

### Proposed ISA 500 (Revised), *Audit Evidence*

#### Instructions for the Board:

- This paper is the first draft of ISA 500 presented to the IAASB as part of the Audit Evidence project and therefore the standard is presented without any track changes. A mapping of the introductory paragraphs, objective, definitions, requirements and selected application material in extant ISA 500 with proposed ISA 500 (Revised) is presented in **Agenda Item 5–B**.
- This paper should be read in conjunction with the issues discussed in **Agenda Item 5**.
- If viewing this document in Word, the use of the navigation panel may assist navigating between the headers of the standard more efficiently. Activate by “Control F” and select “Headings” or select “View” and “Navigation Panel” on the Word Ribbon.
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## Introduction

### Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor’s responsibilities relating to audit evidence when designing and performing audit procedures in accordance with the ISAs. Such responsibilities include evaluating the relevance and reliability of information intended to be used as audit evidence and evaluating whether the audit evidence obtained meets the auditor’s purposes.
2. ISA 200<sup>1</sup> deals with the overall responsibilities of the auditor in conducting an audit of the financial statements. 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.<sup>2</sup>
3. This ISA is applicable to all audit evidence obtained through designing and performing audit procedures in accordance with the ISAs. Other ISAs address the auditor’s responsibilities for designing and performing audit procedures regarding specific aspects of the audit. In addition, ISA 330<sup>3</sup> deals with, among other matters, the auditor’s overall responsibility to obtain sufficient appropriate audit evidence and to conclude whether sufficient appropriate audit evidence has been obtained. This ISA assists the auditor in fulfilling the auditor’s responsibilities in accordance with the other ISAs.

#### *Professional Judgment and Professional Skepticism*

4. ISA 200 requires the auditor to exercise professional judgment in planning and performing an audit of financial statements, and to plan and perform an audit with professional skepticism recognizing

<sup>1</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

<sup>2</sup> ISA 200, paragraph 17

<sup>3</sup> ISA 330, *The Auditor’s Responses to Assessed Risks*

that circumstances may exist that cause the financial statements to be materially misstated.<sup>4</sup> This ISA further emphasizes exercising professional skepticism in planning and performing the audit, including critically assessing audit evidence through, for example:

- (a) Designing and performing audit procedures in a manner that is not biased.
- (b) Evaluating the relevance and reliability of information to be used as audit evidence.
- (c) Considering all audit evidence in evaluating whether the audit evidence obtained meets the auditor's purposes, as a basis for concluding whether sufficient appropriate audit evidence has been obtained.

### **Effective Date**

5. This ISA is effective for audits of financial statements for periods beginning on or after XXX.

### **Objective**

6. The objective of the auditor is to evaluate audit evidence to provide a basis for concluding whether sufficient appropriate audit evidence has been obtained.

### **Definitions**

7. For purposes of this ISA, the following terms have the meanings attributed below:
  - (a) Appropriateness (of audit evidence) – The measure of the quality of audit evidence in providing support for the conclusions that form the basis for the auditor's opinion and report.
  - (b) Audit evidence – Information, which has been subject to audit procedures, that enables the auditor to draw conclusions that form the basis for the auditor's opinion and report.
  - (c) Management's expert – An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements.
  - (d) Sufficiency (of audit evidence) – The measure of the quantity of appropriate audit evidence in providing support for the conclusions that form the basis for the auditor's opinion and report.

### **Requirements**

#### **Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence**

8. For the purpose of obtaining sufficient appropriate audit evidence, the auditor shall design and perform audit procedures in accordance with the ISAs: (Ref. Para. A1–A15)
  - (a) In a manner that is not biased towards obtaining audit evidence that may corroborate the assertions in the financial statements, or towards excluding audit evidence that may contradict the assertions in the financial statements; and (Ref. Para. A16–A19)
  - (b) That are appropriate in the circumstances to provide audit evidence to meet the purposes of the audit procedure. (Ref. Para. A20–A28)

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<sup>4</sup> ISA 200, paragraphs 15–16

### **Information Intended to Be Used as Audit Evidence**

9. The auditor shall evaluate whether the information intended to be used as audit evidence is relevant and reliable for the auditor's purposes. In making this evaluation, the auditor shall consider: (Ref. Para. A29–A40 and A57–A61)
  - (a) The source of the information; and (Ref. Para. A41–A46)
  - (b) The attributes of relevance and reliability that are applicable in the circumstances, including, as necessary, accuracy and completeness. (Ref. Para. A47–A56)

#### *Information Intended to be Used as Audit Evidence Prepared by a Management's Expert*

10. In evaluating information intended to be used as audit evidence in accordance with paragraph 9, when information has been prepared by a management's expert, the auditor shall: (Ref: Para. A62–A64)
  - (a) Evaluate the competence, capabilities and objectivity of that expert; (Ref. Para. A65–A69)
  - (b) Obtain an understanding of the work performed by that expert; and (Ref. Para. A70–A71)
  - (c) Obtain an understanding about how the information prepared by that expert has been used by management in the preparation of the financial statements, including: (Ref: Para. A72–A74)
    - (i) How management has considered the appropriateness of the information prepared by that expert; and
    - (ii) Modifications made by management to the information prepared by that expert, and the reasons for such modifications.

#### *Doubts About the Relevance and Reliability of Information Intended to be Used as Audit Evidence*

11. If the auditor has doubts about the relevance and reliability of information intended to be used as audit evidence, the auditor shall: (Ref. Para. A75)
  - (a) Determine what modifications or additions to audit procedures are necessary to resolve the matter, including attempting to obtain additional information that is relevant and reliable for the auditor's purposes; and (Ref. Para. A77)
  - (b) Consider the effect of the matter, if any, on other aspects of the audit. (Ref: Para. A76)

### **Inconsistencies in Audit Evidence**

12. If audit evidence is inconsistent with other audit evidence, the auditor shall (Ref. Para. A78):
  - (a) Determine what modifications or additions to audit procedures are necessary to resolve the matter; and (Ref. Para. A79)
  - (b) Consider the effect of the matter, if any, on other aspects of the audit. (Ref. Para. A80–A82)

### **Evaluating Whether Audit Evidence Obtained Meets the Auditor's Purposes**

13. The auditor shall evaluate whether the audit evidence obtained meets the auditor's purposes, as a basis for concluding whether sufficient appropriate audit evidence has been obtained in accordance

with ISA 330.<sup>5</sup> In doing so, the auditor shall consider all relevant audit evidence, including audit evidence that is consistent or inconsistent with other audit evidence or assertions in the financial statements. (Ref. Para. A83–A85)

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## Application and Other Explanatory Material

**Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence** (Ref: Para. 8)

### *Audit Evidence and Audit Procedures*

- A1. Audit evidence is necessary to support the conclusions drawn that form the basis for the auditor's opinion and report. Audit evidence is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. Audit evidence obtained from previous audits may also provide audit evidence for the current audit, provided the auditor has performed audit procedures to evaluate whether the audit evidence from the previous audit remains relevant and reliable for purposes of the current audit.
- A2. The auditor obtains audit evidence by designing and performing audit procedures in accordance with the ISAs. Audit procedures may include:
- (a) Risk assessment procedures performed in accordance with ISA 315 (Revised 2019)<sup>6</sup> or other ISAs that expand on how ISA 315 (Revised 2019) applies to a specific topic;
  - (b) Further audit procedures performed in accordance with ISA 330, or other ISAs that expand on how ISA 330 applies to a specific topic, which comprise:
    - (i) Tests of controls, when required by the ISA or when the auditor has chosen to do so; and
    - (ii) Substantive procedures, including tests of details and substantive analytical procedures; or
  - (c) Other audit procedures that are performed to comply with the ISAs.

The Appendix explains the relationship of proposed ISA 500 (Revised) to the other ISAs regarding the responsibilities of the auditor in obtaining audit evidence.

- A3. The auditor may use manual or automated tools and techniques, individually or in combination with each other, to perform audit procedures to obtain audit evidence. In some circumstances, due to the form of the underlying information, an automated tool and technique may be more effective or provide more persuasive audit evidence than a manual technique, or the auditor may need to use an automated tool and technique because a manual technique may not be possible. For example, an automated tool and technique may be more effective in processing, organizing, structuring or presenting large volumes of data or information. Other ISAs may:
- Describe circumstances when an automated tool and technique may be more effective than a

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<sup>5</sup> ISA 330, paragraph 26

<sup>6</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

manual procedure. For example, ISA 240 explains that the use of automated tools and techniques may enable more extensive testing of digital transactions or account files.<sup>7</sup>

- Provide examples of how the principles of this ISA may apply when using automated tools and techniques. For example, ISA 315 (Revised 2019) explains that automated tools or techniques may also be used to observe or inspect, in particular assets, for example through the use of remote observation tools (e.g., a drone).<sup>8</sup>

- A4. Audit evidence includes both information that supports and corroborates the assertions in the financial statements, and information that contradicts such assertions (i.e., the audit evidence may indicate the opposite of the assertion and therefore either the audit evidence or the assertion in the financial statement is true, but not both). In some circumstances, the audit evidence may support a range of possible amounts but may nonetheless support the assertions in the financial statements.

Example:

An accounting estimate that is subject to a high degree of estimation uncertainty may result in a wide range of possible measurement outcomes. The auditor may decide to develop a range to evaluate management's point estimate in the financial statements. The audit evidence obtained may support the financial statement assertions related to the valuation and disclosure of the accounting estimate if:

- Management's point estimate falls within the auditor's range;
- Management has appropriately disclosed the estimation uncertainty in accordance with the applicable financial reporting framework; and
- The audit evidence obtained is consistent with other audit evidence during the audit.

ISA 540 (Revised) addresses circumstances when the size of the auditor's range may be wide and may be multiples of materiality for the financial statements as a whole.<sup>9</sup>

- A5. In some cases, the absence of information may also constitute audit evidence that is used by the auditor.

Example:

When considering information related to the entity's recorded warranty provision, the absence of sales returns of the product in question may be audit evidence supporting the completeness of the warranty provision.

## The Nature of Audit Procedures

- A6. ISA 330 explains that the nature of an audit procedure refers to its purpose and its type.<sup>10</sup> The type of audit procedure describes the actions being performed by the auditor when performing the audit procedures. The auditor may perform one type of audit procedure, or a combination of different types

<sup>7</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph A38

<sup>8</sup> ISA 315 (Revised 2019), paragraph A35

<sup>9</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, paragraphs A125 and A139

<sup>10</sup> ISA 330, paragraph A5

of audit procedures when obtaining audit evidence about, for example, a class of transaction, account balance or disclosure. The Appendix describes different types of audit procedures and includes illustrative examples.

- A7. The type of audit procedure may affect the audit evidence obtained for the auditor's purposes.

Examples:

- Inquiry of knowledgeable persons within or outside the entity ordinarily does not provide sufficient appropriate audit evidence of the absence of a material misstatement at the assertion level, nor of the operating effectiveness of controls. Accordingly, the auditor may need to perform other audit procedures in combination with inquiry to obtain sufficient appropriate audit evidence.
- Observation provides audit evidence about the performance of a process or procedure. However, observation is limited to the point in time at which the observation takes place, and by the fact that the act of being observed may affect how the process or procedure is performed. Accordingly, in some circumstances, observation may not provide sufficient appropriate audit evidence for the auditor's purposes.

- A8. The auditor may design and perform an audit procedure that achieves more than one purpose. For example, ISA 315 (Revised 2019) explains that the auditor may perform substantive procedures or tests of controls in accordance with ISA 330 concurrently with risk assessment procedures, when it is efficient to do so.<sup>11</sup> For an audit procedure to achieve more than one purpose, the auditor complies with the requirements of the relevant ISAs that deal with the design and performance of such audit procedure. For example, when an audit procedure serves as both a risk assessment procedure and a further audit procedure concurrently, the auditor is required to comply with the requirements of ISA 315 (Revised 2019) and ISA 330, and any other relevant ISAs (e.g., a topic-specific ISA, such as ISA 540 (Revised)) that deal with the design and performance of such audit procedure.

#### *Sufficient Appropriate Audit Evidence*

- A9. Audit evidence is obtained from information that has been subject to audit procedures. The auditor considers all audit evidence obtained during the audit to provide a basis for concluding whether sufficient appropriate audit evidence has been obtained in accordance with ISA 330.<sup>12</sup> As explained in ISA 330, the auditor's judgment as to what constitutes sufficient appropriate audit evidence is influenced by a number of factors, including the persuasiveness of the audit evidence.<sup>13</sup>

#### *Persuasiveness of Audit Evidence*

- A10. The sufficiency and appropriateness of audit evidence are interrelated. Sufficiency and appropriateness together affect the persuasiveness of audit evidence, taking into account the assessed risks of material misstatement and relevant assertions.
- A11. The appropriateness of audit evidence refers to the quality of audit evidence. Information that is more

<sup>11</sup> ISA 315 (Revised 2019), paragraph A19

<sup>12</sup> ISA 330, paragraph 26

<sup>13</sup> ISA 330, paragraph A62

relevant and reliable may be of a higher quality and, therefore, more persuasive. If the audit evidence is more persuasive, the auditor may determine that the audit evidence is sufficient in providing support for the conclusions that form the basis for the auditor's opinion and report. Alternatively, when audit evidence is less persuasive, the auditor may determine that additional audit evidence is needed to provide support for the conclusions that form the basis for the auditor's opinion and report. However, increasing the quantity of the same audit evidence may not provide more persuasive audit evidence in all circumstances. For example, obtaining more audit evidence that is of poor quality is unlikely to improve the persuasiveness of such evidence.

A12. The ISAs may provide requirements, or guidance, about circumstances when more or less persuasive audit evidence is, or may be, required. For example:

- ISA 330 requires the auditor to obtain more persuasive audit evidence the higher the auditor's assessment of risk.<sup>14</sup>
- ISA 200 explains that the inherent limitations of an audit are not a justification for the auditor to be satisfied with less than persuasive audit evidence.<sup>15</sup>

#### Factors that Affect the Persuasiveness of Audit Evidence

A13. The assessed risks of material misstatement affect the persuasiveness of audit evidence needed to provide a basis for the auditor to conclude whether sufficient appropriate audit evidence has been obtained. The assessed risks of material misstatement include:

- The nature of the risk of material misstatement and the relevant assertions; and
- The reasons for the assessment.

A14. The results of audit procedures performed, including whether any instances of fraud or error were identified, may cause the auditor to determine that it is appropriate to revise the risk assessment in accordance with ISA 315 (Revised 2019).<sup>16</sup> A revision to the risk assessment may affect the nature of information intended to be used as audit evidence or the design of the audit procedures in meeting the auditor's purposes. Accordingly, the results of audit procedures performed, including whether any instances of fraud or error were identified, also affect the persuasiveness of audit evidence needed to conclude whether sufficient appropriate audit evidence has been obtained.

A15. Other factors that affect the sufficiency and appropriateness of audit evidence, and therefore its persuasiveness, include the following:

- The information used as audit evidence, including;
  - The auditor's consideration of the attributes of relevance and reliability of the information used as audit evidence explained in paragraphs A48–A49. The concepts of relevance and reliability are interrelated, i.e.:
    - Relevant information may provide less persuasive audit evidence if it is less reliable.

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<sup>14</sup> ISA 330, paragraph 7(b)

<sup>15</sup> ISA 200, paragraph A54

<sup>16</sup> ISA 315 (Revised 2019), paragraph 37

- Reliable information may provide less persuasive audit evidence if it is less relevant for the auditor's purposes.

Example:

Information obtained directly from a highly reputable and well-known third-party pricing service may be more reliable, and therefore provide more persuasive audit evidence, than similar pricing information provided by a management expert and used by the entity to assist the entity in preparing the financial statements.

- Whether the information is from a single source versus multiple sources.

Example:

When information is not available from a highly reputable and well-known third-party pricing service, information obtained from multiple investment managers may provide more persuasive audit evidence than information obtained only from a single investment manager.

- The design and performance of the audit procedures, i.e., whether they are appropriate in the circumstances and have been appropriately applied (see paragraphs A20–A22).
- Whether there are inconsistencies between multiple pieces of audit evidence.

Example:

If the auditor has multiple pieces of audit evidence in relation to an asset value that are inconsistent, the auditor may determine that the inconsistency casts doubt on the asset value and therefore determines it appropriate to seek further audit evidence.

#### Designing and Performing Audit Procedures in a Manner That Is Not Biased (Ref: Para. 8(a))

A16. ISA 220 (Revised)<sup>17</sup> explains that unconscious or conscious auditor biases may affect the engagement team's professional judgments in designing and performing audit procedures, and provides examples of biases that may impede the exercise of professional skepticism. An awareness of such biases when designing and performing audit procedures may help to mitigate impediments to the auditor's exercise of professional skepticism in critically assessing audit evidence and determining whether sufficient appropriate audit evidence has been obtained for the auditor's purposes. Such awareness may also enable the auditor to design and perform audit procedures that seek to avoid:

- Placing more weight on audit evidence that corroborates the assertions in the financial statements than audit evidence that contradicts or casts doubt on the assertions in the financial statements (confirmation bias).
- Using an initial piece of information or audit evidence as an anchor against which subsequent information or audit evidence is assessed (anchoring bias).

<sup>17</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*, paragraph A35

- Placing more weight on information that immediately comes to mind or uses information from sources that are more readily available or accessible (availability bias).
- Placing weight or undue reliance on output from automated systems or information in digital format without appropriate testing (automation bias).

A17. Designing and performing audit procedures to obtain audit evidence in an unbiased manner may involve obtaining information intended to be used as audit evidence from multiple sources within and outside the entity. The need to obtain information from multiple sources may be affected by how persuasive the audit evidence needs to be to provide sufficient appropriate audit evidence to support the conclusions that form the basis for the auditor's opinion and report.

#### Auditor Bias When Using Automated Tools and Techniques

A18. The use of automated tools and techniques in performing audit procedures may reduce the risk of certain auditor biases, such as confirmation bias or groupthink. For example, although automated tools and techniques may be susceptible to bias in the programming of the technology, they have none of the human psychological phenomena that may result in bias, such as placing weight on existing beliefs or the desire to think or make decisions as a group.

A19. The use of automated tools and techniques in performing audit procedures may give rise to a risk of automation bias, resulting in an overreliance on the audit evidence obtained from the audit procedure performed. An awareness of automation bias when designing and performing audit procedures using automated tools and techniques may enable the auditor to design and perform audit procedures that seek to avoid such bias. Other possible actions that the auditor may take to mitigate the risk of automation bias when using automated tools and techniques to perform audit procedures include:

- Explicitly alerting the engagement team to instances or situations when vulnerability to automation bias may be greater.
- Emphasizing the importance of seeking advice from more experienced members of the engagement team in planning and performing audit procedures.
- Involving more experienced members of the engagement team, or engagement team members with specialized skills and knowledge, to assist with interpreting results from the automated tool and technique.
- Determining whether the auditor's firm permits the use of the automated tool and technique and whether the firm has determined that the automated tool and technique is appropriate for use.<sup>18</sup> If the auditor's firm has not determined that the automated tool and technique is appropriate for use, taking action in accordance with ISA 220 (Revised) and the firm's policies or procedures to determine it is appropriate for use.<sup>19</sup>

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<sup>18</sup> International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, paragraphs 32(f) and A100 – A101

<sup>19</sup> ISA 220 (Revised), paragraph A66

*Audit Procedures that are Appropriate in the Circumstances (Ref: Para. 8(b))*

A20. As explained in paragraph A15, the audit procedures designed and performed by the auditor may affect the persuasiveness of audit evidence obtained.

Examples:

- Inspection or external confirmation procedures may provide more persuasive audit evidence than inquiry.
- Audit procedures that are more extensive (e.g., selecting more items for audit sampling purposes) may provide more persuasive audit evidence.
- Analytical procedures that use a visualization depicting the composition of a population to illustrate the volume and monetary value of items in the population may lack preciseness and provide less persuasive audit evidence than analytical procedures that recalculate expected recorded amounts.

A21. ISA 200<sup>20</sup> explains that detection risk is a function of:

- The effectiveness of an audit procedure; and
- The application of the audit procedure by the auditor.

Audit procedures designed and performed by the auditor are appropriate in the circumstances when the nature, timing and extent of such procedures are designed to be effective in achieving the purpose of the audit procedures. An audit procedure may be designed to be effective in achieving an intended purpose, but if the performance or execution of the audit procedure (i.e., its application) is inappropriate, detection risk may not be reduced to an appropriate level.

A22. ISA 220 (Revised) deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements, and the related responsibilities of the engagement partner. Such responsibilities address factors that may affect the application of audit procedures, such as whether:

- There was adequate planning;
- The audit procedures were performed by engagement team members with appropriate knowledge and experience to properly perform the procedures;
- The engagement team members appropriately exercised professional skepticism; and
- There was appropriate direction, supervision and review.

Selecting Items for Testing in Designing and Performing an Audit Procedure

A23. The auditor's approach to selecting items for testing in designing and performing an audit procedure, and the extent of items selected, may affect the appropriateness of the audit procedure in effectively achieving the purpose of the audit procedure. The auditor may use various approaches or techniques in selecting items for testing, such as:

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<sup>20</sup> ISA 200, paragraph A45

- Selecting all items;
- Selecting specific items; and
- Audit sampling.

The auditor may use automated tools and techniques to identify items for selection.

A24. The appropriateness of an approach or technique in selecting items for testing depends on a number of factors, such as:

- The purpose of the audit procedure;
- How the audit procedure is designed, including whether the auditor is using manual or automated tools and techniques to perform the audit procedure;
- The characteristics of the population being tested; and
- The persuasiveness of audit evidence that is needed in the circumstances.

#### Selecting all items

A25. The auditor may determine that it is possible to apply an audit procedure to the entire population of items, including when using automated tools and techniques to perform an audit procedure. If the audit procedure has been designed appropriately, the ability to apply the audit procedure to an entire population may result in more persuasive audit evidence. Applying an audit procedure to an entire population may be appropriate when, for example:

- The population constitutes a small number of items; or
- There is a significant risk and other means of selecting items do not provide sufficient appropriate audit evidence.

#### Selecting specific items

A26. The auditor may determine that it is appropriate to select specific items from a population. The judgmental selection of specific items is subject to non-sampling risk. Specific items selected may include:

- *High value items.* The auditor may decide to select specific items within a population because they are of high value.
- *All items over a certain amount.* The auditor may decide to select items whose recorded values exceed a certain amount so that the audit procedure is applied to a large proportion of the population.
- *Key items.* The auditor may decide to select specific items within a population based on other characteristics, for example, items that are suspicious, unusual, particularly risk-prone or that have a history of error.

A27. While selecting specific items from a population will often be an efficient means of obtaining audit evidence, it does not constitute audit sampling. The results of audit procedures applied to items selected in this way cannot be projected to the entire population; accordingly, selecting specific items from a population does not provide audit evidence concerning the remainder of the population.

## Audit sampling

A28. Audit sampling is designed to enable conclusions to be drawn about an entire population on the basis of testing a sample drawn from it. Audit sampling is addressed in ISA 530.<sup>21</sup>

### Information Intended to Be Used as Audit Evidence (Para. 9–10)

A29. In designing and performing audit procedures in accordance with the ISAs, information that has been subject to audit procedures may not always become audit evidence, because the auditor may determine that the information is not relevant or reliable for the auditor's purposes, and therefore is not used (see also paragraph A47).

### Availability, Accessibility and Understandability of Information

A30. Obtaining and evaluating audit evidence is an iterative process, which may involve considering what information exists that may be used as audit evidence and whether such information is available, accessible and understandable. The source and the form of the information intended to be used as audit evidence may affect the availability, accessibility and understandability of the information intended to be used as audit evidence.

A31. Paragraphs A16–A19 explain auditor bias, such as availability bias, that may affect or impede the auditor's exercise of professional skepticism when forming judgments about audit evidence. Remaining alert for information that may be more suitable for the auditor's purposes, instead of information that immediately comes to mind or is readily available, may assist the auditor in mitigating the risk of availability bias.

A32. Information intended to be used as audit evidence may exist, but access to such information may be restricted, for example, due to restrictions imposed by law or regulation or the source providing the information, or due to war, civil unrest or outbreaks of disease.

**Example:**

Digital information may be maintained on a private distributed ledger, and the information may not be accessible to the auditor because the auditor has not been granted permission to access the ledger.

A33. In some cases, the auditor may be able to overcome restricted access to information. ISA 600 (Revised)<sup>22</sup> provides examples of how restrictions may be overcome in the case of an audit of group financial statements.

A34. In some circumstances, specialized skills or knowledge may be needed to understand or interpret the information intended to be used as audit evidence. Accordingly, the auditor may need to determine whether the engagement team has the appropriate competence and capabilities to understand or interpret the information. The auditor may consider using an auditor's expert to assist the auditor in understanding or interpreting the information.<sup>23</sup> Other resources may also be

<sup>21</sup> ISA 530, *Audit Sampling*

<sup>22</sup> ISA 600 (Revised), *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph A29

<sup>23</sup> ISQM 1, paragraph A72

appropriate for such purposes, such as technological or intellectual resources that are available to the auditor, as explained in ISA 220 (Revised).<sup>24</sup>

Examples:

Information where specialized skills or knowledge may be needed to understand or interpret information intended to be used as audit evidence:

- The information may be in a foreign language and may need to be translated.
- The information may be included in a contract that contains complicated and legal terminology, and the auditor may need a lawyer to interpret the information.
- The information may have been generated by an IT application that uses a highly complex programming language. The auditor may appoint an IT programming expert to assist in understanding how the information is generated.

A35. The availability, accessibility and understandability of the information intended to be used as audit evidence may affect the design of the audit procedures to evaluate whether the information is relevant and reliable for the auditor's purposes. It may also affect the design and performance of the audit procedures in which the information will be used.

Examples:

- Information in digital form may be available to the auditor on a continuous basis, such as records maintained on a distributed ledger. The auditor may use automated tools and techniques that are designed to operate on a real time basis to test the information maintained in the distributed ledger.
- Information may be available only at certain points or periods in time, or it may be destroyed after a specific period of time. The auditor may need to design and perform the audit procedures at particular points in time or request retention of some information for the auditor's review. For example, the entity may use artificial intelligence technology to predict the recoverability of accounts receivable, which is designed to continually evolve for updates and changes in the underlying data (e.g., payment history, customer credit scores or economic factors). In this case, the auditor may need to perform the audit procedures close to the financial reporting date when the information generated is current, since performing audit procedures at an earlier or later date may render a different outcome.

#### The Difficulty, Time or Cost to Obtain Audit Evidence

A36. In explaining the inherent limitations of an audit, ISA 200<sup>25</sup> notes that the matter of difficulty, time or cost involved is not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative or to be satisfied with audit evidence that is less than persuasive. It also explains that there is an expectation by users of financial statements that the auditor will form an opinion on the financial statements within a reasonable period of time and at a reasonable cost.

<sup>24</sup> ISA 220 (Revised), paragraphs A59–A69.

<sup>25</sup> ISA 200, paragraph A50

- A37. In some circumstances, there may be a high degree of difficulty, time or cost involved in accessing or understanding information to be used as audit evidence. However, the auditor may determine that there is no alternative information that would provide sufficient appropriate audit evidence and that it is therefore necessary to obtain such information despite the difficulty, time or cost involved.
- A38. In circumstances when the auditor determines that it is not practicable to obtain or understand the information intended to be used as audit evidence, the auditor may be unable to obtain sufficient appropriate audit evidence. ISA 705 (Revised)<sup>26</sup> explains the circumstances when the auditor's inability to obtain sufficient appropriate audit evidence may be a limitation of scope of the audit. Under these circumstances, the auditor is required to express a qualified opinion or disclaim the opinion on the financial statements in accordance with ISA 705 (Revised).

*The Form of Information Intended to be Used as Audit Evidence*

- A39. Information intended to be used as audit evidence may come in different forms, including:
- Oral information, for example, obtained through a verbal response to an inquiry.
  - Visual information, for example, obtained through physical observation or alternative techniques, including remote observation.
  - Information in paper form, for example, obtained through a written confirmation.
  - Digital information, which includes documents in digital form and data stored in an IT system. Such digital information may be manually captured, converted into a digital format, or electronically generated.
- A40. The form of the information intended to be used as audit evidence may affect the design of the audit procedures to evaluate whether the information is relevant and reliable for the auditor's purposes. It may also affect the design and performance of the audit procedures in which the information will be obtained or used.

Examples:

In evaluating the reasonableness of an entity's provision for inventory obsolescence, the auditor may design an audit procedure to inspect the physical condition of the entity's inventories. The form of the information intended to be used as audit evidence may affect the design of the audit procedure, i.e.:

- If the auditor plans to obtain the audit evidence through an in-person inspection, the design of the audit procedures will be affected by the need for the auditor to physically perform the procedures at specific locations.
- If the auditor plans to obtain the audit evidence through alternative means, such as remote observation techniques, the design of the audit procedures will be affected by the use of the tool or technique, such as the need to design procedures to consider the authenticity of the visual evidence obtained.

*Sources of Information (Ref. Para. 9(a))*

- A41. Information intended to be used as audit evidence may come from internal sources or external

<sup>26</sup> ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*, paragraphs A8 and A9

sources. For example, information may come from:

- The entity's accounting records, management or other sources internal to the entity.

Example:

Accounting records may include the records of initial accounting entries and supporting records, such as payment records, including 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.

- An external individual or organization that provides information suitable for use by a broad range of users, which the entity uses in preparing the financial statements, or the auditor intends to use as audit evidence. Such sources are referred to as an "external information source" in the application material of this ISA. A particular set of information is more likely to be suitable for use by a broad range of users and less likely to be subject to influence by any particular user if the external individual or organization provides it to the public for free, or makes it available to a wide range of users in return for payment of a fee. Judgment may be exercised in determining whether the information is suitable for use by a broad range of users, and therefore if it is information from an external information source, taking into account the ability of management to influence the external information source.

Example:

Pricing services, governmental organizations, central banks or recognized stock exchanges may provide information such as:

- Prices and pricing related data.
- Macro-economic data, such as historical and forecast unemployment rates and economic growth rates, or census data.
- Credit history data.
- Industry specific data, such as an index of reclamation costs for certain extractive industries, or viewership information or ratings used to determine advertising revenue in the entertainment industry.
- Mortality tables used to determine liabilities in the life insurance and pension sectors.

- Independent sources outside of the entity that provide information bespoke to the entity, such as the entity's bank, legal counsel, customers or suppliers.
- A management's expert.
- An auditor's expert.
- A service organization.

A42. This ISA includes specific requirements for information prepared by a management's expert. In some instances, information prepared by an external individual or organization that is used by management

in preparing the financial statements is an external information source because it is suitable for use by a broad range of users, and in other cases, it is information prepared by a management's expert (see paragraphs A62–A74). An external individual or organization cannot, in respect of any particular set of information, be both an external information source and a management's expert.

- A43. The source of the information intended to be used as audit evidence may affect the auditor's professional judgment regarding the attributes of relevance and reliability that are applicable in the circumstances, and the nature and extent of the audit procedures to evaluate whether the information intended to be used as audit evidence is relevant and reliable for the auditor's purposes. It may also affect how the auditor responds to matters such as doubts about the reliability of information intended to be used as audit evidence, or inconsistencies in audit evidence.

Examples:

- If the source of the information is not subject to the influence of management, the auditor may not be as concerned about bias in evaluating the reliability of such information.
- If the source of the information is highly reputable, the auditor may not be as concerned about credibility in evaluating the reliability of such information.
- If the information comes from an external information source, such as a prime rate established by a central bank of the jurisdiction, the auditor's work effort in considering the reliability of the information may not be as extensive as information provided by management.

- A44. In some cases, sources outside of the entity may be subject to the influence of management, which may affect the auditor's evaluation of the reliability of such information.

Example:

Information from a related party external to the entity may be subject to management influence.

- A45. Obtaining audit evidence in an unbiased manner may involve obtaining information from multiple sources. However, the auditor is not required to perform an exhaustive search to identify all possible sources of information to be used as audit evidence. The auditor's understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control obtained in accordance with ISA 315 (Revised 2019) may assist the auditor in identifying appropriate sources of information.<sup>27</sup>

- A46. In designing and performing a specific audit procedure, the auditor may use information from a combination of sources.

Example:

In performing analytical procedures to test revenue recorded for a real estate entity, the auditor may use information from:

<sup>27</sup> ISA 315 (Revised 2019), paragraphs 19–26

- The entity's accounting records, such as information that relates to the details of the rental properties and their location; and
- An external information source, such as information that relates to average real estate rental prices for the area where the properties are located (e.g., information available on real estate websites).

*Attributes of Relevance and Reliability of Information (Ref: Para. 9(b))*

A47. Evaluating whether the information intended to be used as audit evidence is relevant and reliable for the auditor's purposes involves identifying and analyzing whether the information exhibits the attributes of relevance and reliability that are applicable in the circumstances, and performing further procedures, as necessary, to come to a conclusion. Not all information intended to be used as audit evidence becomes audit evidence because the auditor may determine that the information is not relevant or reliable for the auditor's purposes, and is therefore not appropriate.

Relevance

A48. The relevance of information intended to be used as audit evidence deals with the degree to which the information relates to meeting the purpose of the audit procedure.

<i>Examples of attributes that may be considered by the auditor in considering the degree to which information intended to be used as audit evidence is relevant:</i>	
Relation	The information logically relates to, or bears upon, the purpose of an audit procedure, including, when appropriate, the assertion being tested.
Precision	The exactness or level of detail of the information for the purpose of the audit procedure.

Reliability

A49. The reliability of information intended to be used as audit evidence deals with the degree to which the auditor may depend on such information.

<i>Examples of attributes that may be considered by the auditor in considering the degree to which information intended to be used as audit evidence is reliable</i>	
Accuracy	The information is free from error in its reflection of the underlying conditions, events, circumstances, actions or inactions, including reflecting the appropriate time period or point in time attributable to the conditions or events.
Completeness	The information reflects all of the underlying conditions, events, circumstances, actions or inactions.
Authenticity	The source actually generated or provided the information, and was authorized to do so, and the information has not been inappropriately altered.

Bias	The information is free from intentional and unintentional bias in its reflection of the underlying conditions, events, circumstances, actions or inactions.
Credibility	The source has the competence to generate the information to a required standard, and the source can be trusted.

- A50. The reliability of information, in particular the attributes of accuracy, completeness and authenticity, may also be affected by whether the integrity of the information has been maintained through all stages of information processing.

Example:

An entity's information system may include general information technology controls to safeguard and maintain the integrity of the financial information. Based on the auditor's understanding and evaluation of the entity's information system and control activities in accordance with the requirements of ISA 315 (Revised 2019),<sup>28</sup> the auditor may determine that the integrity of the entity's financial information has been maintained through all stages of information processing, including when extracted for financial reporting purposes.

*Factors that may Affect the Auditor's Professional Judgments in Evaluating Information Intended to be Used as Audit Evidence*

- A51. The evaluation of the relevance and reliability of information intended to be used as audit evidence involves exercising professional judgment as to:
- (a) The attributes of relevance and reliability that are applicable in the circumstances, i.e., the attributes that need to be considered in evaluating whether information intended to be used as audit evidence is relevant and reliable for the auditor's purposes; and
  - (b) The degree to which the information intended to be used as audit evidence needs to exhibit the applicable attributes, given the auditor's purposes.
- A52. The purpose for which the information is intended to be used affects the auditor's professional judgment about the attributes of relevance and reliability that are applicable in the circumstances, and the degree to which the information needs to exhibit those applicable attributes. For example, information intended to be used as audit evidence when performing risk assessment procedures may

<sup>28</sup> ISA 315 (Revised 2019), paragraphs 25 and 26

not need to be as precise or reliable as information intended to be used in performing further audit procedures.

Examples:

- When the auditor performs risk assessment procedures to understand the nature of the entity's provision for warranties, the existence of a listing of returned goods within the guarantee period may be sufficient for risk assessment purposes (i.e., the completeness of the listing may not be important for the auditor's purpose to establish whether there is a risk of material misstatement).
- When the auditor designs and performs further audit procedures that are responsive to the assessed risks of material misstatement of the valuation of the provision for warranties, the accuracy and the completeness of the listing of returned goods within the guarantee period may be important.

A53. Other factors that may affect the auditor's professional judgment regarding the attributes of relevance and reliability that are applicable in the circumstances and the degree to which the information needs to exhibit those applicable attributes include:

- The nature and form of the information.
- The controls over the preparation and maintenance of the information.
- How the information has been obtained by the auditor, for example, whether the information was obtained directly by the auditor, or indirectly by inference.
- If the information is intended to be used by the auditor in performing further audit procedures, the assessed risks of material misstatement, including the nature of the risk of material misstatement and the relevant assertions, and the reasons for the assessment.
- Whether the information appears to corroborate or contradict the assertions in the financial statements.

Example:

Responses to inquiries with those charged with governance about events or conditions that may cast significant doubt about the entity's ability to continue as a going concern may corroborate or contradict assertions made by management in the financial statements about future strategies and business plans. In considering the relevance and reliability of the information from the inquiry with those charged with governance:

- If the information corroborates the assertions in the financial statements, the auditor may focus on the attribute of bias.
  - If the information contradicts the assertions in the financial statements, the auditor may focus on the attributes of accuracy and completeness.
- The extent of change from prior audits, if applicable, in relation to the information, such as changes in how the information has been prepared and changes in underlying controls.
  - The implications of actual, suspected, or alleged fraud identified during the audit.

- A54. In circumstances when the information intended to be used as audit evidence has been obtained from an external information source by the entity in preparing the financial statements, obtaining an understanding of why management used the source and how management considered the relevance and reliability of the information may help to inform the auditor's consideration of the relevance and reliability of that information.
- A55. In some circumstances, it may not be practicable for the auditor to consider certain attributes in evaluating the reliability of information intended to be used as audit evidence. For example, in some cases it may not be possible for the auditor to evaluate the accuracy and completeness of information obtained from a source external to the entity, and the auditor may instead focus on the credibility of the source providing the information.
- A56. The auditor is not required to document the consideration of every attribute that was taken into account in evaluating the relevance and reliability of information intended to be used as audit evidence. The auditor is also not required to document the evaluation of information intended to be used as audit evidence when, in evaluating such information, the auditor determines that the information is not relevant or reliable as needed for the auditor's purposes, and is therefore not appropriate.

*Evaluating the Relevance and Reliability of Information Intended to be Used as Audit Evidence*

- A57. The nature, timing and extent of the audit procedures to evaluate the relevance and reliability of information intended to be used as audit evidence may vary. In some circumstances, such audit procedures may be straightforward (e.g., comparing the interest rate on a loan that is based on the prime rate established by a central bank of the jurisdiction to published information from the central bank).
- A58. Audit evidence from performing other audit procedures in accordance with the ISAs may assist the auditor in evaluating the relevance and reliability of information intended to be used as audit evidence.

Examples:

Audit evidence obtained from:

- The auditor's understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control obtained in accordance with ISA 315 (Revised 2019).
- Tests of controls over the preparation and maintenance of the information performed in accordance with ISA 330.
- Audit procedures performed when using of the work of an auditor's expert in accordance with ISA 620.<sup>29</sup>
- Audit procedures performed in accordance with ISA 402<sup>30</sup> when a user entity uses the services of one or more service organizations.

<sup>29</sup> ISA 620, *Using the Work of an Auditor's Expert*

<sup>30</sup> ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*

- A59. The auditor may evaluate the relevance and reliability of information intended to be used as audit evidence through the performance of an audit procedure concurrently with another audit procedure that uses such information.

Example:

In testing the valuation assertion for investments, the auditor may reconcile the listing of investment purchases for completeness in connection with selecting a sample for testing.

- A60. In evaluating the relevance and reliability of information intended to be used as audit evidence, the auditor may identify information that is inconsistent with the audit evidence on which the auditor originally based the identification or assessment of the risks of material misstatement. ISA 315 (Revised 2019) addresses such circumstances.<sup>31</sup>

*Auditor Bias When Information is in Digital Form or Has been Generated by Automated Systems*

- A61. Information in digital form or that has been generated by automated systems may give rise to a risk of automation bias, resulting in an overreliance on the relevance and reliability of such information. An awareness of automation bias when evaluating the relevance and reliability of information intended to be used as audit evidence may enable the auditor to evaluate the information in a manner that seeks to avoid such bias. Paragraph A21 provides examples of possible actions that the auditor may take to mitigate the risk of automation bias when using automated tools and techniques to perform audit procedures. Such actions may also mitigate the risk of automation bias when evaluating the relevance and reliability of information in a digital form or that has been generated by automated systems. For example, involving members of the engagement team with specialized skills and knowledge, or an auditor's expert, to assist with evaluating information in a digital form or that has been generated by automated systems that are complex.

*Information Intended to be Used as Audit Evidence Prepared by a Management's Expert (Ref: Para. 10)*

- A62. The preparation of an entity's financial statements may require expertise in a field other than accounting, such as actuarial calculations, valuations, or engineering data. The entity may employ or engage experts in these fields to obtain the needed expertise to prepare the financial statements. Failure to do so when such expertise is necessary increases the risks of material misstatement.
- A63. As explained in paragraph A42, in some instances, information prepared by an external individual or organization that is used by management in preparing the financial statements is an external information source, and in other cases it is information prepared by a management's expert. Accordingly, professional judgment may be needed in determining whether information intended to be used as audit evidence has been prepared by a management's expert, and therefore whether the requirement in paragraph 10 of this ISA applies.

Examples:

- An individual or organization may provide information about real estate prices that is suitable for use by a broad range of users and is therefore determined to be an external information source with respect to that information (e.g., information made generally available about a

<sup>31</sup> ISA 315 (Revised 2019), paragraph 37

geographical region). The same individual or organization may also act as a management's expert in providing commissioned valuations for the entity's real estate portfolio specifically tailored for the entity's facts and circumstances.

- Some actuarial organizations publish mortality tables for general use that, when used by an entity, would generally be considered to be information from an external information source. The same actuarial organization may also be a management's expert for different information tailored to the specific circumstances of the entity to help management determine the pension liability for several of the entity's pension plans.

A64. Audit evidence obtained in evaluating the relevance and reliability of the information prepared by a management's expert may assist the auditor in complying with other ISAs. For example, in complying with ISA 540 (Revised), the audit evidence obtained from evaluating the relevance and reliability of the information prepared by a management's expert may assist the auditor in obtaining audit evidence relating to:

- The selection and application of the methods, significant assumptions and the data used by management in making the accounting estimate; and
- How management selected the point estimate and developed related disclosures about estimation uncertainty.

The Competence, Capabilities and Objectivity of the Management's Expert (Ref: Para. 10(a))

A65. When evaluating the relevance and reliability of information intended to be used as audit evidence, paragraph 9(b) requires the auditor to consider the attributes of relevance and reliability that are applicable in the circumstances. When such information is prepared by a management's expert:

- The competence and capabilities of that expert may inform the auditor's consideration of the attribute of credibility. The credibility of the source providing the information affects the degree to which information intended to be used as audit evidence is reliable.
- The objectivity of that expert may inform the auditor's consideration of the attribute of bias. Bias in the information intended to be used as audit evidence affects the degree to which information is reliable. In some cases, information prepared by a management's expert may be subject to bias, as management may have an influence on the professional judgments of the management's expert.

Competence and capabilities

A66. Competence relates to the nature and level of expertise of the management's expert. Factors that may affect whether the management's expert has the appropriate competence include:

- Whether the expert's work is subject to technical performance standards or other professional or industry requirements, for example, ethical standards and other membership requirements of a professional body or industry association, accreditation standards of a licensing body, or requirements imposed by law or regulation.
- The matter for which the management expert's work will be used, and whether they have the appropriate level of expertise applicable to the matter, including expertise in a particular area

of specialty.

Example:

An actuary may specialize in property insurance but have limited expertise regarding pension calculations.

- The management's expert's competence with respect to relevant accounting requirements, for example, knowledge of assumptions and methods, including models when applicable, that are consistent with the applicable financial reporting framework.

A67. Capabilities relates to the ability of the management's expert to exercise the competence in the circumstances. Factors that may influence capabilities may include geographic location, and the availability of time and resources.

#### Objectivity

A68. A broad range of circumstances may influence the professional judgments of the management's expert, which may threaten the management expert's objectivity, for example, self-interest threats, advocacy threats, familiarity threats, self-review threats and intimidation threats. Interests and relationships creating threats may include:

- Financial interests.
- Business and personal relationships.
- Provision of other services.

Safeguards may reduce such threats and may be created either by external structures (e.g., the management's expert's profession, legislation or regulation), or by the management's expert's work environment (e.g., quality management policies or procedures).

A69. Although safeguards cannot eliminate all threats to a management's expert's objectivity, threats such as intimidation threats may be of less significance to a management's expert engaged by the entity than to a management's expert employed by the entity, and the effectiveness of safeguards such as quality management policies or procedures may be greater. The threat to objectivity created by being an employee of the entity will always be present, and therefore a management's expert employed by the entity cannot ordinarily be regarded as being more likely to be objective than other employees of the entity.

#### Obtain an Understanding of the Work Performed by the Management's Expert (Ref: Para. 10(b))

A70. Matters relevant to the auditor's understanding of the work performed by the management's expert may include:

- The relevant field of expertise;
- The nature, scope and objectives of the management's expert's work;
- Whether there are professional or other standards, and regulatory or legal requirements that apply in preparing the information;
- How the information has been prepared by the management's expert, including:

- The assumptions and methods used by the management's expert, and whether they are generally accepted within that expert's field and appropriate for financial reporting purposes; and
- The underlying information used by the management's expert; and
- The relevance and reasonableness of that expert's findings or conclusions, their consistency with other audit evidence, and whether they have been appropriately reflected in the financial statements.

A71. The auditor may decide to involve an auditor's expert<sup>32</sup> to assist in understanding the work performed, including the information prepared, by, the management's expert. For example, the auditor may not have sufficient knowledge or expertise in the management expert's field.

Obtain an Understanding of How the Information Prepared by the Management's Expert has Been Used by Management in the Preparation of the Financial Statements (Ref: Para. 10(c))

A72. Understanding how management has considered the appropriateness of the information prepared by the management's expert may assist the auditor in evaluating the relevance and reliability of the information intended to be used as audit evidence.

Examples:

- If management has implemented controls to understand and evaluate significant assumptions made by the management's expert and test the data used by the management's expert, the auditor's procedures to evaluate the relevance and reliability of the information prepared by the management's expert may take into account the controls implemented by management.
- If management relies on the controls of the management's expert in preparing the information and accepts the information provided by the management's expert without further evaluation or consideration, the auditor's procedures to evaluate the relevance and reliability of the information prepared by the management's expert may be focused on the significant assumptions and data used by the management's expert.

A73. In some circumstances, management may need to modify the information prepared by the management's expert, such as when the information provided is too general and requires adjustment to reflect the circumstances unique to the entity. Modifications made by management to the information prepared by the management's expert could affect the reliability of such information. For example, management's adjustments may give rise to bias, or management may not have the appropriate competence and capabilities to adapt or adjust the information, which may cause the information to be inaccurate, incomplete or lack credibility. Accordingly, understanding the modifications made by management to the information prepared by the management's expert may assist the auditor in evaluating whether the information is relevant and reliable for the auditor's purposes in accordance with paragraph 10.

A74. The auditor's understanding of how information prepared by the management's expert has been used

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<sup>32</sup> ISA 620, paragraph 7

by management in the preparation of the financial statements may indicate a deficiency in internal control. ISA 265<sup>33</sup> deals with the auditor's responsibility to communicate deficiencies in internal control to those charged with governance and management.

*Doubts About the Relevance and Reliability of Information (Ref: Para. 11)*

A75. There may be many factors or circumstances that may give rise to doubts about the reliability of information intended to be used as audit evidence. Such factors or circumstances include:

- An inability to evaluate the attributes that are applicable in the circumstances, such as an inability to determine whether the information is authentic.
- Misstatements identified during the audit.
- Deficiencies in internal control identified by the auditor, particularly when there is a significant deficiency in internal control (e.g., an IT security breach).
- When audit procedures performed on a population result in a higher rate of deviation than expected.
- When information intended to be used as audit evidence is inconsistent with other information or audit evidence.

A76. If there are doubts about the reliability of written representations from management, ISA 580<sup>34</sup> explains that such doubts may cause specific concerns about management, such as their competence, integrity and ethical values. ISA 580 further requires the auditor to determine the effect that such concerns may have on the reliability of representations and audit evidence in general. ISA 580 also addresses how the auditor should respond when written representations are inconsistent with other audit evidence.<sup>35</sup> Doubts about the reliability of information from management may indicate the risk of fraud. ISA 240 deals with the auditor's responsibilities relating to fraud in an audit of financial statements.

A77. In attempting to obtain additional information that is relevant and reliable for the auditor's purpose, the auditor may seek information from alternative sources, which may include information from external sources.

**Inconsistencies in Audit Evidence (Ref: Para. 12)**

A78. In some cases, the audit evidence obtained may corroborate the assertions in the financial statements (e.g., for a particular account balance), but when considered with other audit evidence, may indicate possible management bias.

**Example:**

There may be an indication of possible management bias when accounting estimates included in the financial statements are considered to be individually reasonable, but management's point estimates consistently trend toward one end of the auditor's range of reasonable outcomes that provide a more favorable financial reporting outcome for management.

<sup>33</sup> ISA 265, *Communicating Deficiencies in Internal Control to Those Charged With Governance*

<sup>34</sup> ISA 580, *Written Representations*, paragraph 16

<sup>35</sup> ISA 580, paragraph 17

A79. When audit evidence is inconsistent with other audit evidence and such inconsistency is not acceptable, it may indicate that some of the information used as audit evidence is not reliable. Such inconsistencies may therefore call into question the appropriateness of the auditor's evaluation of the relevance and reliability of such information, in accordance with paragraph 9. Paragraph 11 addresses the auditor's responsibilities when the auditor has doubts about the relevance and reliability of information intended to be used as audit evidence. The extent to which the auditor may need to modify or add to the audit procedures to resolve the matter and the effect on other aspects of the audit may vary.

**Example:**

Obtaining audit evidence from different sources or of a different nature may indicate that an individual item of audit evidence is not reliable, such as when audit evidence obtained from one source is inconsistent with that obtained from another. This may be the case when, for example, responses to inquiries of management, those charged with governance, internal auditors, or others are inconsistent.

A80. When performing an audit procedure, such as a risk assessment procedure or a further audit procedure, the auditor may identify items that are inconsistent with the auditor's expectations or that exhibit characteristics that are unusual for the population. Different terminology may be used to describe these items, for example exceptions, outliers, notable items, items of audit interest. These items may indicate a possible misstatement in the financial statements. They may also indicate inconsistencies in audit evidence, particularly when other audit evidence has not identified similar exceptions or outliers, or cast doubt on the reliability of an information source. In such circumstances, the auditor may need to further investigate the items, and determine whether modifications or additions to the audit procedures are necessary and consider the effect on the audit.

A81. In considering the effect of inconsistencies between audit evidence on the audit, the auditor may consider whether the risk assessment remains appropriate in accordance with ISA 315 (Revised 2019).<sup>36</sup>

A82. ISA 230 addresses circumstances when the auditor identifies information that is inconsistent with the auditor's final conclusion regarding a significant matter and requires the auditor to document how the auditor addressed the inconsistency.<sup>37</sup>

**Evaluating Whether Audit Evidence Obtained Meets the Auditor's Purposes (Ref: Para 13)**

A83. Audit evidence is obtained from designing and performing audit procedures and supports the conclusions that form the basis for the auditor's opinion and report. ISA 330 addresses the auditor's responsibility to conclude whether sufficient appropriate audit evidence has been obtained to provide a basis for the auditor's opinion.<sup>38</sup> Other ISAs may also address the auditor's evaluation of whether sufficient appropriate audit evidence has been obtained for the auditor's purposes for specific topics,

<sup>36</sup> ISA 315 (Revised 2019), paragraph 37

<sup>37</sup> ISA 230, *Audit Documentation*, paragraph 11

<sup>38</sup> ISA 330, paragraph 26

such as ISA 570 (Revised).<sup>39</sup> Paragraphs A9–A15 further describe sufficient appropriate audit evidence, including factors that affect considerations regarding the persuasiveness of audit evidence.

A84. As explained in paragraph A21, an audit procedure may be designed to be effective in achieving an intended purpose, but if the performance or execution of the audit procedure (i.e., its application) is inappropriate, detection risk may not be reduced to an appropriate level. Paragraph A22 explains how ISA 220 (Revised) addresses the specific responsibilities of the auditor regarding quality management at the engagement level, and the related responsibilities of the engagement partner, which may affect the application of audit procedures. In addition, ISA 220 (Revised)<sup>40</sup> explains that the review of the engagement team’s work consists of considering whether, for example:

- The evidence obtained is sufficient and appropriate to provide a basis for the auditor’s opinion; and
- The objectives of the audit procedures have been achieved.

A85. If the audit evidence obtained does not meet the auditor’s purposes, it may affect the auditor’s conclusion in accordance with ISA 330 about whether sufficient appropriate audit evidence has been obtained. For example, ISA 330 requires the auditor to attempt to obtain further audit evidence.<sup>41</sup> However, if the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall express a qualified opinion or disclaim an opinion on the financial statements.

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<sup>39</sup> ISA 570 (Revised), *Going Concern*, paragraph 17

<sup>40</sup> ISA 220 (Revised), paragraph A89

<sup>41</sup> ISA 330, paragraph 27

## Appendix

(Ref: Para. A2, A6–A7)

### The Relationship of Proposed ISA 500 (Revised) to the Other ISAs and Examples of Types of Audit Procedures

This appendix explains the relationship of proposed ISA 500 (Revised) to the other ISAs regarding the responsibilities of the auditor in obtaining audit evidence. The appendix also describes some of the types of audit procedures designed and performed by the auditor to obtain audit evidence. Some audit procedures described in this appendix are defined in the ISAs. This appendix is non-exhaustive, since other types of procedures may be designed and performed by the auditor.

#### Responsibility to Design and Perform Audit Procedures

1. As explained in paragraph 3, this ISA is applicable to all audit evidence obtained through designing and performing audit procedures in accordance with the ISAs. Other ISAs address the auditor's responsibilities for designing and performing audit procedures regarding specific aspects of the audit, for example:
  - ISA 315 (Revised 2019) deals with the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements.
  - ISA 505<sup>42</sup> deals with the auditor's use of external confirmation procedures to obtain audit evidence in accordance with ISA 330 and ISA 500.
  - ISA 520<sup>43</sup> deals with the auditor's use of analytical procedures as substantive procedures, and the auditor's responsibility to perform analytical procedures near the end of the audit;
  - ISA 570 (Revised) deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report.

#### Types of Audit Procedures

##### *Inspection*

2. Inspection involves an examination (being physically present or using remote observation tools) of an asset or an examination of records or documents, whether internal or external, in paper form, digital form, or other media.

##### Examples:

- To test a control, the auditor may inspect records, using manual or automated tools and techniques, for evidence of authorization.
- The auditor may inspect the terms of revenue contracts with customers using automated tools or techniques, which may extract key information such as pricing and payment terms to use as audit evidence relevant to revenue recognition.

<sup>42</sup> ISA 505, *External Confirmations*

<sup>43</sup> ISA 520, *Analytical Procedures*

### Observation

3. Observation consists of looking at a process or procedure being performed by others. Observation provides audit evidence about the performance of a process or procedure, but is limited to the point in time at which the observation takes place, and by the fact that the act of being observed may affect how the process or procedure is performed. ISA 501 provides further guidance on observation of the counting of inventory.<sup>44</sup>

#### Examples:

- In understanding the entity's system of internal control as part of risk assessment procedures, the auditor may observe control activities of the entity, for example:
  - Physical controls, such as the safeguarding of assets;
  - Management's procedures to monitor or capture the actual time worked of wage employees; or
  - Management may use automated controls to monitor or observe large herds of cattle, such as securing a collar tag around the neck of the animal and the use of satellite tracking techniques.
- Subject to certain exceptions, ISA 501<sup>45</sup> requires the auditor to attend the physical inventory counting of the client to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory. The auditor may perform the required audit procedures by using manual or automated techniques, individually or in combination with each other. Automated tools and techniques may include live video, screensharing or video footage from a drone.
  - As a test of control, the auditor may observe entity personnel performing the controls.
  - As a further substantive procedure, the auditor may observe inventory counting by the entity's personnel through the use of satellite tracking devices.

### Confirmation

4. An external confirmation requested by the auditor is directed to a third party, who is requested to provide a response on a particular matter. The third party's (the confirming party) response may be in paper form, or by digital or other media. See ISA 505 for further guidance.

#### Examples:

The auditor may request an external confirmation of:

- Bank accounts and bank facilities with the bank. In some cases, this may be facilitated through third-party web-based and automated platforms.
- Account balances, such as accounts receivable and accounts payable.
- The terms of agreements or transactions an entity has with third parties.

<sup>44</sup> ISA 501, *Audit Evidence—Specific Considerations for Selected Items*

<sup>45</sup> ISA 501, paragraph 4

- Whether any modifications have been made to an agreement and, if so, what the relevant details are.
- Whether “side agreements” have been entered into that may influence revenue recognition.

#### *Recalculation*

5. Recalculation consists of checking the mathematical accuracy of information.

#### *Reperformance*

6. Reperformance involves the independent execution of procedures or controls that were originally performed as part of the entity’s internal control.

##### Examples:

The auditor may:

- Develop an auditor’s point estimate or range to evaluate management’s point estimate and related disclosures about estimation uncertainty, in accordance with ISA 540 (Revised).
- Reperform the reconciliation of accounts payable balances at year end, through matching creditor’s statements to the transactions in the underlying accounting records.

#### *Analytical Procedures*

7. Analytical procedures consist of evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.

##### Examples:

In identifying and assessing the risks of material misstatement regarding revenue, the auditor may perform analytical procedures in order to identify transactions that do not meet certain criteria, such as transactions with unauthorized customers, transactions without matching shipping documents or transactions with unusual delivery timeframes. Such transactions may be assessed as having a higher risk of material misstatement. As explained in paragraph A13, the auditor may:

- Use manual or automated tools and techniques, individually or in combination with each other, to perform the analytical procedures.
- Use an automated tool and technique to interrogate a large set of revenue transactions more easily. In using such techniques, the auditor may obtain a more granular or deeper understanding about the characteristics or composition of the revenue transactions which may result in more persuasive audit evidence.

#### *Inquiry*

8. Inquiry consists of seeking information of knowledgeable persons within the entity or outside the

entity. Inquiry is often used in performing risk assessment procedures and may range from formal written inquiries to informal oral inquiries. When performing further audit procedures, inquiry may provide audit evidence and may produce evidence of a misstatement. However, inquiry alone ordinarily does not provide sufficient appropriate audit evidence of the absence of a material misstatement at the assertion level, nor of the operating effectiveness of controls.

9. Evaluating responses to inquiries is an integral part of the inquiry process. Responses to inquiries may provide the auditor with new information, or with information that either corroborates or contradicts other audit evidence. Responses to inquiries may provide a basis for the auditor to modify or perform additional audit procedures.
10. Although audit evidence obtained through inquiry may need to be corroborated through performing other audit procedures, when making inquiries about management intent, the information available to support management's intent may be limited. In these cases, understanding management's past history of carrying out its stated intentions, management's stated reasons for choosing a particular course of action, and management's ability to pursue a specific course of action may provide relevant information to corroborate the audit evidence obtained through inquiry.
11. In respect of some matters, the auditor may consider it necessary to obtain written representations from management and, when appropriate, those charged with governance to confirm responses to oral inquiries. See ISA 580 for further guidance.

Examples:

The auditor may inquire of management about their intent related to a particular matter. The auditor may corroborate management's intent through:

- Inspecting management's past history of carrying out its stated intentions;
- Understanding management's stated reasons for choosing a particular course of action, and inspecting information to corroborate such reasons; and
- Considering management's ability to pursue a specific course of action, based on the auditor's understanding of the entity, the matter to which management's intent relates and other audit evidence.