audit evidence about the accuracy and completeness of information intended to be used as audit evidence when those attributes are applicable in the circumstances;
 - (b) Clarifications to emphasize that designing and performing audit procedures in an unbiased manner applies to all audit procedures, including risk assessment procedures; and
 - (c) Clarifications in the application material to address the meaning of “information intended to be used as audit evidence.”
5. Draft ED-500 is being presented to the IAASB for approval at the September 2022 IAASB meeting.²
6. **Appendix A** to this paper provides a history of previous discussions with the IAASB CAG and IAASB on ISA 500, including links to the relevant IAASB CAG documentation.

IAASB CAG Discussion in September 2022

7. For purposes of the IAASB CAG discussion, the following materials have been provided to the Representatives:
- (a) Presentation—The presentation slides will be used to guide the discussion during the meeting and include the key matters that the Task Force would like to highlight to the Representatives (**Agenda Item C.1**).
 - (b) Draft ED–500, see **Agenda Item C.2**.
 - (c) June 2022 Issues Paper (for reference) — The issues paper is the same paper that was presented to the IAASB for the June 2022 meeting (renumbered as **Agenda Item C.3**). This paper includes the Task Force’s thinking on some key matters at that time, including the auditor’s responsibility to design and perform audit procedures, the definition of audit evidence and evaluating the relevance and reliability of information (including obtaining information about accuracy and completeness). The paper also discusses significant proposed conforming and consequential amendments as presented in [IAASB June 2022 Agenda Item 3-D](#).
 - (d) September 2022 Issues Paper (for reference) — The issues paper is the same paper that will be presented to the IAASB for the September 2022 meeting (renumbered as **Agenda Item C.4**). This paper includes the Task Force thinking on references to the “auditor’s opinion and report” in ED–500 as well key matters relevant to the proposed conforming and consequential amendments arising from draft ED–500.
 - (e) Proposed conforming and consequential amendments arising from draft ED–500 (see **Agenda Item C.5** (for reference)).
8. When navigating the issues papers (**Agenda Items C.3 and C.4**), Representatives are requested to ignore the ‘Matters for IAASB Consideration’ as the papers are IAASB Board papers. The questions

² The exposure period, including the proposed implementation period of ISA 500 (Revised), is discussed in the September IAASB Issues Paper (**Agenda Item C.4 (For Reference)**)

that are being asked of the Representatives are outlined below and included in the presentation (**Agenda Item C.1**)

Matters for IAASB CAG Consideration	
1.	Representatives are asked for views on the draft of ED-500 that will be presented to the IAASB for approval at the September 2022 IAASB meeting (Agenda Item C.2), including the revisions to the proposed standard since March 2022.
2.	The Representatives are asked whether there are any other matters the Task Force should consider in finalizing the exposure draft of proposed ISA 500 (Revised)?

Feedback

9. Extracts from the approved [IAASB CAG March 2022 public session minutes](#), as well as an indication of how the IAASB or Task Force has responded to the Representatives' comments, are included in the table below.

Representatives' Comments	Task Force / IAASB Response
GENERAL	
<ul style="list-style-type: none"> Ms. Vanich strongly supported the proposals to adopt a principles-based approach in revising ISA 500. Given that ISA 500 is a foundational standard, Ms. Vanich noted that the preservation of principles-based requirements is important to safeguard that the standard remains fit for purpose for future changes in the environment, including technology. Drs. Cela and Norberg and Messrs. Ishiwata, Yoshii, Yurdakul and Munter agreed. 	Support noted.
<ul style="list-style-type: none"> Dr. Norberg supported the direction of the proposals by the Audit Evidence Task Force and noted that the approach taken by the Task Force is responsive to the public interest issues identified. 	Support noted.
<ul style="list-style-type: none"> Dr. Cela noted his support for the direction of the proposals and, in particular, the consideration of the draft CUSP Guidelines as proposed by the CUSP Working Group. Given the clarity of the CUSP Guidelines, Dr. Cela questioned whether the same approach will be followed in finalizing the IAASB's International Standard on Auditing for LCEs. 	<p>Point noted.</p> <p>Ms. Almond noted that it is the intention of the IAASB to implement the CUSP Guidelines in all current and future projects. Mr. Botha agreed and noted that the LCE Task Force will apply the same guidelines.</p>

Representatives' Comments	Task Force / IAASB Response
<ul style="list-style-type: none"> • Mr. Thompson noted that the audit evidence project proposal was informed and developed based on a high degree of consultation with stakeholders and other information-gathering activities. Assuming his understanding is correct, Mr. Thompson asked whether such activities were helpful and whether it may be considered as a model for all IAASB projects going forward. 	<p>Point noted.</p> <p>Mr. Botha and Ms. Almond both acknowledged the benefits of the wide-range of consultation activities undertaken and Mr. Botha noted that such activities are now required for all projects in accordance with the IAASB's Framework for Activities.</p>
<ul style="list-style-type: none"> • Mr. Yurdakul asked the Audit Evidence Task Force to explore including a linkage between proposed ISA 500 (Revised) and ISA 230.³ 	<p>Point partially accepted.</p> <p>In undertaking the project to revise ISA 500, the IAASB specifically excluded documentation specific matters related to ISA 230 from its outreach activities, as noted in paragraph 5 of its Audit Evidence Information Gathering and Targeted Outreach paper. Consequently, the IAASB's project proposal Approved-IAASB-Audit-Evidence-Project-Proposal also excluded any aspects related to documentation in accordance with ISA 230.</p> <p>The Task Force has included proposed guidance on documentation and included a reference to ISA 230 in the application material (see paragraph A40 of Agenda Item C.2).</p>
OBJECTIVE OF PROPOSED ISA 500 (REVISED)	
<ul style="list-style-type: none"> • Mr. Yurdakul noted, in the objective of ISA 500, a change in focus from the design and performance of audit procedures to focusing on the evaluation of audit evidence. Given that audit evidence is measured as the output of audit procedures, Mr. Yurdakul noted concerns with: <ul style="list-style-type: none"> ○ The suggestion that the description and distinction between the different types of audit procedures may no longer be the appropriate focus in today's environment; and 	<p>Points noted.</p> <p>The Task Force would like to clarify that it is not suggested that the description or distinction between the nature and type of audit procedures is not important. Instead, and as explained in paragraph 34 of the March 2022 IAASB Audit Evidence Issues Paper, new technologies have raised questions about how audit procedures performed using automated tools and techniques fall within the types of audit procedures described in the ISAs. Specifically, with new audit techniques being used, there are increasing challenges in pinpointing the nature or type of audit procedure</p>

³ ISA 230, *Audit Documentation*

Representatives' Comments	Task Force / IAASB Response
<ul style="list-style-type: none"> ○ The proposal to relocate the relevant application material in extant ISA 500 to the Appendix in proposed ISA 500 (Revised). 	<p>because many techniques may involve a blend of types of procedures, or the types of procedures described in the ISAs may not describe the procedure being performed.</p> <p>Accordingly, it has been questioned whether the focus on the nature and type of audit procedures is appropriate because it may draw the auditor's focus away from the appropriateness of the procedure in the circumstances to meet the intended purpose and whether sufficient appropriate audit evidence has been obtained.</p> <p>Given these challenges, the relevant guidance describing the types of audit procedures was moved to the Appendix of ED-500 (see the Appendix of Agenda Item C.2) and is still referenced in the application material.</p>
SOURCES OF INFORMATION	
<ul style="list-style-type: none"> • Mr. Yurdakul asked the Audit Evidence Task Force to consider whether the proposals in relation to information intended to be used as audit evidence prepared by a management's expert are consistent with the auditor's responsibilities relating to the use of the work of an auditor's expert in accordance with ISA 620.⁴ 	<p>Point partially accepted.</p> <p>In proposing revisions to ISA 500 relating to information intended to be used as audit evidence prepared by a management's expert, the Task Force considered the auditor's responsibilities as included in ISA 620. Notwithstanding the differences in scope between the two sets of requirements, the Task Force is satisfied that the requirements are consistent to the extent possible and practicable.</p>
<ul style="list-style-type: none"> • Mr. Ruthman noted that the requirements related to the work prepared by a management's expert appear to be very specific and may contradict the objective of the overarching principles-based requirement to evaluate the relevance and reliability of information intended to be used as audit evidence. Accordingly, Mr. Ruthman also questioned whether the IAASB has considered including such requirement in a separate 	<p>Point noted.</p> <p>Ms. Almond noted that the Audit Evidence Task Force considered whether the requirements relevant to the work prepared by a management's expert belongs in ISA 500, and in doing so, noted that the origins of such requirements are based on historical IAASB projects and views expressed by IAASB stakeholders.</p> <p>In addition, and as noted in paragraph 70 of the March 2022 IAASB Audit Evidence Issues Paper,</p>

⁴ ISA 620, *Using the Work of an Auditor's Expert*

Representatives' Comments	Task Force / IAASB Response
<p>standard, similar to ISA 620 when using of the work of an auditor's expert.</p>	<p>the Task Force is of the view that paragraph 11 of ED-500 should address important and specific implications when using information prepared by the management's expert, although still recognizing the fundamental concepts of relevance and reliability that are addressed in the overarching requirement in paragraph 9 of Agenda Item C.2.</p>
<ul style="list-style-type: none"> Mr. Yurdakul noted that the proposals included in proposed ISA 500 (Revised) are heavily focused on audit evidence being the outcome of audit procedures. Mr. Yurdakul asked the Audit Evidence Task Force to recognize that there may be other sources of audit evidence, such as information obtained from business associates or the firm, including a firm's quality control procedures for client acceptance and continuance. 	<p>Point partially accepted.</p> <p>Paragraphs A1 and A47 of Agenda Item C.2 note that there may be other sources of audit evidence, including audit evidence from previous audits and auditor's experts.</p> <p>In addition, the Task force proposed a change in paragraph A1 of Agenda Item C.2 to reference the requirements of paragraph 15 of ISA 315 (Revised 2019) relating to client acceptance and continuance. In particular, ISA 315 (Revised 2019) requires the auditor consider the auditor's procedures regarding acceptance and continuance of the client relationship when designing and performing risk assessment procedures (to obtain audit evidence that provides an appropriate basis for the identification and assessment of risks of material misstatement).</p>
<ul style="list-style-type: none"> Mr. Ishiwata noted that the guidance included in paragraph A44 of proposed ISA 500 (Revised) may be expanded to note that the same principle applies to information generated by an external source that is obtained by the auditor from the entity. 	<p>Point accepted.</p> <p>The example in paragraph A44 was incorporated in paragraph A49 of Agenda Item C.2.</p> <p>The Task Force changed the example in paragraph A49 of Agenda Item C.2 to note that "if the source of the information is subject to the influence of management or a related party, the auditor may be concerned about management bias in evaluating the reliability of such information."</p>
<ul style="list-style-type: none"> Mr. Yurdakul noted that the required evaluation of relevance and reliability of information intended to be used as audit evidence may be subjective and 	<p>Point accepted.</p> <p>The Task Force accepts that the required evaluation of relevance and reliability of</p>

Representatives' Comments	Task Force / IAASB Response
<p>asked the Audit Evidence Task Force to explore guidance to address the auditor's work effort.</p>	<p>information intended to be used as audit evidence may be subjective, also given the principles-based nature of draft ED-500.</p> <p>However, it should be emphasized that the degree of relevance and reliability is based on, inter alia, the intended purpose of the audit procedures. Therefore, as also explained in paragraph A52 of Agenda Item C.2, whether, and the degree to which, certain attributes are applicable in the circumstances is a matter of professional judgment.</p> <p>Since the March 2022 IAASB CAG meeting, the Task Force has enhanced and clarified the auditor's work effort in evaluating the relevance and reliability of information intended to be used as audit evidence – see paragraphs A35–A38 of Agenda Item C.2.</p>
PROFESSIONAL SKEPTICISM	
<ul style="list-style-type: none"> • Ms. Vanich and Dr. Norberg strongly supported the proposals of the Audit Evidence Task Force to reinforce the auditor's exercise of professional skepticism when evaluating audit evidence. Ms. Vanich also noted: <ul style="list-style-type: none"> ○ Strong support for the proposed requirement in paragraph 8(a) of proposed ISA 500 (Revised). ○ That the proposed application material in support of paragraph 8(a) may reinforce the exercise of professional skepticism when evaluating the relevance and reliability of audit evidence, in addition to when designing and performing audit procedures to obtain sufficient appropriate audit evidence. 	<p>Support noted.</p>
<ul style="list-style-type: none"> • Although noting support for the proposals to reinforce the auditor's exercise of professional skepticism when evaluating audit evidence, Dr. Orth encouraged the Audit Evidence Task Force to: 	<p>Points noted.</p> <ul style="list-style-type: none"> • Based on comments by the Board and CAG in March 2022, the Task Force enhanced and clarified the wording in paragraph 4 of Agenda Item C.2 in relation to both

Representatives' Comments	Task Force / IAASB Response
<ul style="list-style-type: none"> ○ Further emphasize the importance of exercising professional skepticism when evaluating whether sufficient appropriate audit evidence has been obtained; and ○ Strengthen the link between the auditor's consideration of fraud in proposed ISA 500 (Revised) and ISA 240.⁵ 	<p>professional skepticism and professional judgment.</p> <ul style="list-style-type: none"> • Agenda Item C.2 includes the following specific references to the auditor's consideration of fraud in accordance with ISA 240. <ul style="list-style-type: none"> ○ Paragraph A56 explains that ISA 240 deals with circumstances in which the auditor has reason to believe that a document may not be authentic, or may have been modified without that modification having been disclosed to the auditor. ○ Paragraph A82 explains that doubts about the reliability of information received from management may indicate a risk of fraud and notes that ISA 240 deals with the auditor's responsibilities relating to fraud in an audit of financial statements.
<ul style="list-style-type: none"> • Mr. Yurdakul asked the Audit Evidence Task Force to also emphasize the importance of professional judgment. 	<p>Point accepted.</p> <p>Based on comments by the Board and CAG in March 2022, the Task Force enhanced and clarified the wording in paragraph 4 of Agenda Item C.2. in relation to both professional skepticism and professional judgment.</p>
TECHNOLOGY	
<ul style="list-style-type: none"> • Mr. Ishiwata noted that: <ul style="list-style-type: none"> ○ The standard should recognize a change in current audit practice, from an approach where audit procedures may be based primarily on sampling techniques to an approach where an entire population of transactions may be selected through the use of technology. 	<p>Points accepted</p> <ul style="list-style-type: none"> • Ms. Almond noted that the proposals in the application material address circumstances where an entire population may be selected. For example, see paragraphs A27 and A29 of draft ED-500, as presented in Agenda Item C.2.

⁵ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

Representatives' Comments	Task Force / IAASB Response
<ul style="list-style-type: none"> ○ In addition to the auditor's use of automated tools and techniques, the standard should also address the entity's use of technology when obtaining and evaluating audit evidence. ○ Notwithstanding the risks of automation bias when using technology, a balanced approach is encouraged given the expected benefits, including efficiency, when using technology in certain circumstances. 	<ul style="list-style-type: none"> • Draft ED-500 recognizes the entity's use of technology, for example, paragraphs A49, A57 and A62 of Agenda Item C.2. • The Task Force supports a balanced approach in presenting guidance on automated tools and techniques in ED-500. For example: <ul style="list-style-type: none"> ○ Paragraph A3 of Agenda Item C.2 explains that in some circumstances, due to the form of the underlying information, an automated tool and technique may be more effective or provide more persuasive audit evidence than a manual procedure, or the auditor may need to use an automated tool and technique because a manual procedure may not be possible; and ○ Paragraphs A22-A23 of Agenda Item C.2 explain the concept of, and the risks associated with, automation bias.
<ul style="list-style-type: none"> • Dr. Orth observed that the application material includes extensive guidance in relation to circumstances where the auditor may use technology. However, technology is not referred to in the requirements. • Dr. Orth and Mr. Yoshii questioned whether the proposals adequately address the concept of "artificial intelligence." 	<p>Points noted.</p> <p>In accordance with the IAASB's drafting conventions, ED-500 is drafted using a principles-based approach and is intended to be technology neutral. Accordingly, draft ED-500 is not prescriptive with respect to the use of technology, but rather accommodates the use of technology as explained in the guidance in the application material in Agenda Item C.2.</p> <p>Accordingly, care was taken in drafting the application material regarding references to specific types of technology, such as blockchain or artificial intelligence, which may become redundant or outdated.</p> <p>However, the Task Force has enhanced the proposed guidance on automation bias, such as emphasizing the importance to understand the inputs to automated tools and techniques (which</p>

Representatives' Comments	Task Force / IAASB Response
	<p>may be applicable to artificial intelligence) – see paragraph A23 of Agenda Item C.2.</p> <p>Also see the explanation below about the proposed development of non-authoritative guidance.</p>
<ul style="list-style-type: none"> Although supportive of a principles-based approach, Mr. Munter encouraged the IAASB to consider the development of non-authoritative guidance to safeguard that the proposals remain relevant and responsive to changes in the environment, such as technology. 	<p>Ms. Almond agreed and noted that the adoption of a principles-based approach led to the Task Force's proposal to develop a non-authoritative guidance publication that includes examples to more specifically address how the principles of ISA 500 may apply when using technology. In particular, the Task Force was of the view that locating such examples outside of the standard may be necessary because examples that refer to specific types of technology may easily become redundant or out of date.</p>
<ul style="list-style-type: none"> Mr. Yurdakul asked the Audit Evidence Task Force to further explore whether the proposal to replace the term “electronic” with “digital” in the ISAs is appropriate in all instances. 	<p>Point accepted.</p> <p>Upon further reflection, The Task Force only identified specific circumstances where a change in term from “electronic” to “digital” was deemed appropriate. Such changes are limited and presented in Agenda Item C.5.</p>

Material Presented – IAASB CAG Papers

- Agenda Item C.1 Presentation
- Agenda Item C.2 Proposed Exposure Draft ISA 500 (Revised)

Material Presented – IAASB CAG Reference Papers

- Agenda Item C.3 IAASB Audit Evidence Issues Paper -- June 2022
- Agenda Item C.4 IAASB Audit Evidence Issues Paper -- September 2022
- Agenda Item C.5 IAASB Proposed Conforming and Consequential Amendments arising from draft ED–500
- Agenda Item C.6 ED–500 marked to extant ISA 500 (limited to requirements)

Project Details and History

Project: Audit Evidence – ISA 500

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

Task Force Members

The Task Force comprises:

- Sue Almond, IAASB Member and Task Force Chair
- Sachiko Kai, IAASB Member
- Edo Kienhuis, IAASB Member
- Kai-Uwe Marten, IAASB Member
- Eric Turner, IAASB Member
- Dominika Taraszkievicz (PCAOB Observer)

Summary

	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	March 2021 September 2021 March 2022	March 2021 July 2021 March 2022 June 2022

IAASB CAG Discussions: Detailed References

Preliminary discussions, information gathering and the development of Audit Evidence Workstream Plan	<p><u>March 2019</u> See IAASB CAG meeting material and CAG minutes (Agenda Item D): https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-1</p> <p><u>September 2019</u></p>
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	<p>See IAASB CAG meeting material and CAG minutes (Agenda Item E – presentation only):</p> <p>https://www.ifac.org/cag/meetings-IAASB-CAG-Agenda_Item-E</p> <p><u>March 2020</u></p> <p>See IAASB CAG meeting material and CAG minutes (Agenda Item I)</p> <p>https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-3</p>
<p>Project Proposal</p>	<p><u>September 2020</u></p> <p>See IAASB CAG meeting material and CAG minutes (Agenda Item D)</p> <p>https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york</p>
<p>Development of Exposure Draft</p>	<p><u>March 2021</u></p> <p>See IAASB CAG meeting material and CAG minutes (Agenda Item F)</p> <p>IAASB CAG Meeting - March 8-9, 2021 (Virtual)</p> <p><u>September 2021</u></p> <p>See IAASB CAG Meeting material and CAG minutes (Agenda Item D)</p> <p>IAASB CAG Meeting – September 8-9, 2021 (Virtual)</p> <p><u>March 2022</u></p> <p>See IAASB CAG Meeting material and CAG minutes (Agenda Item E)</p> <p>IAASB CAG Meeting - March 8-9, 2022</p>