

Audit Evidence – Issues and Recommendations

Please note: This is the IAASB Audit Evidence Issues Paper for discussion by the Board at the September 2022 IAASB quarterly meeting (Agenda Item 2). This paper is provided to the IAASB CAG Representatives for reference purposes.

Objective of the IAASB Discussion

The objective of the IAASB discussion is to approve the exposure draft of proposed ISA 500 (Revised), and related conforming and consequential amendments, as set out in **Agenda Item 2–B** and **Agenda Item 2–D**, respectively.

Materials Presented

Agenda Item 2	Issues and Recommendations Appendix 1 – Task Force members and activities Appendix 2 – Approach for the walkthrough of Agenda Item 2–B Appendix 3 – Key public interest matters
Agenda Item 2–A	Explanation of significant changes
Agenda Item 2–B	Proposed ISA 500 (Revised), <i>Audit Evidence</i> (marked from June 2022)
Agenda Item 2–C	Proposed ISA 500 (Revised), <i>Audit Evidence</i> (clean)
Agenda Item 2–D	Proposed conforming and consequential amendments (marked from June 2022)
Agenda Item 2–E	Introductory paragraphs, objective, definitions and requirements of Proposed ISA 500 (Revised) marked to extant ISA 500 (for reference)

A. Introduction

- Since the June 2022 IAASB meeting, the Task Force continued to enhance proposed ISA 500 (Revised) based on the input received from the Board during the June 2022 plenary session and comments provided offline. The draft June 2022 IAASB meeting minutes are available in [Agenda Item 1](#) on the IAASB Quarterly Board Meeting – September 12–16, 2022 webpage.
- Agenda Item 2–A** provides background information on, and an explanation of, the significant changes made by the Task Force to the requirements and application material of proposed ISA 500 (Revised) from the June 2022 IAASB meeting ([Agenda Item-3-B](#), including paragraphs highlighted in gray that were included in, and are marked from, the June 2022 turnaround draft – [Agenda Item 3-B-UPDATED](#)).

3. **Agenda Item 2–A** also provides an explanation of the significant changes to the proposed conforming and consequential amendments as presented in **Agenda Item 2–D**, with references to matters that are discussed in more detail in this issues paper. **Agenda Item 2–A** is intended to be used as a navigational tool by the Board in preparing for the walkthrough of the draft standard.

Approach for the Discussion of the Agenda Items

4. The Task Force Chair will walk through **Agenda Item 2–B** and refer to the related matter discussed in Section **B** of this Agenda Item and the matters explained in **Agenda Item 2–A**, as appropriate. The Board is requested to provide comments on the requirements and the related application material at the same time. **Appendix 3** sets out the planned approach for the walkthrough of the draft standard, with references to the paragraphs in **Agenda Item 2–A** and related sections of this issues paper.
5. After walking through **Agenda Item 2–B**, the Chair will ask the Board to provide input on the conforming and consequential amendments arising from proposed ISA 500 (Revised) as presented in **Agenda Item 2–D**, including the matter discussed in Section **C** of this Agenda Item.
6. Following the discussion of **Agenda Item 2–B** and **Agenda Item 2–D**, the Chair will address the other matters in Section **D** of this Agenda Item and ask the Board to provide input on possible topics for inclusion in the Explanatory Memorandum, as presented in Section **E** of this Agenda Item.

Coordination Activities

IESBA

7. In January 2022, Staff of the International Ethics Standards Board for Accountants (IESBA) performed a high-level review of proposed ISA 500 (Revised) to identify any relevant ethical considerations or matters pertaining to audit evidence. Given the introduction of new or enhanced requirements in proposed ISA 500 (Revised) to reinforce the auditor's exercise of professional skepticism, the IESBA Staff recommended that the Task Force consider:
 - (a) The provisions related to an inquiring mind and professional judgment in the IESBA *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code).
 - (b) Whether there may be matters included in the IESBA Exposure Draft [Proposed Technology-related Revisions to the Code](#) that may be relevant to the Task Force's work.

As noted to the Board in June 2022, the Task Force concluded that the matters identified in the IESBA Staff's review are adequately addressed in proposed ISA 500 (Revised).

8. In June 2022, the IESBA Coordination Lead briefed the IESBA on the coordination on the ISA 500 project, noting no significant matters warranting further IESBA coordination. In July 2022, IESBA Staff performed a follow-up review of proposed ISA 500 (Revised), focusing on its recommendations in January 2022. The IESBA Staff has noted to the Staff of the Audit Evidence Task Force Staff that its recommendations are satisfactorily addressed.

IAASB Task Forces and Consultation Groups

9. Since March 2021, the Task Force has engaged in coordination activities with the IAASB's Technology Consultation Group and Professional Skepticism Consultation Group, as noted and

described in the [July 2021 Issues Paper](#) and [March 2022 Issues Paper](#). More recently, the Task Force has engaged with the:

- (a) Fraud Task Force Staff regarding the proposed conforming amendments to ISA 240¹ and to align as closely as possible with the direction of proposed ISA 240 (Revised), and
 - (b) Technology Consultation Group about addressing the appropriateness and reasonability of inputs and algorithms when technology, such as artificial intelligence, is used.
10. The Task Force will continue to coordinate with IAASB Task Forces and Consultation Groups, as appropriate. In particular, the Task Force will continue its coordination with the Technology Consultation Group given the intention of the Task Force to develop non-authoritative guidance that includes additional examples of the use of technology in obtaining audit evidence.

Public Interest Issues

11. The Task Force discussed how the exposure draft of proposed ISA 500 (Revised) addresses the audit evidence-related public interest issues as identified in the project proposal.² **Appendix 3** sets out the key public interest matters, a description of the changes made to address the identified key interest matters and the relevant paragraphs in proposed ISA 500 (Revised).

B. Draft of Proposed ISA 500 (Revised)

B.1 References to “Auditor’s Opinion and Report”

Previous IAASB Discussions

12. In March 2021, the Task Force proposed to the Board to add “opinion and report” in the definition of audit evidence. As explained in paragraph 26 of the [March 2021 Issues Paper](#) this proposal was principally based on paragraph A30 of ISA 200,³ but also noted that the overall objectives of the auditor, as set out in paragraph 11 of ISA 200, refer to both the opinion and report.
13. Although the Board broadly supported this change to the definition of audit evidence in March 2021, Board members raised various comments in the March and June 2022 IAASB meetings about the references to “auditor’s opinion and report,” including whether further conforming changes may be necessary throughout the ISAs as a result.

Task Force Discussion and Recommendations

14. Given the comments from the Board, the Task Force reconsidered the references to “auditor’s opinion and report” in proposed ISA 500 (Revised). In doing so, the Task Force further discussed the wording in relevant paragraphs in ISA 200 and other ISAs in considering whether to retain the reference to “and report,” in particular in paragraphs 6(a) and 7(b) of **Agenda Item 2–B**.

¹ ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

² [Approved-IAASB-Audit-Evidence-Project-Proposal-final](#)

³ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

15. Paragraph 5 of ISA 200 states:

As the basis for the auditor’s opinion, ISAs require the auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Reasonable assurance is a high level of assurance. It is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (that is, the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level. (Emphasis added)

16. The wording in paragraph 5 of ISA 200 is consistent with paragraph 17 of ISA 200, which states:

To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor’s opinion. (Emphasis added)

17. Paragraph A30 of ISA 200 states:

Audit evidence is necessary to support the auditor’s opinion and report. ... Most of the auditor’s work in forming the auditor’s opinion consists of obtaining and evaluating audit evidence. (Emphasis added)

18. In describing the overall objectives of the auditor in conducting a financial statement audit, paragraph 11 of ISA 200 states:

In conducting an audit of financial statements, the overall objectives of the auditor are:

- (a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and*
- (b) To report on the financial statements, and communicate as required by the ISAs, in accordance with the auditor’s findings. (Emphasis added)*

19. The Task Force acknowledged that paragraphs 11 and A30 of ISA 200 can be seen as providing support for referring to the “auditor’s opinion and report” in proposed ISA 500 (Revised). However, the Task Force noted that paragraph 11 of ISA 200 suggests two distinct, yet important, functions of the auditor:

- (a) Obtaining reasonable assurance to enable the auditor to express an opinion on the financial statements (paragraph 11(a)); and
- (b) Communicating that opinion as part of the auditor’s report (paragraph 11(b)).

20. The Task Force noted that it is only paragraph A30 of ISA 200 that refers to the auditor’s “opinion and report.” The Task Force explored the possibility that paragraph A30 refers to audit evidence in a broader sense (i.e., most of the auditor’s work consists of obtaining and evaluating audit evidence). However, other paragraphs in ISA 200 only refer to the auditor’s opinion and appear to do so in the context of sufficient appropriate audit evidence.

21. Based on the points in paragraphs 14–20 above, the Task Force is of the view that:
 - a) The reference to “auditor’s opinion and report” is appropriate in the definition of audit evidence in paragraph 7(b) of **Agenda Item 2–B** because audit evidence is in fact needed to support conclusions in forming an opinion and in preparing and issuing the auditor’s report.
 - b) The reference in the objectives of proposed ISA 500 (Revised) (paragraph 6(a) of **Agenda Item 2–B**) should only be to the auditor’s opinion (not opinion “and report”) because the objective refers to designing and performing audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.
22. The Task Force acknowledges that this view may be drawing a fine line between “audit evidence” and “sufficient appropriate audit evidence.” However, the Task Force is of the view that the approach described in paragraph 21 above is appropriate and consistent with the wording in ISA 200. The Task Force also has made revisions elsewhere in **Agenda Item 2–B** and in the proposed conforming and consequential amendments in **Agenda Item 2–D** consistent with this approach.
23. The Task Force also discussed whether the reference to “and report” in the definition of audit evidence would necessitate changes to paragraphs 28(d) and 39(b)(i) of ISA 700 (Revised),⁴ which would likely also result in a change in all relevant illustrative auditor’s reports. The Task noted that these paragraphs in ISA 700 (Revised) relate to the statement in the Basis for Opinion and Auditor’s Responsibilities for the Audit of the Financial Statements sections of the auditor’s report, respectively, that the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor’s opinion. Therefore, consistent with the view described in paragraph 21 above, the Task Force concluded that it was not necessary to add “and report” to the relevant paragraphs in ISA 700 (Revised) or the illustrative auditor’s reports.

Matter for IAASB Consideration

1. The IAASB is asked for its views on the Task Force’s revisions to proposed ISA 500 (Revised), as presented in **Agenda Item 2–B**, including with respect to the matter discussed in **Section B.1** above.

C. Proposed Conforming and Consequential Amendments

C.1 Proposed Conforming Amendment to ISA 330⁵

Previous Board Discussions

24. In June 2022, the Task Force discussed with the Board that the stand back in paragraph 13 of **Agenda Item 2–B** was intended to “close the loop” on the requirement in paragraph 8(b), as well as to provide a basis for the auditor’s overall conclusion in accordance with paragraph 26 of ISA 330 about whether sufficient appropriate audit evidence has been obtained.
25. In addition, the Task Force noted that to clarify and strengthen the links between paragraph 13 and paragraph 8(b), the Task Force retained in paragraph 13(b) the requirement for the auditor to

⁴ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

⁵ ISA 330, *The Auditor’s Responses to Assessed Risks*

consider all evidence obtained, including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate or contradict the assertions in the financial statements. The Board broadly supported the proposed requirement.

Task Force Discussion and Recommendations

26. In considering possible conforming or consequential amendments arising from the proposed requirement in paragraph 13 of **Agenda Item 2–B**, the Task Force noted that paragraph 26 of ISA 330 refers to considering all “relevant audit evidence obtained, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements.” In contrast, paragraph 13(b) of **Agenda Item 2–B**, which is intended to provide a basis for the auditor’s overall conclusion in accordance with paragraph 26 of ISA 330, refers to “all audit evidence obtained.”
27. Upon further reflection, the Task Force remains of the view that the reference to considering “all audit evidence” in paragraph 13(b) of **Agenda Item 2–B** is appropriate. Paragraph 9 of **Agenda Item 2–B** requires the auditor to evaluate the relevance and reliability of information intended to be used as audit evidence. By definition, audit evidence is information, to which audit procedures have been applied, that the auditor uses to draw conclusions that form the basis for the auditor’s opinion. Accordingly, audit evidence obtained that is evaluated in accordance with paragraph 13 of **Agenda Item 2–B** (by definition) is relevant (and reliable) (i.e., there is no concept of “irrelevant” audit evidence).
28. Therefore, the Task Force has proposed a conforming amendment to paragraph 26 of ISA 330 to delete the word “relevant” to align with the wording in proposed ISA 500 (Revised).⁶ See **Agenda Item 2–D**.

Matter for IAASB Consideration

2. The IAASB is asked for its views on the proposed conforming and consequential amendments, as presented in **Agenda Item 2–D**, including with respect to the matter discussed in Section C.1 above.

D. Other Matters

Exposure Period

29. Since approval of the [IAASB Work Plan for 2022-2023](#) in December 2021, various circumstances have necessitated the reconsideration of timelines for certain projects. Such circumstances include responses received to recent public consultations and from ongoing outreach that affect the nature, timing and extent of issues to be addressed, the loss of senior staff resources in relative short succession in 2021/2022, longer than expected recruitment periods in the current labor market, the sequencing of deliverables across active projects based on available staff and Board capacity and when certain deliverables “go to market,” and creating additional capacity for certain projects in the near term.

⁶ The Task Force also noted that the same conforming amendment was adopted during the revision of Auditing Standard – Clarified (AU-C) Section 500, *Audit Evidence*, by the American Institute of Certified Public Accountants’ (AICPA) Auditing Standards Board – Statement on Auditing Standard 142.

30. Proposed changes have been coordinated with Task Force or Working Group Chairs and discussed by the Planning Committee. The planned approval dates for projects were reported to the Public Interest Oversight Board in July 2022. For Audit Evidence, the targeted approval of exposure draft ISA 500 (Revised) remained unchanged for September 2022, but the expected approval of ISA 500 (Revised) moved to June 2024, based on a planned exposure period of six months.
31. An exposure period of approximately 180 days exceeds the 120-day period noted in the IAASB's due process.⁷ The added benefits of an extended exposure period include ample time for stakeholders to consider the proposals, recognizing that ISA 500 (Revised) provides a "reference framework" for the auditor throughout the audit when making judgments about audit evidence (including the behavioral dimensions of complying with the requirements). Also, wide feedback will provide valuable information to inform the IAASB about further possible revisions to standards within the ISA 500-series (i.e., addressing more detailed aspects of audit evidence).
32. The Task Force aims to publish the exposure draft of proposed ISA 500 (Revised) around October 20 but before the end of October 2022. Based on this date, responses would be due by the latter part of April 2023. This comment deadline date will allow the Task Force to present feedback of the responses received to the exposure draft at the September 2023 IAASB meeting. Based on past experience to progress projects post-exposure and subject to the nature and extent of comments received, staff estimate that four meetings (September 2023, December 2023, March 2024 and June 2024) will be needed for the IAASB to discuss the changes and finalize proposed ISA 500 (Revised).

Proposed Implementation Period

33. The Task Force intends to include in the Explanatory Memorandum a proposal for an implementation period of approximately 18 months after approval by the IAASB of proposed ISA 500 (Revised). The Task Force is of the view that such period would allow sufficient time to implement the standard, including adoption and translation by jurisdictions, and incorporating the changes into firm methodologies, enablement tools and training materials.
34. A question will be asked in the Explanatory Memorandum about the expected implementation efforts and the appropriateness of the proposed implementation period.

Due Process Matters

35. In the Task Force's view, the significant matters identified as a result of its deliberations from the beginning of this project have been presented in the issues papers presented to the Board for discussion. In the Task Force's view, there are no significant matters that have not been brought to the attention of the IAASB.
36. The Task Force does not believe that a consultation paper, field testing or a roundtable is needed at this stage of the project.

⁷ The IAASB's due process requires that an ED ordinarily has a 120-day comment period.

Matter for IAASB Consideration

3. The IAASB is asked for its views on the above matters, in particular in relation to the exposure period and proposed implementation period.

E. Matters for the Explanatory Memorandum

37. The Task Force has given preliminary consideration to matters it believes are useful to address in the Explanatory Memorandum accompanying the exposure draft for proposed ISA 500 (Revised). These include, but are not limited to:
- Project objectives and addressing the identified public interest issues (including, more broadly, promoting consistent practice and behaviors by auditors through the appropriate balance of requirements and application material in the revised standard)
 - Purpose and scope of proposed ISA 500 (Revised)
 - Effect of technology, including the auditor’s use of automated tools and techniques, consistent with the Audit Evidence project proposal.⁸
 - Maintaining professional skepticism when making judgments about audit evidence throughout the audit
 - Relationship and interaction with other ISAs (i.e., a “reference framework” when making judgments about audit evidence throughout the audit)
 - Stand back to evaluate audit evidence obtained as a basis for concluding that sufficient appropriate audit evidence has been obtained in accordance with ISA 330
 - Definition of audit evidence, and interrelationship of sufficiency, appropriateness and persuasiveness of audit evidence
 - Description of the “input-output” model, i.e., information intended to be used as audit evidence becomes audit evidence after audit procedures are applied to it
 - Evaluating the relevance and reliability of information intended to be used as audit evidence
 - Attributes of relevance and reliability
 - Obtaining audit evidence about the accuracy and completeness of information
 - Information intended to be used as audit evidence prepared by a management’s expert

Matter for IAASB Consideration

4. The IAASB is asked whether there are any matters, other than those noted in paragraph 37 above, that should be addressed in the Explanatory Memorandum.

⁸ Paragraph 26 of the [Approved-IAASB-Audit-Evidence-Project-Proposal-final](#) notes that, in the context of ISA 500, this project will not address how to design and perform audit procedures through the use of automated tools and techniques.

Task Force Members and Activities

Task Force Members

1. Information about the Task Force members and the project can be found [here](#).

Task Force Activities since the June 2022 IAASB Meeting (Virtual by Videoconferencing)

2. The Task Force had five virtual meetings spread over five days in July and August 2022.

Coordination with Other Task Forces and Working Groups, and Standard Setting Boards

3. Staff of the Audit Evidence Task Force met with Staff of the Fraud Task Force to discuss the Audit Evidence Task Force's views and proposals in relation to conforming and consequential amendments to ISA 240, resulting from the proposed revisions to ISA 500 as presented in **Agenda Item 2–B**.
4. Staff of the Audit Evidence Task Force met with Staff of the Technology Consultation Group to discuss enhancements to the application material, including, for example, assessing the:
 - (a) Appropriateness and reasonability of inputs and algorithms when artificial intelligence is used; and
 - (b) Completeness of relevant data fields when using digital information (e.g., all fields related to transactions are complete).
5. Staff of the Task Force and the IESBA met to discuss the feedback of a review of proposed ISA 500 (Revised) by IESBA Staff as discussed in paragraphs 7–8 of this paper.

Appendix 2

Approach for the Walkthrough of Agenda Item 2–B

Section of Proposed ISA 500 (Revised)	Paragraphs in Agenda Item 2–B ⁹	Related Sections in Agenda Item B
Introduction	1-4, A1–A12	-
Objectives	6	B.1
Definitions	7, A13–A14	B.1
Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence	8, A15–A33	-
Information Intended to Be Used as Audit Evidence	9, A34–A61	-
	10, A62–A64	-
Information Intended to Be Used as Audit Evidence Prepared by a Management’s Expert	11, A65–A77	-
Doubts about the Relevance or Reliability of Information Intended to be Used as Audit Evidence	12, A78–A82	-
Evaluating the Audit Evidence Obtained	13, A83–A87	-
	14, A88–A92	-
Appendix	1–14	-

⁹ Also see related explanations for certain paragraphs in **Agenda Item 2–A**

Key Public Interest Matters

Key Public Interest Matter	Description of Changes Made to Address Identified Key Public Interest Matters	Relevant Paragraphs in Agenda Item 2–B
<p>Responding to changes in the information that is being used by auditors, including the nature and source of the information</p>	<p><i>Adaptability and Scalability</i></p> <p>Developing and introducing a principles-based approach when making judgments about information intended to be used as audit evidence, for both internal and external sources of information. In doing so, the IAASB developed a set of attributes of relevance and reliability to enhance the auditor’s judgments relating to audit evidence that is adaptable and scalable to a wide variety of circumstances. For example, in evaluating the relevance and reliability of all information intended to be used as audit evidence, proposed ISA 500 (Revised) focuses the auditor’s attention on:</p> <ul style="list-style-type: none"> • The attributes of relevance and reliability that are applicable in the circumstances, given the intended purpose of the audit procedure. • The source of the information and how the source may affect the auditor’s judgments regarding the attributes of relevance and reliability that are applicable in the circumstances. 	<p>9, A34–A61</p>
	<p><i>Using Information Prepared by a Management’s Expert</i></p> <p>Enhancing and clarifying the auditor’s responsibilities when using information intended to be used as audit evidence that has been prepared by a management’s expert. For example,</p> <ul style="list-style-type: none"> • Clarifying that the requirement builds on, and is incremental to, the overarching requirement to evaluate the relevance and reliability of information intended to be used as audit evidence; and • Focusing the auditor on understanding how management has considered the appropriateness of such information, including any modifications made by management. 	<p>11, A65–A77</p>

<p>Modernizing and supporting a principles-based standard that recognizes the evolution in technology</p>	<p><i>Adaptability and Scalability</i></p> <p>Reinforcing a principles-based approach that is not prescriptive to the use of technology but enables the auditor to apply the standard in an evolving audit environment with the increasing use of technology. For example, the application material:</p> <ul style="list-style-type: none"> • Clarifies that the auditor may use manual or automated tools and techniques to perform audit procedures to obtain audit evidence; • Explains how the use of automated tools and techniques may affect auditor bias, and in particular automation bias; and • Uses examples, as appropriate, that draw attention to or recognize the use of technology by the entity or by the auditor. 	<p>A3–A4, A22–A23, A42, Appendix: 5, 6,10</p>
<p>Fostering the maintenance of professional skepticism when making judgments about information to be used as audit evidence and sufficient appropriate audit evidence</p>	<p><i>Fostering the Appropriate Exercise of Professional Skepticism</i></p> <p>Emphasizing the importance of professional skepticism, including when:</p> <ul style="list-style-type: none"> • Designing and performing audit procedures in a manner that is not biased; • Evaluating the relevance and reliability of information intended to be used as audit evidence; and • Considering all audit evidence obtained, as a basis for concluding whether sufficient appropriate audit evidence has been obtained. 	<p>4, 8(a), 9, 13, A19–23, A34–A61, A83–87</p>