Audit Evidence – Issues Paper

Objectives
The objectives of the IAASB discussion are to:

- Approve a project proposal to address the revision of ISA 500, Audit Evidence; and
- Obtain the Board’s input on the Audit Evidence Working Group’s (AEWG) initial views on key topics relating to ISA 500.

Introduction
1. At the June 2020 IAASB meeting, the Board discussed the outcome of the AEWG information gathering and targeted outreach activities. Based on the feedback, the Board:
   - Agreed that the listing of audit evidence related issues is appropriate.¹
   - Supported the AEWG’s recommendation to develop a project proposal to focus on the revision of ISA 500, including conforming and consequential amendments to other standards, for approval at the December 2020 IAASB meeting.

2. The draft project proposal is presented in Agenda Item 3–A. The nature and scope of the issues included in the draft project proposal are further discussed in Section I of this paper.

3. In June 2020, the Board recommended that during the interim period up to December 2020, the AEWG continues to progress its work by considering how key issues might be addressed, given that there is broad consensus that a revision of ISA 500 is in the public interest. Accordingly, the AEWG identified four key issues that were deemed to be fundamental in progressing the project. Section II of this paper presents the discussion and the initial views of the AEWG in progressing these issues.

4. This paper has the following appendices:
   - Appendix 1 – Working Group Members and Activities, Including Outreach.
   - Appendix 2 – Extract from the Approved June 2020 IAASB Meeting Minutes.
   - Appendix 3 – Itemization of Audit Evidence Related Issues.

5. Supplement 1 to Agenda Item 3 provides an overview of the interrelationships and interaction with the other ISAs. A similar overview was provided at the IAASB’s March 2019 meeting. Given the time that has passed since that discussion and the importance of the interrelationships of the standards to the matters discussed in this paper, the presentation was re-recorded for informational and reference purposes.

Section I – Draft Audit Evidence Project Proposal
6. The AEWG developed a project proposal to revise ISA 500 which is presented in Agenda Item 3-A.

¹ See Appendix 4 of the June 2020 Audit Evidence Issues Paper
7. A draft version of the project proposal was presented to the IAASB’s Consultative Advisory Group (CAG) at its September 2020 meeting. Representatives broadly supported the draft project proposal, in particular the emphasis on technology and its impact on the nature and volume of sources of information. Representatives also encouraged the AEWG to further explore whether the concept of the persuasiveness of audit evidence should be introduced to ISA 500.

Issues Within the Scope of the Project

8. As noted, in June 2020 the Board supported a listing of core audit evidence issues to be addressed in the project to revise ISA 500. Subsequently, the AEWG reorganized and summarized the issues, by preparing an updated itemization of audit evidence related issues that are within the scope of the proposed project. The issues are presented in Appendix 3.

Matters for IAASB Consideration:

1. The Board is asked for its views on the draft project proposal presented in Agenda Item 3-A.

Section II – Issues and AEWG’s Initial Views

Background

9. The AEWG has identified four key topics for discussion with the Board in December 2020. In identifying such key topics, the AEWG considered whether matters associated with the topics are:
   - Fundamental to the progression or direction of the project; or
   - Matters where there is a lack of consensus; or
   - Matters that would require more deliberation.

10. The AEWG did not identify any of the issues in Appendix 3 that were exclusively categorized to technology or professional skepticism as key topics for further discussion at this stage. However, aspects of technology and professional skepticism have been considered during the discussion of each key topic. For example, aspects of technology are integral to the discussions about the concept and evaluation of sufficient appropriate audit evidence. The AEWG will consider and when appropriate, present proposals on specific issues related to technology and professional skepticism in future discussions with the Board.

11. In presenting the key topics, the matters for discussion are organized as follows:
   - Background – Providing appropriate context and information about the issue. This may include specific and relevant feedback to the AEWG’s information gathering activities, as presented in the June 2020 IAASB Audit Evidence Issues Paper. In addition, this section includes a description of the relevant extant ISA 500 requirement(s).
   - AEWG’s initial views – The initial views of the AEWG in addressing the issues going forward.

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2 Draft Audit Evidence Project Proposal presented to the IAASB CAG in September 2020: Agenda Item D.2
3 The information gathering activities included targeted outreach, review of academic research, and monitoring the activities of national standard setters and professional accountancy organizations. Such activities also included an overview of the revision of Auditing Standard – Clarified (AU-C) Section 500, Audit Evidence, by the American Institute of Certified Public Accountants’ (AICPA) Auditing Standards Board (ASB)
Sources of Information to be Used as Audit Evidence

12. When conducting an audit of financial statements, the 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 obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk to an acceptable low level.

13. Most of the auditor’s work in forming the auditor’s opinion consists of obtaining and evaluating audit evidence. This is an iterative process whereby the auditor considers the availability and accessibility of different types of information that may be used as audit evidence. If considered accessible and available, the auditor also considers whether such information can be obtained at a reasonable cost and within a reasonable time. Information that satisfies the aforementioned criteria is then narrowed down, based on the auditor’s judgment, to information to be used as audit evidence. Changes to the scope of such information may occur as facts and circumstances change. In the context of extant ISA 500, information to be used as audit evidence represents the information that will be subject to the auditor’s further considerations or judgments in measuring its relevance and reliability.

14. An important factor in considering the relevance and reliability of information to be used as audit evidence, is the source of such information. In this paper, the AEWG describes and distinguishes between the following sources of information to be used as audit evidence:

- Internal information sources – Management may provide the auditor with information produced from the financial reporting process used to prepare the financial statements (also referred to as information produced by the entity in extant ISA 500). Management may also provide the auditor with information obtained from sources external to the entity but used to prepare the financial statements. Such information may also include the work performed by a management’s expert.

- Information sources external to the entity – The auditor may use information obtained from external sources and other parties. For example, the auditor may:
  - Use information obtained from rating agencies or disgruntled clients about debtor statements.
  - Perform inquiries with or obtain confirmation from external parties, such as banks.

In the context of this paper, the scope of information sources external to the entity is therefore not the same or limited to the scope of ‘external information source’ as introduced and defined in ISA 500 due to the revisions of ISA 540 (Revised).

- Auditor generated information – The auditor may develop information to be used as audit evidence. Auditor generated information may include the results of audit procedures,

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4 ISA 200, Overall Objectives of the Independent Audit and the Conduct of an Audit in Accordance with International Standards on Auditing, paragraph A50
5 ISA 500, paragraph 9
6 ISA 500, paragraph 8
7 ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures
8 Definition of external information source – An external individual or organization that provides information that has been used by the entity in preparing the financial statements, or that has been obtained by the auditor as audit evidence, when such information is suitable for use by a broad range of users. When information has been provided by an individual or organization acting in the capacity of a management’s expert, service organization, or auditor’s expert the individual or organization is not considered an external information source with respect to that particular information.
information generated internally by the auditor’s firm or internal expert, or when using the work of an auditor’s expert in accordance with ISA 620.⁹

**Issue 1: Purpose and Scope of ISA 500**

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<tr>
<th>Issue:¹⁰</th>
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<tr>
<td>The purpose and scope of ISA 500 in the context of the other ISAs, in particular:</td>
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<tr>
<td>• The relationship of ISA 500 with other ISAs including ISA 330.¹¹</td>
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<tr>
<td>• Whether ISA 500 is intended to be a performance standard (i.e., it includes requirements to design and perform audit procedures),¹² as opposed to a standard designed to provide context for auditor performance requirements in other standards.</td>
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**Background**

15. Stakeholders noted that the description of the relationship of ISA 500 with other standards, in particular ISA 330, could be enhanced. For example, stakeholders sought clarity on:

• The relationship between the auditor’s objective to obtain sufficient appropriate audit evidence and the overall objective of an audit in accordance with ISA 200. Some stakeholders recommended introducing a stand-back requirement in ISA 500 when making judgments about sufficient appropriate audit evidence.
• The role of professional skepticism as discussed in ISA 200, when making judgments about information to be used as audit evidence.
• The relationship between ISA 500 and ISA 330, specifically paragraph 26 of ISA 330.¹³

16. In revising AU-C 500, the AICPA shifted the focus of the standard from the design and performance of audit procedures for the purpose of obtaining sufficient appropriate audit evidence, to understanding the attributes of information to assist the auditor in evaluating information to be used as audit evidence. AU-C 500 (Revised), *Audit Evidence* also enhanced introductory and application material to explain the scope of the standard and its linkages to AU-C 200¹⁴ (converged with ISA 200), AU-C 330¹⁵ (converged with ISA 330) and AU-C 700 (Revised)¹⁶ (aligned with ISA 700 (Revised)).¹⁷

17. In considering why the relationship between ISA 500 and ISA 330 may not be sufficiently clear, the AEWG observed that both standards require the performance of audit procedures with the

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⁹ ISA 620, *Using the Work of an Auditor’s Expert*
¹⁰ Issue 1 in *Appendix 3*
¹¹ ISA 330, *The Auditor’s Responses to Assessed Risks*
¹² For example, the objective of ISA 500 indicates that “the objective of the auditor is to design and perform audit procedures”, and paragraph 6 requires the auditor to “design and perform audit procedures.”
¹³ ISA 330, paragraph 26 states that: ‘The auditor shall conclude whether sufficient appropriate audit evidence has been obtained. In forming an opinion, the auditor shall consider all relevant audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements’
¹⁴ AU-C Section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Generally Accepted Auditing Standards*
¹⁵ AU-C Section 300, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*
¹⁶ AU-C Section 700, *Forming an Opinion and Reporting on Financial Statements*
¹⁷ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*
objective to obtain, or to enable the auditor to obtain, sufficient appropriate audit evidence. However, the conclusion as to whether the auditor has obtained sufficient appropriate audit evidence, to be able to draw reasonable conclusions on which to base the auditor’s opinion, is located in ISA 330. The AEWG observed that the overlap between the two standards is likely creating confusion about whether ISA 500 is intended to be a performance standard, or whether its main purpose is to provide context for performance requirements in other standards, such as ISA 330.

Extant ISA 500

18. The scope18 of extant ISA 500 states that the standard:

- Explains what constitutes audit evidence in an audit of financial statements;
- Deals with the auditor’s responsibility to design and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor’s opinion; and
- Applies to all the audit evidence obtained during the course of the audit.

19. The scope also states that other ISAs deal with specific aspects of the audit, for example, identifying and assessing the risks of material misstatement in ISA 315 (Revised)19 and the evaluation of whether sufficient appropriate audit evidence has been obtained (ISA 200 and ISA 330).

20. The objective20 of extant ISA 500 is for the auditor to design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor’s opinion.

AEWG’s Initial Views

Purpose and Scope

21. The AEWG explored, on a holistic basis, the interaction between ISA 500 and the other ISAs, in particular ISA 200 and ISA 330 (for a further understanding of the interaction, see supplement 1 to Agenda Item 3). In doing so, the AEWG observed that:

- To obtain reasonable assurance, ISA 200 requires the auditor to 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.21
- The objective of ISA 500 is to design and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw such reasonable conclusions (i.e., referred to in ISA 200) on which to base the auditor’s opinion. Although ISA 500 requires the auditor to obtain sufficient appropriate audit evidence, the focus of the objective is on the auditor designing and performing audit procedures.22

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18 ISA 500, paragraph 1 and 2
19 ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment
20 ISA 500, paragraph 4
21 ISA 200, paragraph 17
22 ISA 500, paragraph 6
The objective of ISA 330 is to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement, through designing and implementing appropriate responses to those risks. Although the objectives of ISA 500 and ISA 330 have similarities, a key difference between the standards is that ISA 330 requires the auditor to conclude whether sufficient appropriate audit evidence has been obtained to be able to draw reasonable conclusions on which to base the auditor’s opinion. This distinguishing factor is not evident when considering the scope and objective of ISA 330.

Application material of ISA 330 notes that the auditor’s judgment as to what constitutes sufficient appropriate audit evidence is influenced by matters, such as:
- Source and reliability of audit evidence.
- Persuasiveness of audit evidence.
- Results of the audit procedures performed, including whether such audit procedures identified specific instances of fraud and error.
- Significance of the potential misstatement, in the assertion and the likelihood of it having a material effect, individually or aggregated with other potential misstatements, on the financial statements.

22. The AEWG is of the view that ISA 500 underpins the other ISAs, and that its main purpose is to support the auditor’s judgments when considering information to be used as audit evidence more broadly. Accordingly, the AEWG believes that ISA 500 should not focus on designing and performing audit procedures, because it creates confusion and blurs the focus on what is truly important. The AEWG therefore proposes that the objective of ISA 500 be conceptually aligned with such purpose, by:
- Shifting the focus of the objective of ISA 500 from designing and performing audit procedures to an objective that requires the auditor to make judgments about the sufficiency and appropriateness of information to be used as audit evidence.
- Clarifying through guidance that the auditor’s judgments about information to be used as audit evidence, in accordance with ISA 500, supports or informs the auditor’s overall conclusion in ISA 330 about whether sufficient appropriate audit evidence has been obtained.

23. It should be noted that the outcome of this approach may have important consequences for the relevance or placement of requirements in extant ISA 500. For example, ISA 500 paragraph 6 requires the auditor to ‘design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.’ If the Board agrees with an ISA 500 objective that is focused on judgments about the sufficiency and appropriateness of information to be used as audit evidence, it may be necessary to reconsider whether this requirement should be included in ISA 500, or whether it should be moved to another ISA, such as ISA 330.

Linkages with Other Standards

24. ISA 500 currently includes an introductory paragraph to explain the relationship with ISA 200, ISA 315 (Revised), ISA 330, ISA 520, and ISA 570 (Revised). Given that ISA 500 underpins the

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23 ISA 330, paragraph A62
24 ISA 520, Analytical Procedures
25 ISA 570 (Revised), Going Concern
ISAs and its close relationship with ISA 200 and ISA 330, the AEWG is of the view that it is necessary to further clarify the relationships between ISA 500, ISA 200 and ISA 330. Simultaneously, the AEWG intends to consider whether the relationship of ISA 500 with other standards, such as ISA 520, may be enhanced.

25. The AEWG proposes to include these explanations under a new and separate heading in the introductory paragraphs: ‘**Key concepts of this ISA.**’ This section would highlight the following key principles of the standard, and its relationship with other standards:

- Purpose of an audit in accordance with ISA 200, and how ISA 500 fits within the overall objective of an audit,26 also taking into account the objectives of ISA 315 (Revised 2019)27 and ISA 330.
- The interaction of ISA 500 with other standards, for example building on the existing links with ISA 315 (Revised 2019), ISA 520, and ISA 570 (Revised).
- The role of professional skepticism when making judgments about information to be used as audit evidence, with references to ISA 200.

26. The AEWG also proposes to enhance the application material to further explain:

- The role of professional skepticism,28 with appropriate references to ISA 200, to demonstrate how professional skepticism may be exercised by the auditor when making judgments about information to be used as audit evidence.
- The relationship of ISA 500 with ISA 330 (i.e., based on the agreed objective of ISA 500). Application material in extant ISA 500 only states that ISA 330 requires the auditor to conclude whether sufficient appropriate audit evidence has been obtained, and that this is a matter of professional judgment. Further additions may include:
  - Clarifying in ISA 500 that the auditor’s evaluation of whether sufficient appropriate audit evidence has been obtained (i.e., ‘stand-back’) is embedded in ISA 330.
  - Explaining that the auditor’s consideration of information to be used as audit evidence, in accordance with ISA 500, may assist the auditor in exercising professional judgment in making the overall conclusion about sufficient appropriate audit evidence as contemplated by ISA 330.

**Matters for IAASB Consideration:**

2. The Board is asked for its views on the AEWG’s:

- Observations about the overlap in the objectives of ISA 500 and ISA 330, and that such overlap is creating confusion about the purpose and scope of ISA 500.
- Proposed direction with respect to the purpose and scope of ISA 500, and the linkages with other standards.

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26 Reference to the overall objective of an audit, in the context of sufficient appropriate audit evidence, is currently included in paragraph A3 of ISA 500: ‘As explained in ISA 200, reasonable assurance 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’

27 ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

28 Appendix 3 includes specific issues that have been categorized to professional skepticism
Issue 2: The Concept and Evaluation of Sufficient Appropriate Audit Evidence

**Issue:**

The concepts of, and judgments about, sufficient appropriate audit evidence. In particular, factors or attributes to be taken into account by the auditor when making judgments about information to be used as audit evidence and in concluding whether sufficient appropriate audit evidence has been obtained. In considering the concepts of, and judgments about, sufficient appropriate audit evidence, it is necessary to consider whether the definitions in ISA 500 remain appropriate, for example, the definitions of ‘appropriateness’ of audit evidence and ‘sufficiency’ of audit evidence.

**Background**

27. The AEWG noted that a significant portion of academic research focused on the use (or lack thereof) of technology by auditors. It was further noted that perceived resistance to the use of technology appears to be driven by an underlying theme which suggests that the characteristics used to define ‘sufficient appropriate audit evidence’ may not be clear or adequate. This theme was consistent with key aspects of the results of the targeted outreach activities, i.e., existing challenges in relation to the evaluation of sufficient appropriate audit evidence were exacerbated by the evolution in technology and an increase in the sources and volume of information.

**Persuasive Audit Evidence**

28. Stakeholders noted that the concept of persuasive audit evidence, in the context of sufficient appropriate audit evidence, is prominent in ISAs other than ISA 500, for example, ISA 200 and ISA 330. It was therefore questioned whether the concept of persuasive audit evidence is relevant to ISA 500 and, if so, that it should be clarified in the revision of ISA 500.

29. During the September 2020 IAASB CAG meeting, Representatives also noted that the concept of the persuasiveness of audit evidence may be relevant and should be clarified in the revision of ISA 500. In particular, it was noted that the right type of audit evidence (i.e., quality) is already embedded in the definition of sufficiency. Therefore, if the audit evidence is persuasive, only a limited amount of audit evidence may be sufficient. On the other hand, obtaining more of the same type of audit evidence may not compensate for its lack of appropriateness.

30. Due to the array of automated tools and techniques available to the auditor in today’s environment and the different nature and sources of information available, the AICPA’s ASB also concluded that the quantity of audit evidence, in itself, may not be determinative of its sufficiency. Accordingly, without changing the definition of the ‘sufficiency’ of audit evidence, the AICPA introduced the

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29 Issue 2 in Appendix 3
30 Paragraph 5(e) of ISA 500 describes the sufficiency of audit evidence as the measure of the quantity of audit evidence
31 ISA 200, paragraph A54
32 ISA 330, paragraph A19
33 With reference to the exposure draft of AU-C 500, the definition of “sufficiency” was initially changed to focus on the measure of the persuasiveness of audit evidence rather than emphasizing the quantity of audit evidence. However, due to concerns about circularity in relation to sufficiency and persuasiveness, the ASB decided to revert back to the extant definition. Nonetheless, as explained, the concept about persuasiveness was introduced in the application material.
concept of ‘persuasiveness’ in the application material of AU-C 500 (Revised), and made
conforming amendments to AU-C 330, to explain that:

- The sufficiency and appropriateness of audit evidence are interrelated, and together they
  affect the persuasiveness of audit evidence.
- The auditor’s conclusion about whether sufficient appropriate audit evidence has been
  obtained, in accordance with AU-C 330, requires the auditor to obtain more persuasive
  audit evidence the higher the assessment of risk. The persuasiveness of audit evidence
  obtained determines whether the auditor has obtained appropriate audit evidence that is
  sufficient for the auditor to draw reasonable conclusions.
- As the quality of audit evidence increases, the need for additional corroborating audit
  evidence decreases.

Relevant Definitions

31. With respect to the definition of sufficiency of audit evidence, stakeholders noted that the
    significant increase in sources of information causes uncertainty in judging ‘how much evidence
    is enough.’ It also raises questions about whether the concept of the persuasiveness of audit
    evidence may address such uncertainty. Simultaneously, some stakeholders questioned whether
    the auditor, in assessing the sufficiency of audit evidence, is required to perform a search for
    information that is inconsistent with management’s assertions.

32. Stakeholders broadly agreed that the definition of ‘appropriateness of audit evidence’ appears
    acceptable but acknowledged that the underlying principles, such as the measurement of
    relevance and reliability of information to be used as audit evidence, may need to change.34

33. Central to the concept of sufficient appropriate audit evidence, is the definition of audit evidence
    itself. Stakeholders who participated in the targeted outreach activities noted that:
    - The definition of the term accounting records, which is embedded in the definition of audit
      evidence, may be interpreted to refer to financial records or the ‘books of account.’ Stakeholders
      noted that more consideration of electronic or digital sources is needed to
      modernize this definition.
    - The definition of audit evidence refers to ‘information used by the auditor…’ which implies
      that the auditor is performing something on or with such information. However, the definition
      could also be interpreted to imply that information and evidence are synonymous.

34. The AICPA enhanced its definition of audit evidence by stating that “audit evidence is information to
    which audit procedures have been applied and consists of information that corroborates or
    contradicts assertions in the financial statements.” The addition of the term ‘to which audit
    procedures have been applied’ was intended to clarify the notion that information becomes audit
    evidence once the auditor has applied audit procedures to such information.35 The definitions of
    the ‘appropriateness’ and ‘sufficiency’ of audit evidence substantially remained unchanged.
    However, as noted, application material was enhanced to note, among other matters, that the

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34  For example: ISA 500, paragraph A31
35  This concept is referred to in the paragraph A1 of ISA 500, but articulated as ‘Audit evidence is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit.’
sufficiency and appropriateness of audit evidence are interrelated, and together they affect the persuasiveness of audit evidence.

The Consideration of Sufficient Appropriate Audit Evidence, Including Judgments About the Relevance and Reliability of Information to be Used as Audit Evidence

35. Stakeholders noted that the evolution of technology and changes in the number and nature of sources of information resulted in concerns over the use of electronic information to be used as audit evidence (for example a scanned delivery note, debtor confirmation through e-mail, remote inspection of assets, etc.), and how the use of such information may affect the auditor’s considerations related to sufficient appropriate audit evidence. In addition, questions were raised as to whether there is a difference between information that was created in digital format, as opposed to hardcopy information that was converted into digital format. Stakeholders cautioned that these questions will likely be exacerbated by the impact of COVID-19 on remote auditing practices.

36. Stakeholders raised questions about whether ISA 500 could elaborate on the authenticity of electronic or digital information, notwithstanding an existing reference to ISA 240\(^\text{36}\) that deals with circumstances when the auditor has reason to believe that a document may not be authentic. As an example, it was noted that it is becoming increasingly difficult to distinguish between documents that are originals, copies or bogus altogether.

37. As noted, stakeholders broadly supported the extant definition of the appropriateness of audit evidence. However, given the significant changes in the nature and sources of information, in conjunction with the evolution in technology, stakeholders consistently expressed concern about the appropriateness of the generalizations about the reliability of audit evidence in the application material of ISA 500.\(^\text{37}\) For example, statements that:

- The reliability of audit evidence increases when it is obtained from independent sources outside the entity.
- Audit evidence provided by original documents is more reliable than audit evidence provided by photocopies or facsimiles, or documents that have been filmed, digitized or otherwise transformed into electronic form. The reliability of such documents may depend on the controls over their preparation and maintenance.

38. Stakeholders also raised questions about the scope of the requirement to evaluate whether information is sufficiently reliable for the auditor’s purposes.\(^\text{38}\) This evaluation is only required when the auditor uses information produced by the entity. Taking into account the reliability generalizations in paragraph A31 of ISA 500, stakeholders questioned whether the scope of this requirement remains appropriate.

39. Stakeholders broadly supported the development of factors or attributes to be taken into account by the auditor when making judgments about information to be used as audit evidence. They noted that a robust framework could assist in addressing concerns that auditors may not be sufficiently skeptical when applying the requirements of ISA 500. Stakeholders noted that the AICPA followed this approach by establishing a set of attributes to be used in evaluating whether all information to be used as audit evidence is relevant, reliable, sufficient and appropriate for the auditor’s intended purpose (i.e., the criteria set out in the requirements). An important implication

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\(^{36}\) ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph 13

\(^{37}\) ISA 500, paragraph A31

\(^{38}\) ISA 500, paragraph 9
of this approach is that AU-C 500 (Revised) does not distinguish between the work effort in relation to whether the information is produced internally by the client or otherwise. All information to be used as audit evidence is evaluated in terms of the same attributes and in the context of the auditor’s intended purpose.

Extant ISA 500

40. When designing and performing audit procedures, ISA 500 requires the auditor to consider the relevance and reliability of the information to be used as audit evidence.\(^{39}\) When using information produced by the entity, this consideration includes evaluating whether the information is sufficiently reliable for the auditor’s purposes. Such evaluation includes, as necessary, obtaining evidence about the accuracy and completeness of the information and evaluating whether the information is sufficiently precise and detailed for the auditor’s purposes.\(^{40}\)

41. Application material in ISA 500 provides guidance on the measurement of relevance and reliability. In particular, the standard notes that the reliability of information to be used as audit evidence, and therefore of the audit evidence itself, is influenced by its source and its nature, and the circumstances under which it is obtained, including the controls over its preparation and maintenance where relevant. The standard provides generalizations about the reliability of audit evidence. However, due to the particular circumstances (including the source and nature of the audit evidence as discussed), the standard notes that the generalizations are subject to important exceptions. For example, application material also notes that information obtained from an independent external source may not be reliable if the source is not knowledgeable, or a management’s expert may lack objectivity.

AEWG’s Initial Views

Terms and Definitions

42. In considering existing guidance in the ISAs, the AEWG believes that the concept of the persuasiveness will assist auditors in making judgments about the sufficiency of audit evidence. For example:

- ISA 200 states that the inherent limitations of an audit are not a justification for the auditor to be satisfied with less than persuasive audit evidence.\(^{41}\)
- ISA 330 requires the auditor to obtain more persuasive audit evidence the higher the auditor’s assessment of risk.\(^{42}\) Application material continues by stating that when obtaining more persuasive audit evidence because of a higher assessment of risk, the auditor may increase the quantity of the evidence, or obtain evidence that is more relevant or reliable.\(^{43}\)

43. The AEWG therefore supports the introduction of the concept of the ‘persuasiveness of audit evidence’ in ISA 500, in particular as this concept is already discussed in the context of sufficient appropriate audit evidence in other ISAs. By introducing this concept, the AEWG intends to further explore:

- The development of a definition of persuasiveness to safeguard its consistent application. Simultaneously, the introduction of the concept of ‘persuasiveness’ may address

\(^{39}\) ISA 500, paragraph 7
\(^{40}\) ISA 500, paragraph 9
\(^{41}\) ISA 200, paragraph A54
\(^{42}\) ISA 330, paragraph 6(b)
\(^{43}\) ISA 330, paragraph A19
stakeholders’ concerns about the definition of sufficiency, or rather, how much audit evidence is enough?

- The development of guidance to explain how the concept of the persuasiveness of audit evidence in ISA 500 interacts or relates to other standards (for example ISA 330).

- How ISA 500 addresses the appropriateness of audit evidence in the context of its ‘relevance and reliability.’ Although the standard notes that the reliability of audit evidence is influenced by certain factors (including source and nature), the AEWG considered whether specific attributes or factors in relation to relevance are required, in addition to broad explanatory guidance in the application material (see paragraph 49).

44. The AEWG will further consider whether any updates to the other definitions of ISA 500 may be required.

Sufficient Appropriate Audit Evidence and Attributes of Information

45. The AEWG is of the view that a principles-based approach is needed in considering information to be used evidence, given the significant changes in the nature and volume of information, including information that may be obtained from sources external to the entity. In particular, when evaluating extant ISA 500, the AEWG agrees with stakeholder concerns about:

- The appropriateness of ‘reliability’ generalizations in paragraph A31 of ISA 500. For example, information sources external to the entity may, or may not be sufficiently reliable for the auditor's purposes (e.g., social media, or an external source that is not knowledgeable or has a poor reputation may not be sufficiently reliable); and

- The scope of the extant requirement to evaluate whether information is sufficiently reliable for the auditor's purposes. Note that the scope of this requirement is limited to information produced by the entity.44 Given the increase in the number and volume of sources of information, the AEWG is of the view that such a consideration should be expanded upon, to the extent practicable, to information to be used as audit evidence, regardless of whether its obtained from internal or external information sources (also see paragraph 66).

46. Specifically, the AEWG proposes:

- Developing a set of factors in relation to, or attributes of, information that should be considered by the auditor when making judgments about information to be used as audit evidence; and

- That auditors consider such attributes or factors in relation to all sources of information.

47. The implication of this proposal is significant as ISA 500 includes requirements that are exclusive to information produced by the entity. For example, in evaluating whether information produced by the entity is sufficiently reliable for the auditor's purposes, extant ISA 500 requires that this evaluation includes obtaining audit evidence about its accuracy and completeness, ‘as necessary in the circumstances.’45 However, the proposed principles-based approach would no longer distinguish between the source of information to be used as audit evidence (whether it is obtained from an internal or external source) and the AEWG does not intend to maintain or create requirements that are based on such distinction.

44 ISA 500, paragraph 9

45 Extract from ISA 500, paragraph 9: ‘When using information produced by the entity, the auditor shall evaluate whether the information is sufficiently reliable for the auditor’s purposes, including, as necessary in the circumstances, obtain audit evidence about the accuracy and completeness of the information...’
48. In developing possible factors in relation to, or attributes of, information to be used as audit evidence, the AEWG considered the use of such factors or attributes by other stakeholders. Given the requirements of extant ISA 500 and the commonality of the terms used across other IAASB standards and in the standards of other standard-setters, the AEWG concluded that focusing on the auditor’s consideration of the relevance and reliability of information to be used as audit evidence remains appropriate.

49. A preliminary listing of such factors or attributes was developed and is presented in the table below. In considering this listing, the AEWG would like to emphasize that:

- Prior to the determination of whether information to be used as audit evidence is relevant and reliable for the auditor’s purposes, the auditor considers whether the information is available and accessible, and whether it can be obtained at a reasonable cost and within a reasonable time (also see paragraph 13).
- The listing is not meant to be a checklist of considerations for auditors. Instead, it is intended to be used as a framework of concepts that are to be considered by the auditor on a holistic basis in evaluating the relevance and reliability of information to be used as audit evidence. For example, the auditor may conclude that the consideration of a particular attribute (such as completeness) may not be practicable for information obtained from a source external to the entity due to a lack of access to the external entity, and instead the auditor may focus more on the credibility or reputation of the source.

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Brief description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Understandability</td>
<td>The degree to which an auditor can perceive the significance of the information to the auditor’s purposes.</td>
</tr>
<tr>
<td>Relation</td>
<td>The degree to which information logically relates to, or bears upon, the purpose of an audit procedure, including, where appropriate, the assertion under consideration.</td>
</tr>
<tr>
<td>Impact</td>
<td>The degree to which information is either consistent or inconsistent with a matter subject to an audit procedure.</td>
</tr>
<tr>
<td>Precision</td>
<td>The degree of exactness or level of detail for the auditor’s purposes</td>
</tr>
</tbody>
</table>
### The Auditor’s Consideration of the Reliability of Information to be Used Audit Evidence

**Reliability of Information**
The degree to which auditors may rely on information to be used as audit evidence

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Brief description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authenticity</td>
<td>The source noted actually generated or provided the information and is who it claims to be, as well as whether the information can be altered without a record of the alteration.</td>
</tr>
<tr>
<td>Accuracy</td>
<td>The degree to which information is free from error in its reflection of the underlying events and conditions, including attributing the appropriate time period or point in time to the conditions or events</td>
</tr>
<tr>
<td>Bias</td>
<td>The degree to which the information is free from bias, including from fraud, in its reflection of the underlying events or conditions</td>
</tr>
<tr>
<td>Completeness</td>
<td>The degree to which the information reflects all of the underlying events or conditions</td>
</tr>
<tr>
<td>Authorization</td>
<td>Information generation or provision is appropriately authorized. This relates to the individual or organization providing the information – not the auditor</td>
</tr>
<tr>
<td>Credibility</td>
<td>The degree to which credence can be given to specific information received from that source.</td>
</tr>
</tbody>
</table>

Factors impacting the Credibility of the Source of the Information include:

- Trustworthiness – the degree to which credence can generally be given to information received from that source.

  Trustworthiness factors to consider may include:
  - Authority – the official right or power of source to generate or provide the information
  - Bias – the interests of the source and the degree to which it is free from inappropriate influence
  - Integrity – adherence of source to general ethical principles and values
  - Care – diligence of source in generating or providing information and concern of source for recipients thereof
  - Commitment – consequences to source of providing incorrect or incomplete information

- Competence – the ability of source to generate or provide certain information to a required standard
Work effort applied to factors in relation to, or attributes of, information to be used as audit evidence

50. In determining the appropriate level of the auditor’s overall work effort in relation to information to be used as audit evidence, the AEWG proposes a work effort that is based on the distinction between:

- Internal information sources and information sources external to the entity; and

  **Proposed Work Effort:**
  
  The AEWG proposes a work effort of ‘the auditor shall evaluate whether the information to be used as audit evidence is relevant and reliable by considering the factors relating to, or attributes of, relevant and reliable information to be used as audit evidence.’

  **Rationale:**
  
  The IAASB’s Glossary of Terms provides a definition of evaluation, which refers to the identification and analysis of relevant issues, including performing further audit procedures, as necessary, to come to a specific conclusion. The AEWG believes this work effort is commensurate to the appropriate desired work effort. In contrast, a work effort of ‘shall consider’ may only require the auditor to think about a matter in making a decision. The AEWG does not believe a work effort of ‘shall consider’ is appropriate as it relates to conclusions about relevance and reliability under the circumstances.

- Auditor generated information, including the results of audit procedures

  **Proposed Work Effort:**
  
  The AEWG proposes a work effort of ‘the auditor shall consider whether the information to be used as audit evidence is relevant and reliable by considering the factors relating to, or attributes of, relevant and reliable information to be used as audit evidence.’

  **Rationale:**
  
  The processes for preparing auditor generated information, including the results of audit procedures, are subject to the quality management policies and procedures of the firm, the requirements in ISA 220 (Revised)\(^{48}\) applicable to the reliance on firm policies and procedures, and the requirements in ISA 220 (Revised) on direction, supervision and review. Consequently, an evaluation involving the consideration of all of the attributes of information is not necessary. Rather a high-level consideration by the auditor as to the relevance and reliability of auditor generated information ought to suffice.

**Other Considerations**

51. The AEWG further proposes to:

- Emphasize the need for the auditor to exercise professional skepticism in making judgments about information to be used as audit evidence.

  - This may be achieved through the inclusion of a requirement to consider whether information to be used as audit evidence is sufficiently reliable for the auditor’s

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\(^{48}\) The recently approved: ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*
intended purposes notwithstanding whether the information corroborates or contradicts assertions in the financial statements,

– However, the AEWG does not support the introduction of a requirement to actively seek inconsistent or contradictory evidence. The views of the AEWG are supported by previous discussions by the IAASB’s Professional skepticism Working Group and by the IAASB during, for example, the revisions of ISA 315 (Revised 2019) and ISA 540 (Revised).

• Enhance application material on the auditor’s consideration of authenticity taking into account the guidance included in ISA 240. Simultaneously, consider whether the auditor’s consideration of fraud should be enhanced in ISA 500 through stronger linkages with ISA 240.

Matters for IAASB Consideration:

3. The Board is asked for its views on the proposed direction in relation to sufficient appropriate audit evidence. In particular, proposals relating to:

   a. Introducing (and defining) the concept of persuasive audit evidence;
   b. Developing a set of factors in relation to, or attributes of, information to be used by the auditor when considering information to be used as audit evidence, including the proposed factors and attributes;
   c. The determination of the auditor’s work effort of in relation to information to be used as audit evidence; and
   d. Considerations relating to professional skepticism and the auditor’s consideration of fraud in ISA 500.

Issue 3: The Distinction Between Sources of Information in ISA 500

52. The previous topic dealt with the concept of sufficient appropriate audit evidence, and the AEWG’s proposal to develop a set of factors in relation to, or attributes of, information to be considered by the auditor in making judgments about information to be used as audit evidence. As noted in paragraph 47, an important implication of this proposal is that the factors or attributes would be considered in the context of information to be used as audit evidence, irrespective of the source of the information. This proposal addresses an important aspect of the issue described in this section, i.e., the distinction between internal and external sources of information in ISA 500.

Issue: The distinction between information produced by the entity and information sources external to the entity, including in relation to evaluating the reliability of information. There are various dimensions in this regard, for example:

• The differentiation in work effort regarding reliability between information produced by the entity and information sources external to the entity.
• Specific challenges in considering the reliability of information sources external to the entity in certain circumstances, for example, when such information contradicts management’s assertions, or the reliability of that information may not be determinable.

Issue 4 in Appendix 3
• Challenges around possible overreliance on certain information sources without appropriate professional skepticism being exercised.

• Whether the distinction between information produced by the entity and information sources external to the entity is clear in the context of pre-existing concepts, for example, external information sources (as defined through revisions to ISA 540 (Revised)), a management’s expert, and a service organization

Background

53. Stakeholders noted that:

• Entity management uses information from a wide range of internal and external sources. The approach of some auditors was to obtain evidence about its relevance and reliability, irrespective of the source of the information.

• Some information sources external to the entity may exhibit characteristics that make them inherently more reliable than other external sources. For example, when using information from a recognized and reputable source such as Bloomberg or a government agency, typically practitioners would seek less evidence as to the reliability of that information than for information obtained from less recognized or reputable sources.

54. Despite questions about ISA 500’s differentiation in work effort between information produced by the entity and external sources of information, many stakeholders also expressed concerns about difficulties in determining or classifying whether information is ‘produced by the entity’ as contemplated by paragraph 9 of ISA 500, or otherwise. For example:

• In relation to the definition of an ‘external information source’ in ISA 500, it is not clear how an organization ‘that provides information that has been used by the entity’ is different from a ‘service organization’?

• It is not clear whether information from a shared service center is considered information produced by the entity or an information source external to the entity.

• There may be instances where service organizations are considered management experts.

55. Stakeholders also questioned whether the standard adequately addresses the auditor’s ability, or rather inability, to gain sufficient access to certain information sources for purposes of the auditor’s considerations of relevance and reliability in accordance with ISA 500. Although stakeholders cited a number of challenges related to obtaining information from external sources, the AEWG has not scoped in issues related to the access to information within ISA 500, as resolving such issues is beyond the remit of the IAASB’s standards.

56. As noted, the AICPA established a set of attributes to be used in evaluating whether all information to be used as audit evidence is relevant, reliable, sufficient and appropriate for the auditor’s intended purpose (i.e., the criteria set out in the requirements). An important implication of this

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50 Examples where the auditor may not be able to gain access to information (that are not included in the scope of this project) include: Access to, and the right to use client sensitive data, access to type 1 or 2 reports in accordance with ISA 402, Audit Considerations Relating to an Entity Using a Service Organization, and access to information stored on a secure and sophisticated platform (such as cloud-based services or blockchain).
approach is that AU-C 500 (Revised) deals with all information in a consistent manner, irrespective of whether the information is produced internally by the client or otherwise.

Extant ISA 500

57. No matter the type or source of information to be used audit evidence, extant ISA 500 requires the auditor to consider the relevance and reliability of information to be used as audit evidence. Only when the auditor uses information produced by the entity as audit evidence, is there a requirement to evaluate whether the information is sufficiently reliable for the auditor’s purposes, including, as necessary in the circumstances, obtaining audit evidence about its accuracy and completeness, and evaluating whether the information is sufficiently precise and detailed for the auditor’s purposes.51

AEWG’s Initial Views

58. As discussed, an important implication of the proposal to develop a set of factors in relation to, or attributes of, information to be considered by the auditor in making judgments about information to be used as audit evidence, is that the distinction between information produced by the entity and external sources of information would no longer apply (see paragraph 47). Therefore, this issue is conceptually no longer relevant as the AEWG does not intend to maintain or create requirements based on such distinction. For example, when making judgments about the reliability of information to be used as audit evidence, the auditor will be required to consider the same set of attributes or factors in relation to such information, irrespective of its source. However, as indicated, in explaining the concepts of relevance and reliability, application material may address certain dimensions of this issue, such as the auditor’s approach where the consideration of a particular attribute is not practicable, due to its source.

59. Given this discussion, the AEWG does not have any specific proposals at this stage in relation to the distinction between internal and external information sources. However, irrespective of the outcome of the Board’s discussion on this matter, the AEWG proposes to clarify in the application material that the scope of ISA 500 addresses situations where the auditor is able to gain access to information to be used as audit evidence. In contrast, the scope of this standard does not involve the consideration of new requirements to address situations where the auditor cannot gain access to, for example:

- Client sensitive or privileged information, whether due to law or regulation or otherwise, or
- The source of information to be used as audit evidence, such as the processes and controls over how such information was prepared.

60. The AEWG intends to emphasize that the auditor has a responsibility to comply with laws and regulations. If the auditor is unable to obtain access to or use certain data in performing planned procedures to obtain sufficient appropriate audit evidence, the auditor has to attempt to perform alternative or additional procedures to obtain further audit evidence. If the auditor is unable to

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51 ISA 500, paragraph 9
obtain sufficient appropriate audit evidence (i.e., a limitation of scope), the auditor shall express a qualified opinion or disclaim an opinion on the financial statements. 52

**Matters for IAASB Consideration:**

4. The Board is asked for its views on the proposals, in particular:
   - That the requirements of ISA 500 no longer distinguish between information produced by the entity and external sources of information to be used as audit evidence; and
   - Application material to clarify the scope of ISA 500 in relation the access to information.

**Issue 4: Using Information for Different Types of Audit Procedures**

**Issue:**

Whether all information to be used as audit evidence should be subject to the same work effort when considering the relevance and reliability of such information, based on the nature of the audit procedure in relation to which the information will be used (i.e., in a risk assessment procedure (i.e., ISA 315 (Revised 2019)) or in a category of further audit procedures (i.e., ISA 330)).

**Background**

61. When considering information to be used as audit evidence for different types of audit procedures, stakeholders noted that it would be helpful to clarify that the auditor has to determine whether the information is sufficiently reliable (i.e., such that it is appropriate to be used as audit evidence for the auditor’s intended purposes). The determination as to whether, or the degree to which, the information is sufficiently reliable for the auditor’s purposes, may be influenced by:
   - The nature of the audit procedure; and
   - The relative importance of this evidence to the overall purpose of the audit procedure.

62. When considering the relative importance of the evidence to the overall purpose of the audit procedure, stakeholders noted it would also be useful to clarify that, the higher the risk(s) of material misstatement the more persuasive the audit evidence needs to be to reach a conclusion.

63. The AICPA, in revising AU-C 500, addressed this issue by placing emphasis on the wording ‘for the auditor’s intended purpose’ (or variations of those words). Based on the requirement to evaluate the relevance and reliability of information to be used as audit evidence, AU-C 500 (Revised) requires the information to be used as audit evidence to be sufficiently reliable (accurate, complete, precise, detailed, etc.) taking into account the purpose for using the information.

**Extant ISA 500**

64. In considering the relevance and reliability of information to be used as audit evidence, ISA 500 does not explicitly address the distinction in work effort between risk assessment procedures and further audit procedures. However, in relation to information produced by the entity, ISA 500 requires the auditor to evaluate whether the information is sufficiently reliable for ‘the auditor’s purposes.’ The reference to ‘for the auditor’s purposes’ implies a principle-based approach (including exercising professional judgment) that is dependent on the particular circumstances.

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52 ISA 330, paragraph 27
53 Issue 5 in Appendix 3
AEWG’s Initial Views

65. A key focus of this topic is the question whether information to be used in a risk assessment procedure should be subject to the same work effort when considering its relevance and reliability, when compared to information to be used in a further audit procedure. Due to the degree to which risks of material misstatement may vary, including the different considerations that may apply when establishing the audit strategy, the AEWG does not believe that this issue can be addressed through a prescriptive requirement that applies to all circumstances.

66. The AEWG supports a principles-based solution that is based on the same conceptual consideration of extant ISA 500, by considering whether the information to be used as audit evidence is sufficiently reliable for the auditor’s purposes. However, given the intention of the AEWG to no longer maintain or create requirements that distinguish between internal and external sources of information (paragraph 47), the AEWG proposes that this requirement applies to all information to be used as audit evidence. Specifically, in determining whether, and the degree to which, the information is sufficiently reliable for the auditor’s purposes, the AEWG proposes application material to explain that this determination is influenced by:

- The nature of the audit procedure. For example, is the purpose of the procedure related to the identification or assessment of risks of material misstatement in accordance with ISA 315 (Revised 2019), or is the purpose related to performing further audit procedures to respond to assessed risks of material misstatement in accordance with ISA 330? If the purpose is to respond to an assessed risk of material misstatement, it follows that the work effort related to whether the information is ‘sufficiently reliable for the auditor’s purposes’ would be greater than if the purpose of the audit procedure was to identify or assess a risk of material misstatement;

- The relative importance of the evidence to the overall purpose of the audit procedure. For example, if the auditor obtains information from different sources to respond to an assessed risk of material misstatement, the relative importance of the evidence from each source may vary. In contrast, if the auditor obtains information from only one source, the relative importance of the evidence obtained from that source would require the auditor to obtain more evidence about the accuracy and completeness of the information; and

- Whether the evidence is corroborative or contradictory, also noting that evidence may be inconsistent with other evidence, but not necessarily contradictory to managements’ assertions.

67. The AEWG proposes emphasizing the importance of exercising professional skepticism in making judgments about whether the information is sufficiently reliable for the auditor’s purpose. Although the exercise of professional skepticism is pervasive to the consideration of information to be used as audit evidence, the AEWG believes the factors mentioned in paragraph 66 will assist the auditor in demonstrating that professional skepticism was exercised.

68. In explaining the concepts about the relevance and reliability of audit evidence, the AEWG proposes introducing application material to remind auditors that risk assessment procedures also provide audit evidence, in the same manner as further audit procedures.

69. For an example of a conceptual approach on the auditor’s judgments in relation to information to be used as audit evidence, contrasted between a risk assessment procedure versus a further audit procedure, please refer to Non-Authoritative Support Material Using ATT Performing Audit Procedures.

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54 ISA 300, Planning an Audit of Financial Statements, paragraphs 7–8
Matters for IAASB Consideration:

5. The Board is asked for its views on the proposed principles-based approach to address whether all information to be used as audit evidence should be subject to the same work effort when considering the relevance and reliability of such information, based on the nature of the audit procedure in relation to which the information will be used (i.e., in a risk assessment procedure or in a category of further audit procedures).
Appendix 1

Working Group Members and Activities, Including Outreach

Working Group Members
1. Information about the Working Group members and the project can be found here.

Working Group Activities since the June 2020 IAASB Meeting (Virtual by Videoconferencing)
2. The Working Group held nine virtual meetings. Owing to the nature of the activities being undertaken, substantial work was also progressed via electronic circulation of materials between members of the AEWG and with IAASB staff.
3. On September 3, 2020, the AEWG published a Project Update to update stakeholders about the progress of the project and issues being considered in the revision of ISA 500.

Outreach Activities
4. The AEWG presented a draft Audit Evidence Project Proposal to the IAASB’s CAG in September 2020.
Appendix 2

Extract from the Approved June 2020 IAASB Meeting Minutes

Mr. Dohrer updated the Board on the Audit Evidence Working Group’s (AEWG) further information gathering and research activities as set out in Agenda Item 7.

TARGETED OUTREACH ACTIVITIES

The Board supported the AEWG’s conclusion that the issues creating the most difficulties in practice are closely related to the concept and evaluation of sufficient appropriate audit evidence. The Board also broadly agreed that the list of audit evidence related issues, as presented in Appendix 4 of Agenda Item 7, is appropriate. However, the Board noted that:

• Further clarification may be needed to determine whether technology related issues fall within the scope of the AEWG or the Technology Working Group (TWG). In addition, the Board noted that close coordination between these two working groups is essential.

• In relation to the use of electronic platforms in obtaining external confirmations (Item 17 of Appendix 4 of Agenda Item 7), the AEWG could build on the 2009 IAASB Staff Alert Emerging Practice Issues Regarding the Use of External Confirmations in an Audit of Financial Statements as it relates to automated confirmation platforms in use today. Mr. Dohrer responded by noting however that ISA 5055 nor the IAASB Staff Alert address whether a third party opening a special portal that could be used by the auditor to query the information of the entity is considered an “external confirmation.”

• The issues paper referred to the development of a ‘framework’ for evaluating whether sufficient appropriate audit evidence has been obtained. As this term is not used in Appendix 4 of Agenda Item 7, the Board asked for further clarification in relation to its meaning.

• The listing of audit evidence issues, as presented in Appendix 4 of Agenda Item 7, did not explicitly include the consideration of fraud as it relates to an audit of financial statements. A Board member asked the AEWG to consider whether the listing of issues should include the consideration of fraud more prominently.

• The fifth issue, included in the listing of issues most commonly highlighted as creating the most difficulties in practice, was considered by a Board member to be prescriptive while the other issues were deemed to be more principle-based. In progressing the issues, a Board member cautioned against prescriptive requirements and asked that principle-based standards are preserved.

• Although audit documentation was explicitly excluded from the scope of the targeted outreach activities, several Board members encouraged the AEWG to address audit documentation requirements given concerns about the nature and extent of audit documentation in the context of ISA 500.

• Some of the issues included in Appendix 4 of Agenda Item 7 overlap with aspects that are or have been considered in other IAASB projects and that consideration should be given to such aspects in progressing the issues in Appendix 4 of Agenda Item 7. For example, some of the issues relate to aspects of ISA 315 (Revised 2019), ISA 540 (Revised), proposed ISA 220 (Revised) and the work performed by the Extended External Reporting Working Group in relation to the Public Consultation on the Proposed Non-Authoritative Guidance – Extended ISA 505, External Confirmations

56 Proposed ISA 220 (Revised), Quality Management for an Audit of Financial Statements
External Reporting.

ACADEMIC RESEARCH

Based on the AEWG’s analysis of academic research as listed in Appendix 6 of Agenda Item 7, the Board supported the AEWG’s conclusion that the listing of audit evidence issues as presented in Appendix 4 of Agenda Item 7 remains appropriate.

MONITORING THE ACTIVITIES OF NATIONAL STANDARD SETTERS

Based on the AEWG’s review of work performed by other national standard setters, including its analysis of audit evidence issues addressed by the Audit Evidence project of the American Institute of Certified Public Accountants (AICPA), the Board supported the AEWG’s conclusion that the list of audit evidence issues, as presented in Appendix 4 of Agenda Item 7, remains appropriate. In addition, the Board encouraged the AEWG to liaise with other standard setters, such as the AICPA and the Public Company Accounting Oversight Board in progressing the revision to the standard to address the identified issues.

OTHER SOURCES OF INFORMATION

The Board agreed that there are no other information sources which should be considered in the context of progressing the IAASB’s work to address the audit evidence issues as presented in Appendix 4 of Agenda Item 7.

RECOMMENDED ACTIONS

The Board supported the AEWG’s recommendation to develop a project proposal to focus on the revision of ISA 500, with conforming and consequential amendments to other standards, for discussion and approval at the December 2020 IAASB meeting. The Board also emphasized that prioritization of the issues and scoping of the project are important given the number of issues that the AEWG plans to address. The Board recommended that the project proposal:

- Clearly articulates the scope of the project;
- Limits the issues to be addressed to the matters itemized as ‘Action A’ items in Appendix 4 of Agenda Item 7; and
- Emphasizes the importance of ongoing coordination with other IAASB task forces or working groups, in particular the TWG.

In addition, the Board also recommended to publish a brief project update to inform stakeholders about the activities taken place to date.

IAASB CAG CHAIR’S REMARKS

Mr. Dalkin noted that the IAASB CAG supported the development of a project proposal and encouraged the AEWG to leverage the work of the AICPA to the extent possible.

PIOB OBSERVER REMARKS

Ms. Stothers supported the development of a project proposal in light of the Board’s robust discussions. In addition, given its link with professional skepticism, Ms. Stothers highlighted the priority and public interest of the project.
WAY FORWARD

The AEWG will present a project proposal for approval at the December 2020 IAASB meeting. During the interim, the AEWG will also prepare and publish a brief project update in consultation with the Board.
Appendix 3

Proposed Project to Revise ISA 500, Audit Evidence – Itemization of Audit Evidence Related Issues

The table below provides a summary of the audit evidence related issues that will form the basis of the IAASB’s proposed project to revise ISA 500. The itemization of issues is based on Appendix 4 of the Issues Paper that was discussed at the June 2020 IAASB meeting.

The issues are categorized by the following topics related to the auditor’s consideration of audit evidence, recognizing that one issue was subsequently determined as pervasive to all three topics.

- Changes in the source of information and how the information is processed, communicated and used;
- Continual developments in technology; and
- Professional skepticism.

Note that the categorization of some issues may overlap with another topic, in which case the issue was categorized by the topic it is more closely related to in terms of the issue’s effect on audit evidence.

<table>
<thead>
<tr>
<th>#</th>
<th>Description of Issues</th>
<th>Ref: 57</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Overarching Issue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>The purpose and scope of ISA 500, Audit Evidence in the context of the other ISAs, in particular:</td>
<td>4 16</td>
</tr>
<tr>
<td></td>
<td>• The relationship of ISA 500 with other ISAs including ISA 330, The Auditor’s Responses to Assessed Risks.</td>
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<td></td>
<td>• Whether ISA 500 is intended to be a performance standard (i.e., it includes requirements to design and perform audit procedures), as opposed to a standard designed to provide context for auditor performance requirements in other standards.</td>
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</table>

**Sources of Information**

The world of information has transformed at a rapid pace, largely as a result of the evolution of technology. Changes because of the use of big data and social media, for example, have affected the sources, diversity and volume of information available to entities and auditors. This has impacted the manner in which entities obtain, process, manage, use, communicate and report information, and has also influenced the sources of information used by auditors to obtain audit evidence. These and related developments have raised questions about the need for enhancements or clarifications about audit evidence:

| 2. | The concept of, and judgments about, sufficient appropriate audit evidence. In particular, factors or attributes to be taken into account by the auditor when making judgments about information to be used as audit evidence and in concluding whether sufficient appropriate audit evidence has been obtained. In considering the concepts of, and judgments about, sufficient appropriate audit evidence, it is necessary to consider whether the definitions of ISA 500 remain appropriate, for example, the definitions of appropriateness of audit evidence and sufficiency of audit evidence. 58 | 5(b) 5(a) |

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57 Reference to the # of ‘Action A’ issues in Appendix 4 of the June 2020 Audit Evidence Issues Paper

58 Paragraph 5(e) of ISA 500 describes the sufficiency of audit evidence as the measure of the quantity of audit evidence.
<table>
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<th>#</th>
<th>Description of Issues</th>
<th>Ref:</th>
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<tr>
<td>3</td>
<td>The distinction between certain terms such as information and data, as well as when and how terms are used in relation to broader concepts such as “audit procedures” and “audit evidence”. In addition, the use of certain terms or descriptions may be outdated.</td>
<td>6(f)</td>
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<td></td>
<td></td>
<td>12(a)</td>
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<td></td>
<td></td>
<td>12(b)</td>
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<tr>
<td>4</td>
<td>The distinction between information produced by the entity and information sources external to the entity, including in relation to evaluating the reliability of information. There are various dimensions in this regard, for example:</td>
<td>6(a)</td>
</tr>
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<td></td>
<td>• The differentiation in work effort regarding reliability between information produced by the entity and information sources external to the entity.</td>
<td>6(c)</td>
</tr>
<tr>
<td></td>
<td>• Specific challenges in considering the reliability of information sources external to the entity in certain circumstances, for example, when such information contradicts management’s assertions, or the reliability of that information may not be determinable.</td>
<td>6(d)</td>
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<tr>
<td></td>
<td>• Challenges around possible overreliance on certain information sources without appropriate professional skepticism being exercised.</td>
<td>7</td>
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<tr>
<td></td>
<td>• Whether the distinction between information produced by the entity and information sources external to the entity is clear in the context of pre-existing concepts, for example, external information sources (as defined through revisions to ISA 540 (Revised), <em>Auditing Accounting Estimates and Related Disclosures</em>), a management’s expert, and a service organization.</td>
<td></td>
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<tr>
<td>5</td>
<td>Whether all information to be used as audit evidence should be subject to the same work effort when considering the relevance and reliability of such information, based on the nature of the audit procedure in relation to which the information will be used (i.e., in a risk assessment procedure (i.e., ISA 315 (Revised 2019)) or in a category of further audit procedures (i.e., ISA 330)). The auditor’s considerations may also be affected by the tools and techniques that are used to perform procedures, for example when automated tools and techniques are used.</td>
<td>6(b)</td>
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<td>6</td>
<td>Whether conforming and consequential amendments should be made to:</td>
<td>6(e)</td>
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<td>• ISA 520, <em>Analytical Procedures</em>, noting that the factors considered in the evaluation of the reliability of information are different in ISA 500 compared to ISA 520.</td>
<td>10</td>
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<td></td>
<td>• ISA 560, <em>Subsequent events</em>, as new types of information sources may provide information about subsequent events.</td>
<td>11</td>
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<tr>
<td></td>
<td>• ISA 570 (Revised), <em>Going Concern</em>, as new types of information sources may provide an indication of whether events or conditions exist that could cast significant doubt on the entity’s ability to continue as a going concern.</td>
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59 For example, paragraph 5(a) of ISA 500 describes accounting records as the records of initial accounting entries and supporting records, such as checks and records of electronic fund transfers; invoices; contracts; the general and subsidiary ledgers, journal entries and other adjustments to the financial statements that are not reflected in journal entries; and records such as work sheets and spreadsheets supporting cost allocations, computations, reconciliations and disclosures.
## Description of Issues

<table>
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<th>Technology</th>
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| 7. | An increased risk of auditors over-relying on technology and whether and how the following should be addressed or clarified:  
- The risk of over-reliance on controls over the preparation of information to be used as audit evidence.  
- The adequacy of (or retaining an adequate focus on) the connection of a procedure that is designed and performed using automated tools and techniques with the purpose of the audit procedure and the assertions being tested (also overlaps with professional skepticism).  
- Assessing whether information used by the auditor in performing audit procedures is sufficiently precise and detailed for the intended purpose and such information is complete and accurate. |
| 8. | The categorization of procedures in terms of:  
- The types of audit procedures that may be performed (i.e., inspection, observation, inquiry etc.); and  
- The nature of audit procedures (i.e., risk assessment procedures or further audit procedures comprising tests of controls and substantive procedures (which include tests of details and substantive analytical procedures)). Further, whether an audit procedure can be both a risk assessment procedure and a substantive procedure at the same time. |
| 9. | Questions that may arise owing to the capabilities of new technologies that allow the auditor to analyze larger populations, for example:  
- Whether requirements and application material dealing with the selection of items for testing remain relevant and appropriate in the context of the tools and techniques that are being used to design and perform audit procedures.  
- The required work effort to follow up on exceptions identified, including whether the auditor is able to perform further testing only on a selection of exceptions, provided that the risk of material misstatement in the remaining population is at an acceptably low level. |
| 10. | Whether changes or conforming and consequential amendments should be made to:  
- ISA 501, *Audit Evidence – Specific Considerations for Selected Items*, to reflect how, and the circumstances under which, new technology enables the performance of procedures in different ways, including remote operation or observation (e.g., inventory counting), and accessing different or new sources of information to test certain items (e.g., litigation and claims).  
- ISA 505, *External Confirmations*, to reflect the use of electronic platforms in obtaining external confirmations and to clarify the auditor’s work effort in this regard. |
Professional skepticism is a fundamental concept and core to the performance of quality audit engagements. When audit quality is questioned, for example, in light of some corporate failures, concerns about the appropriateness of professional skepticism exercised by auditors are also highlighted. In the context of audit evidence, questions arise whether ISA 500 adequately addresses the need for professional skepticism when making judgments about audit evidence, including:

<table>
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<tr>
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<th>Description of Issues</th>
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<tbody>
<tr>
<td>11</td>
<td>Whether sufficient appropriate audit evidence has been obtained.</td>
<td>1</td>
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<tr>
<td>12</td>
<td>The relevance and reliability of information to be used as audit evidence.</td>
<td>2</td>
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<tr>
<td>13</td>
<td>How to address bias towards seeking audit evidence that supports management’s assertions (consistent or corroborating evidence), rather than evidence that may be contradictory (i.e., achieving an appropriate balance in this regard).</td>
<td>3</td>
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</tbody>
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