

Supplement to Agenda Item 6A-4

EER Assurance: Destination of material from June 2019 IAASB Issues Paper (Agenda Item 8 of June 2019 meeting) in phase 2 drafting

Chapters 10, 11, 12 / Challenges 6&7: Obtaining Evidence in the Context of Narrative and Future-Oriented Information

Sections of June Board Meeting EER Issues Paper	Suggested destination and treatment of June Issues Paper content
<p>Introduction and context</p> <p>Narrative Information</p> <p>54. Paragraphs 118 to 120 of the DP noted that narrative information in EER reports may be factual (more observable and therefore more readily captured by reporting systems) or may be more subjective (less observable and more susceptible to being reflective of, and more variable with, the views of those reporting it). Narrative information may also include management judgments and be more susceptible to management bias. The key challenge in relation to narrative information is how to address the inherent subjectivity and increased risk of management bias and to manage potentially unrealistic expectations about the extent to which the practitioner can reduce the inherent subjectivity.</p> <p>55. The DP noted that although there are no specific standards for addressing narrative information in an assurance engagement, the topic was partly addressed in the IAASB's project to revise ISA 720.</p> <p>56. Taking account of respondent observations on the DP, the Board agreed to provide further guidance about relevant considerations in seeking to obtain sufficient appropriate evidence, in the context of narrative information in EER reports,</p>	<p>This is contextual material (paragraphs 54 to 65) and has not been included within the draft guidance document as it is more explanatory in nature/for purposes of keeping a trail of previous discussions, and IAASB comments. However, the themes to be addressed are picked up in the draft guidance. Before finalizing combined guidance (phase 1 and 2), to check that all the issues have been covered.</p> <p>Suggest the guidance also needs to cover that some frameworks specifically require discussion on strategy and forward-looking information. The ability of companies to predict and respond in an agile manner will be increasingly important. Further consideration to be given to focus on the entity's governance, processes, controls, horizon-scanning, ability to adjust.</p>

including:

- a) Identifying appropriate sources of evidence;
- b) Determining sufficiency and appropriateness of evidence;
- c) Obtaining and evaluating evidence about the completeness, balance and neutrality of narrative information; and
- d) Obtaining and evaluating evidence in the context of addressing measurement or evaluation uncertainty.

Future-oriented information

57. Paragraphs 121 to 123 of the DP noted that future-oriented information addresses future conditions, events, outputs and outcomes (performance or impact), in relation to which there is generally greater uncertainty and these matters may therefore be more difficult to measure or evaluate. Even when EER frameworks address the type of future-oriented information that is relevant to include in an EER report, they often do not address the boundaries of acceptable assumptions made in making the measurements or evaluations that give rise to the subject matter information.
58. As a result, the DP noted that a key challenge is that there may not be suitable criteria for some of the information included in the EER report. If so, it may not be possible to accept an assurance engagement unless the scope is narrowed to exclude future-oriented information or, for example, if the underlying subject matter of the engagement was restricted to the process used in arriving at that information.
59. The DP also noted that possible implications of that challenge, which the Task Force could address in developing guidance, include that:
- a) It is not possible to obtain sufficient appropriate evidence on the future-oriented information itself;
 - b) The scope of an assurance engagement should be narrowed to exclude subject matter information about the

<p>future-oriented outputs or outcomes, to include only subject matter information about the process used in arriving at the future-oriented information, or to address only whether the future-oriented information is properly prepared, on the basis of the assumptions, in accordance with the relevant financial reporting framework; or</p> <p>c) assurance engagement cannot be accepted because there are no suitable criteria at all.</p> <p>60. The DP also noted that ISAE 3400 provides the most pertinent available standards in this area. ISAE 3400 addresses prospective financial information (i.e. financial information based on assumptions about events that may occur in the future and possible actions by an entity), which may take the form of forecasts, projections, or a combination of both. It notes that such information is highly subjective, and its preparation involves considerable judgment.</p> <p>61. Taking account of respondent observations on the DP, the Board agreed to provide further guidance about relevant considerations in seeking to obtain sufficient appropriate evidence, in the context of future-oriented information in EER reports, including obtaining and evaluating evidence:</p> <p>a) When the subject matter information is subjective and susceptible to management bias;</p> <p>b) In the context of management's process for preparing future-oriented information;</p> <p>c) About whether future-oriented information has been properly presented in the EER report; and</p> <p>d) In the context of practitioners reporting on future-oriented information without creating unrealistic user expectations (for example, about the achievability of predicted performance or impact).</p> <p>62. During phase 1 of the project, some guidance relating to the other phase 1 challenges was developed for challenges 6 & 7</p>	
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<p>but other issues, relating to obtaining and evaluating evidence, are to be addressed in phase 2.</p> <p>63. Some of the issues relating to both narrative and future-oriented information are similar and overlap. The basic concepts of an EER report apply equally to both these specific types of subject matter information. Narrative information and future-oriented information are also not mutually exclusive. For example, narrative information may be either future-oriented or historically-oriented, and future-oriented information may be presented either in narrative or quantitative form. Furthermore, both types of information can relate to qualities of elements that are not directly observable and their measurement or evaluation may need to be estimated using assumptions or otherwise measured or evaluated with less precision.</p> <p>64. The Task Force initially identified the following aspects of guidance as being needed to address the 'obtaining evidence' part of both of these challenges and discussed these with the Board at the March 2019 Board meeting:</p> <ul style="list-style-type: none">a) The extent to which it is appropriate for the practitioner to rely on controls may vary considerably – for example, this may be ineffective where the subject matter information is highly subjective (whether it is narrative or not);b) How the ease and ability to obtain evidence is linked to the nature of the system of internal control;c) How subject matter information presented in the form of diagrams and pictures should be addressed by practitioners; andd) Documentation requirements. <p>65. The Board generally supported the aspects of guidance initially identified by the Task Force to address this challenge, and additionally raised the following for consideration:</p> <ul style="list-style-type: none">a) How to address subjective, superfluous or irrelevant narrative in subject matter information and the need for	
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<p>clear guidance linked to the 'materiality process' guidance set out in Chapter 6 of the CP.</p> <p>b) Performance materiality more generally, not only in relation to narrative and future-oriented information.</p>	
<p>Further Task Force consideration of the approaches taken in ISAE 3400 and ISA 540 (Revised)</p> <p>66. The Task Force further considered the approach taken in ISAE 3400, key elements of which are summarised below. The Task Force considers that, in principle, many of these elements can be adapted in providing guidance on addressing evidence in relation to both narrative information and future-oriented information. This is because the ISAE 3400 approach is premised on addressing subject matter information that reflects higher levels of measurement or evaluation uncertainty, is therefore relatively subjective, may be more speculative, and is generally more susceptible to management bias. These characteristics are often found in both narrative and future-oriented information.</p> <p>67. The terminology used in ISAE 3400 is not consistent in all respects with the terminology in the Standard. However, using the terminology of the Standard, ISAE 3400 deals only with engagements in which the practitioner's report expresses conclusions that convey both:</p> <p>a) Limited assurance as to whether the assumptions [subject matter information] [have been properly prepared on the basis of applicable criteria that are suitable to] provide a reasonable basis for the prospective financial information; and</p> <p>b) Reasonable assurance as to whether the prospective information [subject matter information] has been properly prepared [in accordance with applicable criteria that are suitable] on the basis of the assumptions.</p> <p>68. The Standard indicates the broad nature of the assertions</p>	<p>Future-oriented phase 2 guidance takes account of ISAE 3400 and ISA 540. Further consideration to be given to reporting, and an example is under development.</p>

relating to prospective information, which the practitioner should seek to obtain sufficient appropriate evidence about. This also indicates the nature of important criteria (including criteria relating to presentation and disclosure) that the practitioner will need to consider in establishing whether the applicable criteria are suitable and have been made available to the intended users:

- a) In relation to the assumptions:
 - i. The reasonableness of management's best estimate assumptions; and
 - ii. The consistency of hypothetical assumptions with the purpose of the prospective financial information, and whether they are clearly not unrealistic.
- b) In relation to the proper preparation of the prospective information in accordance with the assumptions:
 - i. The disclosure of important types of information (e.g., the accounting policies; the material assumptions; when assumptions are subject to a high degree of uncertainty, the uncertainty and sensitivity of the results needs to be disclosed; when results are expressed in terms of a range, the basis of establishing points in the range is clearly indicated and the range is not selected in a biased or misleading way);
 - ii. The proper presentation of the prospective information (including whether it is informative and not misleading);
 - iii. The disclosure of all material assumptions and whether they are best estimate or hypothetical in nature; and
 - iv. The consistency of the prospective information with historical financial statements, using appropriate accounting principles.

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| <p>69. ISAE 3400 notes that the practitioner will not be in a position to express a reasonable assurance conclusion as to whether the results shown in the prospective financial information will be achieved.¹ This is discussed in the context of the generally future-oriented and potentially speculative nature of the evidence available to support the assumptions on which prospective financial information is based compared with the evidence ordinarily available in a financial statement audit. It also notes, in that context, that it may therefore be difficult to obtain reasonable assurance about the reasonableness of the assumptions.</p> <p>70. Accordingly, although ISAE 3400 deals only with engagements in which the practitioner's report expresses a conclusion that conveys limited assurance on the reasonableness of the assumptions, it does not preclude the expression of a conclusion that conveys reasonable assurance when in the practitioner's professional judgment an appropriate level of assurance has been obtained.²</p> <p>71. ISAE 3400 specifically excludes addressing prospective information in narrative or general terms but notes that many of the procedures outlined in it may be suitable to use in that context.</p> <p>72. The Task Force also noted that the approach in ISA 540 (Revised) to obtaining and evaluating evidence about the reasonableness of accounting estimates (which may be future-oriented) and evaluating the adequacy of related disclosures, will also be relevant, by analogy, in developing guidance to address challenges relating to future-oriented information as well as other types of narrative information that involve significant measurement or evaluation uncertainty..</p> | |
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¹ ISAE 3400 paragraph 8

² ISAE 3400 paragraph 9

<p>Structuring the guidance on narrative and future-oriented information</p> <p>73. Having considered the matters discussed during the March Board meeting breakout sessions, the Task Force is of the view that, while the nature and quality of the evidence that is able to be obtained for narrative and future information may differ from each other and from evidence that is obtained for historical information, the key thought processes followed in designing and performing evidence-gathering procedures will, in principle, be similar for all types of subject matter information in an EER report.</p> <p>74. Accordingly, the task force considers that guidance on a general approach to issues relating to obtaining and evaluating evidence about information in EER reports would provide helpful context to more targeted guidance on common and specific issues identified in the context of narrative and future-oriented information. Doing so would, in the Task Force view, also avoid unnecessary duplication if the guidance was provided on a standalone basis for these types of information, in separate chapters. The Task Force considers that examples could be used in the specific guidance to draw out different or unique considerations in the context of narrative or future-oriented information.</p> <p>75. The Task Force considered a number of alternative ways to structure the guidance. A separate chapter could be added for the guidance on a general approach to evidence, with separate chapters respectively providing guidance dealing with specific issues relating to narrative and future-oriented information (as was the case in the CP for guidance on phase 1 challenges). One variant considered would include specific examples relating to narrative information in the general guidance, and to include only specific guidance on future-oriented information in a separate chapter.</p> <p>76. The Task Force also noted that in addressing the phase 1 challenges, the specific guidance necessary for narrative and</p>	<p>Concept in paragraph 73 included in draft guidance and thought process set out in Chapter 10. Example of application of thought process has been included. Further examples under development for non-quantitative EER and/or a mix of narrative and numerical information. Consider if examples should be moved to an appendix or separate document (or a mix – short examples in the guidance document; longer ‘case study’ type examples in an appendix)?</p> <p>At present, material on obtaining evidence is separated into 3 chapters:</p> <ul style="list-style-type: none"> • General thought process (Chapter 10) • Narrative-specific considerations (Chapter 11) • Specific considerations related to future-oriented information (Chapter 12) <p>Consideration to be given to whether materiality guidance is better included within each chapter in so far as it relates to narrative and future-oriented information, respectively, or whether it belongs better in Chapter 12 with the rest of the discussion on materiality.</p>
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<p>future-oriented information was similarly limited because the general guidance on those challenges addressed many of the principles relevant to those types of information.</p> <p>77. The Task Force proposes to explore these structuring options as the guidance is further developed and would welcome the Board’s views on them. However, subject to the Board’s views, the Task Force initially proposes to explore adding a chapter with general guidance relating to evidence in EER assurance engagements and to add only specific guidance and examples to the chapters in the CP about narrative and future-oriented information. Whichever approach is decided upon, some restructuring of the guidance relating to challenges 6 and 7 for the phase 1 materials may be needed.</p>	
<p>Developing a thought process for practitioners in obtaining and evaluating evidence</p> <p>NOTE: Preliminary outline of the thought process table (Parts A to C) not included in this document for the purpose of showing destination of Issues Paper material.</p> <p>Introduction</p> <p>78. In discussing the issues relating to evidence about narrative and future-oriented information, which are to be addressed by the guidance, the Task Force concluded that most of them could be attributed to one of three inter-related dimensions relating to evidence:</p> <ul style="list-style-type: none"> a) Determining the relevance and reliability of the evidence needed and available; b) Designing and performing procedures to obtain the (sufficient appropriate) evidence needed; and c) Evaluating the sufficiency and appropriateness of the evidence obtained. <p>79. In relating the identified issues to these dimensions, the Task Force developed a general view of the important considerations</p>	<p>The thought process has been included in the draft guidance in Chapter 10 in summary form/as a list of points for the practitioner to think about; example illustrating the application of the thought process has been included in draft guidance Chapter 10.</p> <p>The material in paragraphs 78 – 118 is largely theoretical discussion. Some of it will be referenced from the guidance (e.g. references to the standard and IFAE on persuasiveness of evidence – see highlighted text). The rest is to be considered for the Supplement, although the feedback from the breakout sessions at the June Board meeting was that it was very complex so, if included in Supplement, it needs some simplification.</p> <p>The Preliminary outline of the thought process that was included in the June 2019 Issues Paper has been used as a basis for the thought process set out in the draft guidance, but with modifications.</p>

<p>about evidence on each dimension. These are described below. The Task Force proposes to develop the guidance to provide a thought process for the practitioner in addressing these considerations. This thought process could be applied by practitioners to address evidence for any type of subject matter information in an EER report. The Task Force also proposes to illustrate the application of this general thought process to specific issues identified for narrative and future-oriented information, through the use of practical examples.</p> <p>80. The Task Force considers that this approach would be consistent with how guidance has been developed for other challenges addressed in phase1. In developing the guidance, the Task Force also proposes to consider how developments in the current revision of ISA 315, and key elements of the approaches in ISAE 3400 and in ISA 540 (Revised), may be adapted in addressing narrative and future-oriented information in an EER engagement.</p> <p>Context – the fundamental significance of evidence in an EER assurance engagement</p> <p>81. Evidence is a fundamental concept that defines the nature of an assurance engagement, one in which a practitioner aims to obtain sufficient appropriate evidence in order to express an assurance conclusion.³ The assurance conclusion is about whether the subject matter information is free from material misstatement.⁴ Evidence is the information used by the practitioner in arriving at the assurance conclusion.⁵ Evidence is primarily obtained from procedures performed during the course</p>	<p>Further consideration needed on how to distinguish between limited and reasonable assurance work effort/depth of assurance.</p> <p>NOTE: some suggested drafting changes made to existing material in the CP for this Chapter.</p>
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³ ISAE 3000 (Revised) paragraph 12(a)

⁴ ISAE 3000 (Revised) paragraph 65

⁵ ISAE 3000 (Revised) paragraph 12(i)

of the engagement but may include information obtained from other sources.⁶ Ordinarily, evidence available will be persuasive rather than conclusive.

82. A misstatement is a difference between the subject matter information and the appropriate measurement or evaluation of the underlying subject matter in accordance with the criteria. Misstatements can be qualitative or quantitative in nature and include omissions.⁷ The materiality of misstatements was addressed in Chapter 12 of the phase 1 guidance.

83. The significance of evidence in an assurance engagement is emphasised in the preconditions for accepting an assurance engagement, which include that the practitioner establishes that:

- The underlying subject matter is appropriate, such that the subject matter information can be subjected to procedures for obtaining sufficient appropriate evidence to support an assurance conclusion⁸; and
- The practitioner expects to be able to obtain the evidence needed to support the assurance conclusion.⁹

84. The exercise of professional judgment and of professional skepticism is critical in obtaining sufficient appropriate evidence through performing procedures. Professional judgment is required to be exercised (in making informed decisions about appropriate courses of action) in planning and performing the engagement, including determining the nature, timing and extent of procedures.¹⁰ Assurance engagements are required to be planned and performed with an attitude of professional

⁶ ISAE 3000 (Revised) paragraph A146

⁷ ISAE 3000 (Revised) paragraph 12(o)

⁸ ISAE 3000 (Revised) paragraphs 24(b)(i) and A40

⁹ ISAE 3000 (Revised) paragraph 24(b)(iv)

¹⁰ ISAE 3000 (Revised) paragraph 12(t)

skepticism, in order to obtain sufficient appropriate evidence.

85. Areas of decision-making in the conduct of an assurance engagement, where professional judgment is necessary include decisions about:

- Materiality and engagement risk.
- The nature, timing and extent of procedures to be performed to meet the requirements of the Standard.
- Whether sufficient appropriate evidence has been obtained and in the case of a limited assurance engagement whether a meaningful level of assurance has been obtained.
- Whether the objectives of the Standard have been met.
- Whether the applicable criteria have been properly applied to the underlying subject matter.
- Whether the applicable criteria that have been selected or developed are suitable in the circumstances of the engagement.
- The appropriate conclusions to draw based on the evidence obtained, including in forming the assurance conclusion and in drawing the conclusions that support it.

86. In performing procedures to comply with the requirements of the Standard, the practitioner makes decisions that ultimately support the assurance conclusion. Making such decisions involves making choices about courses of action or conclusions that can be drawn. For example, the practitioner may have to decide if a risk of material misstatement exists or if an assertion about a class of transactions or balance is misstated or if a control operated effectively. The nature of these decisions is assisted by the application of judgment and professional skepticism in determining the courses of action that are appropriate in the circumstances of the engagement, whether in making the acceptance decision or during the performance of the engagement, and either directly to support a decision about whether or not an assertion implicit in the subject matter

information is corroborated (true) or contradicted (false), or, indirectly, in relation to another matter that supports the assurance conclusion, for example, in relation to the assessment of risk or materiality.

87. Other procedures may involve decisions that are less directly related to the assurance conclusion. For example, those procedures that involve making decisions about aspects of engagement quality, such as the competence of those who are to perform the engagement or the sufficiency or effectiveness of direction, supervision and review procedures.

The characteristics of persuasive evidence

88. The nature, timing and extent of the procedures designed to be performed determine the persuasiveness of the evidence that is available to be obtained by performing a procedure. Different underlying subject matters have different characteristics, including the degree to which subject matter information about them is qualitative or quantitative, objective or subjective, historical or prospective, and relates to a point in time or covers a period. These characteristics may also affect the persuasiveness of available evidence.¹¹

89. The persuasiveness of evidence actually obtained by performing procedures may also be affected by matters such as the competence of the individuals assigned to perform them and the effectiveness of the direction, supervision and review of those individuals.

90. The characteristics of persuasive evidence are its appropriateness (relevance and reliability) and sufficiency.¹² The relevance and reliability of evidence relate to the quality of evidence, while the sufficiency of evidence relates to the quantity of evidence. These characteristics are not binary but are expressed in different degrees. The sufficiency of evidence

¹¹ ISAE 3000 (Revised) paragraph A42

¹² International Framework for Assurance Engagements paragraph 50

relates to both the extent of the evidence obtained (e.g., from more than one source; the extent of sampling) and the strength of the relevance and reliability of the evidence.

91. The relevance of evidence relates to how closely it pertains to, assists in making, or contributes to, the decision being made in performing the procedure. It is closely related to the purpose of the procedure performed. Relevance has the characteristic of corroborating or contradicting the appropriateness of options for courses of action or conclusions that can be taken or drawn in making the decision – i.e. it is the ‘right’ evidence to consider in light of the decision to be made.

92. The reliability of evidence relates to its informational validity (sometimes referred to as representational faithfulness or authenticity), which includes its completeness, accuracy neutrality (lack of bias), and the precision with which the evidence can be obtained (sometimes referred to as its verifiability). The reliability of evidence is influenced by its nature and source and is affected by the individual circumstances under which the evidence is obtained.

93. For example, generally, evidence is more reliable when:

- It is obtained from sources external to the preparer;
- If it is generated by the preparer, if related controls are effective;
- Obtained directly by the practitioner rather than indirectly or by inference; and
- It exists in documentary form.¹³

However, such generalizations are subject to important exceptions. For example, evidence obtained from an external

¹³ International Framework for Assurance Engagements paragraph 63

source may not be reliable if the source is not knowledgeable or objective.¹⁴ Obtaining evidence from different sources or of a different nature may either corroborate other evidence or indicate that an individual item of evidence is not reliable.¹⁵

94. Sufficiency of evidence is a measure of the extent of the evidence obtained and the strength of its relevance and reliability. More evidence that has some relevance and some reliability, or evidence that has more relevance or more reliability, will be more persuasive in corroborating or contradicting the appropriateness of options for courses of action or conclusions that can be taken or drawn in making the decision under consideration (or the level of assurance it provides about the decision).
95. The persuasiveness of the evidence that is necessary to conclude that sufficient appropriate evidence has been obtained depends on the level of assurance that needs to be obtained in the circumstances of the engagement, and the components of engagement risk that the practitioner does not directly influence (those components of the risks of the subject matter information being materially misstated that exist prior to audit, i.e. inherent risk and control risk).¹⁶ The higher these components of risk are, the more persuasive the evidence that will need to be obtained to reduce engagement risk to an acceptably low level in the circumstances of the engagement. However, obtaining more evidence may not compensate for the evidence having low relevance or reliability and may not therefore result in sufficient appropriate evidence.¹⁷

Nature of a procedure and how it affects the characteristics of the

¹⁴ International Framework for Assurance Engagements paragraph 63

¹⁵ International Framework for Assurance Engagements paragraph 64

¹⁶ ISAE 3000 (Revised) paragraph A12

¹⁷ ISAE 3000 (Revised) paragraph A147

<p>evidence obtained</p> <p>96. Procedures performed in an assurance engagement vary in nature. The nature of a procedure refers both to its purpose and to its type. Purpose reflects relevance to the decision that the practitioner is to address in performing the procedure (i.e. the relevance to making the decision, of the evidence needed). The purpose also influences the reliability of the evidence needed to be obtained by the practitioner by performing the procedure. The type of a procedure refers to the manner in which the procedure is performed (to achieve its purpose). The type of procedure also influences the relevance and reliability of the evidence that is obtained by performing the procedure.</p> <p>Purpose of a procedure and its relationship to decision making</p> <p>97. For all procedures that the practitioner performs in complying with the requirements of the Standard, the ultimate purpose is to contribute to the reduction of detection risk by enabling the practitioner to obtain evidence about conclusions that collectively support the assurance conclusion.</p> <p>98. Classes of procedure that by their nature have different purposes contribute to the reduction of detection risk in different ways. Evidence obtained from performing such procedures is about conclusions that may support the assurance conclusion in a relatively more or less direct manner. Evidence about conclusions that support the assurance conclusion relatively less directly is often required to be responded to appropriately by designing and performing other procedures that provide evidence about conclusions that support the assurance conclusion relatively more directly.</p> <p>99. For example, the practitioner is required to design and perform procedures, with the purpose of obtaining an understanding of the engagement circumstances (evidence) sufficient to provide</p>	
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a basis for the practitioner to design and perform other procedures.¹⁸ The practitioner is required to respond appropriately to the understanding (evidence) obtained, by designing and performing procedures, on the basis of that understanding, with the purpose of identifying and assessing the risks of material misstatement (in a reasonable assurance engagement) or of identifying areas where a material misstatement is likely to arise (in a limited assurance engagement).¹⁹ Responding appropriately means that the design and performance of those procedures is expected to enable the practitioner to identify such risks or areas where material misstatements are likely to arise. The classes of procedures by nature described in this paragraph may be referred to collectively as risk assessment procedures.

100. The evidence obtained by performing such risk assessment procedures is also required to be responded to by procedures, which may be referred to as further procedures,²⁰ with specific purposes which may be to obtain evidence about the operating effectiveness of a control or to obtain evidence about whether a material misstatement exists. Such further procedures are required to respond appropriately to the identified and assessed risks of material misstatement or to the identified areas where a material misstatement is likely to arise. Responding appropriately means that the design (the nature, timing and extent) and performance of the further procedures is expected to enable the practitioner to obtain sufficient appropriate evidence about whether the subject matter information is materially misstated.

101. The practitioner is also required to perform procedures, with the purpose of evaluating whether sufficient appropriate evidence has been obtained, from the performance of further procedures

¹⁸ ISAE 3000 (Revised) 46L(a) and 46R(a)

¹⁹ ISAE 3000 paragraphs 48L(a) and 48R(a)

²⁰ ISAE 3410 paragraph 14(l)

and other sources, about whether the subject matter information is materially misstated. Evidence obtained from the performance of the further procedures and those described in this paragraph is about conclusions that support the assurance conclusion in a relatively more direct manner (at the level of assertions or misstatements).

102. The practitioner is also required to perform procedures with many other purposes, in the conduct of an engagement. For example: procedures to consider engagement acceptance; procedures to evaluate the competence and capabilities of an expert, another practitioner, or the internal audit function, when their work is to be used as evidence; or to report in accordance with the Standard. Many of these procedures may contribute to the reduction of detection risk relatively less directly (more pervasively at the level of the engagement as a whole).

Types of procedure and their effect on the characteristics of persuasive evidence

103. The manner of performance of a procedure (its type) may, for example, be: inspection; observation; confirmation; re-calculation; re-performance; analysis (substantive or otherwise); or inquiry. The quality of evidence obtained may vary with the type of procedure. The reliability of evidence obtained from two types of procedure with the same purpose may be very different. For example, in obtaining evidence about the implementation of a control, evidence obtained by observation may be more reliable than evidence obtained by inquiry, which is obtained indirectly or by inference.

104. Depending on the precision that is required, one type of procedure may be more appropriate than another in seeking to comply with a particular requirement of the Standard. Often evidence may be gathered to support the same purpose by performing more than one type of procedure. In this context, the Standard notes that evidence obtained by inquiry alone is not sufficient to determine whether a relevant control has been implemented or whether it is operating effectively. Professional

judgment is required to make decisions about the types of procedures that are appropriate in complying with a particular requirement of the Standard.

105. Another area where the Standard provides guidance in relation to the type of procedures to be performed is in limited assurance engagements. The guidance is in the context of the level of assurance to be obtained, which must be at least meaningful. The Standard notes that²¹: “the emphasis placed on the nature of various procedures as a source of evidence will likely differ, depending on the engagement circumstances. For example, the practitioner may judge it to be appropriate in the circumstances of a particular limited assurance engagement to place relatively greater emphasis on inquiries of the entity’s personnel and analytical procedures, and relatively less emphasis, if any, on testing of controls and obtaining evidence from external sources than may be the case for a reasonable assurance engagement.”

The thought process for practitioners in obtaining and evaluating evidence

106. The Task Force proposes to include in the guidance a further-developed version of the preliminary outline of the thought process included below. The thought process is intended to assist practitioners in addressing the challenges in obtaining and evaluating evidence, particularly those identified in the project proposal as relating to evidence about narrative and future-oriented information. It will be supplemented by some general guidance based on the discussion above, which would be cross referenced from the thought process. In addition, the Task Force proposes to develop examples to illustrate how the thought process can be applied in addressing particular issues identified about narrative and future-oriented information.

Determining the characteristics of the evidence needed and available

²¹ ISAE 3000 (Revised) paragraph A3

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| <p>107. The first stage of the thought process considers the characteristics of the evidence needed and of the available evidence. The first step is to identify and understand the nature of the decision that is to be made. As noted above, this may be a decision that more directly relates to the assurance conclusion (e.g., whether an assertion about the subject matter information is materially misstated or a relevant control is operating effectively), or one that relates more indirectly to the assurance conclusion.</p> <p>108. In considering the relevance of the evidence needed, the practitioner identifies possible decision outcomes and underlying indicants, whose condition indicates the appropriateness or inappropriateness of the possible decision outcomes. Information about such indicants is relevant because that information indicates which decision outcome is appropriate.</p> <p>109. The practitioner identifies conditions of the indicant that corroborate and those that contradict possible decision outcomes. Conditions of particular interest are those that would contradict a decision outcome that would, directly or indirectly, support an unmodified assurance conclusion, because such a decision outcome would have implications for the engagement. The practitioner considers what reliable information about the relevant indicants is needed to make the decision.</p> <p>110. Consideration of the degree of sufficiency, relevance and reliability of the information needed to make the decision with the appropriate level of assurance is made in designing the procedure(s).</p> <p>111. The practitioner then considers what information is available that would provide reliable evidence about relevant indicants, and the sources from which it could be obtained. Consideration of the characteristics of the relevant indicants, of the characteristics of the sources of available evidence, of the nature of the evidence available and of the conditions under which the evidence could be obtained from the sources, assists</p> | |
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the practitioner in evaluating the reliability of the available evidence.

Designing and performing procedures to obtain sufficient appropriate evidence

112. The second stage of the thought process addresses the design and performance of procedures. It assists the practitioner in identifying the purpose of the procedure in light of the understanding of the decision developed in the first stage.
113. The thought process then moves on to consider the type of procedures that it would be feasible to perform to obtain the evidence needed. Since the type(s) of procedure performed affect the reliability of the evidence that can be obtained by performing them, the practitioner considers what types of procedure could feasibly be used to obtain available reliable evidence.
114. The design of appropriate procedures also needs to take into account other considerations, such as factors that could cause indicants to have conditions that would contradict a decision outcome that would support an unmodified assurance conclusion.
115. The practitioner also considers the level of precision and detail with which the procedure needs to be performed. This may depend on the nature of the decision to be made, the nature and complexity of the underlying subject matter, the nature of the criteria to be applied, the risk of misstatement in the subject matter information, what is likely to affect the decisions of intended users, the nature and source of available evidence, and the level of assurance to be obtained.
116. The practitioner then considers the sufficiency of the evidence needed to be obtained, both the quantity of evidence and its degree of relevance and degree of reliability. The practitioner is then able to determine the precise nature, timing and extent of the procedure(s) to be performed, such that they expect to be able to obtain sufficient appropriate evidence.

<p>117. The thought process also identifies considerations that are relevant to the performance of the engagement. These may include decisions to be made about the need to exercise assurance and subject matter competence, the significance of the professional judgments and of the exercise of professional skepticism that is likely to be needed in performing the procedures. These decisions have implications for quality control at the engagement level.</p> <p>Evaluating the sufficiency and appropriateness of the evidence obtained</p> <p>118. The third stage of the thought process addresses the evaluation of the evidence obtained. If the design and performance of procedures has been properly addressed, the evaluation should be able to focus primarily on differences from expectations. Such differences may relate to the results of the procedures (particularly where those results indicate that the evidence contradicts a decision outcome that would support an unmodified conclusion). Differences from expectation may also relate to new information. The assurance engagement is an iterative, systematic engagement process, which requires the practitioner to re-evaluate earlier decisions in light of new information, exercising professional skepticism, throughout the engagement</p>	
<p>Outstanding matters</p> <p>119. The Task Force will give further consideration to the following areas where the need for guidance was identified in relation to obtaining evidence:</p> <ul style="list-style-type: none"> a) Documentation considerations; b) The consideration of materiality more generally, including performance materiality; c) The heightened risk of bias associated with internally generated evidence, where there is a lack of external sources from which to obtain evidence, and the need for 	<ul style="list-style-type: none"> a) Consider if further guidance is needed on documentation considerations. Some has been included in the draft guidance (for example in chapter 5) but consider if it would be helpful to include elsewhere b) Some further materiality guidance developed in the context of narrative information; further consideration to be given to performance materiality, generally, and materiality of misstatements in the context of future-oriented information c) Included some guidance on internally generated evidence

<p>professional judgment and professional skepticism;</p> <p>d) The need for the same principles to be applied to diagrams, graphs, charts and other visual representation of the subject matter information;</p> <p>e) How do deal with subjective and superfluous information included within narrative or future-oriented information, and the association with 'other information'; and</p> <p>f) The need for the preparer to keep proper books and records as part of their responsibility for having a reasonable basis for the subject matter information.</p>	<p>in draft guidance.</p> <p>d) Covered in draft guidance.</p> <p>e) Covered in draft guidance.</p> <p>f) Covered in draft guidance.</p>
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