

Explanation of Significant Changes to Requirements and Application Material

This paper explains the significant changes and the rationale for the changes that have been made by the Audit Evidence Task Force (the Task Force) since the March 2022 meeting, as reflected in the marked draft in **Agenda Item 3-A**. This paper refers to significant changes that are discussed in more detail in the relevant sections of **Agenda Item 3** (Issues Paper) and also explains the significant changes and the rationale for the changes for the conforming and consequential amendments as reflected in **Agenda Item 3-D**. Minor editorial changes are not explained in this paper.

Reference	Significant Changes and the Rationale for Those Changes
Introduction	
Paragraph 1	<p>See Agenda Item 3, Section B.1.</p> <p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraphs A1–A3a: These paragraphs previously were application material to paragraph 8. The Task Force noted that these paragraphs describe important fundamental concepts and therefore concluded that they fit better as application material to paragraph 1, which has the first reference to audit evidence and audit procedures. The Task Force also noted that this move keeps the discussion of automated tools and techniques earlier in the application material, which helps to highlight the benefits of their use. The Task Force considered the Drafting Principles and Guidelines as developed by the IAASB’s Complexity, Understandability, Scalability and Proportionality (CUSP) Working Group in moving these paragraphs to support a paragraph in the Introduction, but was of the view that such application material is appropriate for a conceptual standard such as proposed ISA 500 (Revised).
Paragraph 2	<p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraphs A3b–A3i: In connection with the restructuring of the application material, the Task Force relocated paragraphs A9–A15 in the March 2022 draft to become application material supporting the concept of sufficient appropriate audit evidence in paragraph 2 of Agenda Item 3-A. In doing so, the Task Force:

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	<ul style="list-style-type: none"> ○ Deleted previous paragraph A13 in the March 2022 draft given that the first bullet in paragraph A3d already references the fact that ISA 330¹ requires the auditor to obtain more persuasive audit evidence the higher the auditor's assessment of risk. ○ Deleted the examples in, and streamlined the wording of, paragraph A3f (previously paragraph A15 in the March 2022 draft). Board members raised various questions and concerns in offline comments about the clarity and usefulness of the examples. The Task Force concluded that any examples would best be included in non-authoritative guidance. The Task Force also noted that deleting the examples helps to further streamline the application material.
Paragraph 3	<ul style="list-style-type: none"> ● As explained in Section B.3 of Agenda Item 3, the Task Force deleted the reference in this paragraph to “design and perform audit procedures <u>in accordance with the ISAs</u>” (emphasis added), noting that other ISAs do not always address the design and performance of audit procedures or provide requirements or guidance about how to do so. ● To provide greater clarity about the relationship between proposed ISA 500 (Revised) and the other ISAs, the Task Force: <ul style="list-style-type: none"> ○ Clarified the wording to indicate that other ISAs address the auditor's responsibilities regarding specific aspects of the audit and may also address the audit evidence to be obtained for specific matters. ○ Attempted to strengthen the notion that proposed ISA 500 (Revised) is a “reference framework” by indicating that this ISA provides overarching requirements and guidance for the auditor when obtaining and evaluating audit evidence in accordance with those other ISAs. ○ Retained wording consistent with extant ISA 500 that this ISA applies to all audit evidence obtained during the audit.
Paragraph 4	<ul style="list-style-type: none"> ● The Task Force clarified the wording in response to Board comments. The Task Force also revised the wording of the last bullet to align with the changes to paragraph 13(b). See Section B.5 of Agenda Item 3 for further discussion about the changes to paragraphs 13 and 13A.

¹ ISA 330, *The Auditor's Responses to Assessed Risks*

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Objectives	
Paragraph 6	<ul style="list-style-type: none"> • Board members had mixed views about the proposed objective as presented in the March 2022 draft. After discussing Board comments provided during the March 2022 plenary session and received offline, the Task Force concluded that a two-part objective would better reflect the important concepts in proposed ISA 500 (Revised) and therefore revised the objectives as follows: <ul style="list-style-type: none"> ○ The first part (paragraph 6(a)) addresses the design and performance of audit procedures in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. This wording is consistent with the objective in extant ISA 500. ○ The second part (paragraph 6(b)) addresses the evaluation of information intended to be used as audit evidence (i.e., the “input”) and the audit evidence obtained (i.e., the “output”) to be able to draw reasonable conclusions on which to base the auditor’s opinion and report. The latter part of paragraph 6(b) is also consistent with the objective in extant ISA 500. ○ The Task Force discussed whether to incorporate a reference to “relevance and reliability of information” in paragraph 6(b) and concluded that the broader reference to “evaluate information” is more principles-based. The Task Force also is of the view that the objectives do not need to repeat the details of paragraph 9, noting that the requirement includes a consideration of the source of information as well as the attributes of relevance and reliability that are applicable in the circumstances.
Definitions	
Paragraph 7(a)	<p><i>Application Material</i></p> <ul style="list-style-type: none"> • Paragraph A3j: In the March 2022 IAASB meeting, the Board asked the Task Force to reconsider the decision to delete the reference to “relevance and reliability” in definition of appropriateness of audit evidence. In further discussing the point, the Task Force reaffirmed its position that appropriateness is best defined by reference to the quality of audit evidence, which is affected by not only the relevance and reliability of the information used, but also by the effectiveness of audit procedures applied to the information (see paragraph 30 of the March 2022 issues paper). However, the Task Force added wording to paragraph A3j to emphasize that the appropriateness of audit evidence is affected by the relevance and reliability of information intended to be used

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	<p>as audit evidence. The last sentence of paragraph A3j was deleted as it is now addressed in new paragraph A3l (see the explanation below for paragraph 7(d)).</p> <ul style="list-style-type: none"> Paragraph A3k: Consistent with the above explanation for paragraph A3j, the Task Force added this paragraph to indicate that appropriateness is also affected by the effectiveness of the audit procedures applied to the information.
Paragraph 7(b)	See Agenda Item 3, Section B.2.
Paragraph 7(d)	<p><i>Definition</i></p> <ul style="list-style-type: none"> The Task Force deleted the reference to “appropriate” in the definition of sufficiency of audit evidence as Board members found it to be confusing. <p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A3l: The Task Force added this paragraph in response to Board comments that paragraph A8 of extant ISA 500 contained helpful guidance on the concept of sufficiency of audit evidence. The wording was taken verbatim from the last two sentences of extant paragraph A8.
Requirements	
Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence	
Paragraph 8	<p><i>Requirement</i></p> <ul style="list-style-type: none"> See Agenda Item 3, Section B.3 for an explanation of the changes to the lead-in wording in the requirement (i.e., the deletion of “in accordance with the ISAs).” The Task Force changed the reference to “assertions in the financial statements” in paragraph 8(a) to “assertions made by management” to align with the wording in paragraph 35 of ISA 315 (Revised 2019).² The Task Force added a reference to “nature, timing and extent” in response to a Board member comment.

² ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

Reference	Significant Changes and the Rationale for Those Changes
	<p><i>Application Material</i></p> <ul style="list-style-type: none"> • Restructuring: As noted above, paragraphs A1-A3 were relocated as application material to paragraph 1. In making this move, the Task Force also noted that the requirement in paragraph 8 is about designing and performing audit procedures in an unbiased manner and that are appropriate in the circumstances to meet their intended purpose. The Task Force is of the view that paragraphs A3m-A28 appropriately support the requirement. In this regard, the Task Force also moved the paragraphs on nature of audit procedures (paragraphs A3m-A3o) to the top of this application material section. • Paragraph A3m: The Task Force expanded this paragraph in response to Board comments that more was needed about the purpose of an audit procedure. • Paragraph A4: See Agenda Item 3, Section B.2, paragraphs 22-25. • Paragraphs A17a-A19: During the March 2022 IAASB meeting, the Board commented that these paragraphs seemed unduly negative in focusing on automation bias when using automated tools and techniques. The Board also questioned whether the statements in paragraph A18 were correct about the use of automated tools and techniques reducing the risk of certain auditor biases. The Task Force agreed that the focus of these paragraphs was unduly negative and revised them as follows: <ul style="list-style-type: none"> ○ Revised and streamlined the paragraphs to focus on automation bias, and changed the subheading above paragraph A17a accordingly. In this regard, the Task Force moved paragraph A61 in the March 2022 draft to this section and streamlined the wording as it was deemed repetitive of paragraph A19. ○ Deleted paragraph A18 in the March 2022 draft based on the Board comments as noted above. ○ Added wording to paragraph A19 to refer to paragraphs A3-A3a, which explain that the use of automated tools and techniques may be more effective or provide more persuasive audit evidence than a manual technique. The Task Force view is that this additional wording helps to add a more positive tone to address the perceived negativity as noted above. • Paragraph A23: The Task Force revised the hanging paragraph based on Board comments to acknowledge that any one or a combination of the approaches or techniques listed may be appropriate in the circumstances.

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Information Intended to Be Used as Audit Evidence	
<p>Paragraph 9</p>	<p><i>Requirement</i></p> <ul style="list-style-type: none"> • See Agenda Item 3, Section B.1 for an explanation of the deletion of “for the auditor’s purposes.” • Paragraph 9(b): See Agenda Item 3, Section B.4, paragraph 37. <p><i>Application Material</i></p> <ul style="list-style-type: none"> • Paragraph A33a: The Task Force added this paragraph to provide an example of circumstances in which the auditor does not have a sufficient basis with which to consider the relevance and reliability of information from an external information source and therefore may have a limitation on scope. The example was taken from paragraph A44 of extant ISA 500 and is needed to retain the link to paragraph A129 of ISA 540 (Revised). • Paragraph A44: The Task Force deleted the this paragraph as it was deemed to be addressing the same principle as the first bullet in the examples in paragraph A43. However, the Task Force clarified the wording of the bullet in paragraph A43 and added a reference to a related party. • Paragraph A51: The Task Force deleted this paragraph in response to Board comments that it was redundant with other application material paragraphs. The Task Force noted that the reference to the auditor’s professional judgment has now been added to paragraph A29a. • Paragraph A52: In response to the Board’s offline comments, the Task Force: <ul style="list-style-type: none"> ○ Deleted the reference to the “degree to which the information needs to exhibit those particular attributes” as this may imply a spectrum for which additional guidance and examples may be needed regarding auditor judgments in assessing the “degree” of applicability of the attributes. ○ Deleted the last sentence based on concerns about suggesting that incomplete or inaccurate information could be used in performing risk assessment procedures. In this regard, the Task Force revised the example to better illustrate that the auditor’s procedures to evaluate the attributes of relevance and reliability may be different for risk assessment procedures than for further audit procedures. • Paragraph A53a: The Task Force added this paragraph as another reminder about the risk of automation bias.

Reference	Significant Changes and the Rationale for Those Changes
Paragraph 9A	See Agenda Item 3 , Section B.4.
Paragraph 10	<p data-bbox="527 354 684 383"><i>Requirement</i></p> <ul data-bbox="527 407 1898 1008" style="list-style-type: none"> <li data-bbox="527 407 1898 695">• The Board asked the Task Force to consider further strengthening the link or relationship between the requirements in paragraphs 9 and 10. The Task Force discussed with the Board in March 2022 that paragraph 9 (and now paragraph 9A as well) apply when information is prepared by a management's expert. However, after discussing the Board's comments, the Task Force acknowledged that the link between the two paragraphs could be clarified and strengthened. The Task Force therefore revised the lead-in wording to paragraph 10 to emphasize the conditionality of the requirement and to more clearly indicate that paragraph 10 forms a part of the auditor's evaluation in accordance with paragraphs 9-9A for information prepared by a management's expert. <li data-bbox="527 721 1898 1008">• The Task Force discussed the Board's comments about whether it may be helpful to retain the reference to "having regard to the significance of that expert's work" included in paragraph 8 of extant ISA 500. The Task Force reaffirmed its view that this additional conditionality is unnecessary. As described above, paragraph 10 forms a part of the auditor's evaluation of relevance and reliability in accordance with paragraphs 9-9A for information prepared by a management's expert. Therefore, the Task Force is of the view that the significance of the expert's work for the auditor's purposes (i.e., the intended purpose of the audit procedures in which that information is used) would affect the extent of the evaluation and understanding needed in accordance with paragraph 10. <p data-bbox="527 1034 762 1063"><i>Application Material</i></p> <ul data-bbox="527 1089 1898 1333" style="list-style-type: none"> <li data-bbox="527 1089 1898 1154">• Paragraph A62: The Task Force clarified and streamlined this paragraph in response to Board comments, including a suggestion to add a reference to experts in climate change and sustainability. <li data-bbox="527 1180 1898 1279">• Paragraph A64: The Task Force clarified this paragraph in response to Board comments and suggestions, including to better illustrate how the auditor's evaluation of the information prepared by a management's expert may assist the auditor in complying with the requirements of other ISAs. <li data-bbox="527 1305 1829 1333">• Paragraph A66: The Task Force added a second example based on a suggestion from a Board member.

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Paragraph 11	<p><i>Requirement</i></p> <ul style="list-style-type: none"> • During the March 2022 IAASB meeting, the Board raised various comments about the clarity of this requirement, including whether it could be further distinguished from paragraph 12. In response to the Board comments, the Task Force: <ul style="list-style-type: none"> ○ Revised paragraph 11(a) to focus on the auditor first attempting to obtain alternative or additional information that is relevant and reliable for the auditor’s purposes. The Task Force discussed a Board member comment questioning the clarity of “attempting to obtain” in this context, and reaffirmed its previous conclusion that “attempt to” is appropriate because the auditor may not always be able to obtain alternative or additional information. The Task Force also discussed the reference to “alternative or additional” information in this context and is of the view that both terms are appropriate because the auditor may try to obtain alternative or additional information from the same source or from a different source. ○ Revised paragraph 11(b) to make it a conditional requirement in circumstances in which alternative or additional information cannot be obtained. The Task Force also revised paragraph 11(b)(ii) to include consideration about whether the matter indicates a risk of material misstatement due to fraud. <p><i>Application Material</i></p> <ul style="list-style-type: none"> • Paragraph A75a: The Task Force added this paragraph to help explain circumstances in which the auditor may have doubts about the relevance of information intended to be used as audit evidence. The paragraph is consistent with paragraph A48a, which indicates that the period of time to which the information relates is a factor that may affect the relevance of the information. • Paragraph A75c: The Task Force added this paragraph in response to Board suggestions to provide a link to ISA 200³ to further enhance the application material about implications relating to fraud when the auditor has doubts about the relevance and reliability of information.

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

Reference	Significant Changes and the Rationale for Those Changes
	<ul style="list-style-type: none"> Paragraph A76: In the March 2022 IAASB meeting and in offline comments, Board members raised various questions and concerns about how the wording of this paragraph aligned with ISA 580.⁴ Based on these comments and after further discussion, the Task Force concluded that the best approach is simply to refer to the relevant requirements and guidance in ISA 580. The Task Force streamlined the paragraph accordingly and changed the footnote to include a reference to paragraphs 16-18 of ISA 580. In the view of the Task Force, this streamlined approach is sufficient and avoids repeating requirements in ISA 580 or omitting something viewed as important.
Evaluating the Audit Evidence Obtained	
Paragraphs 13-13A	<p>See Agenda Item 3, Section B.5, paragraphs 43-47.</p> <p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A77b: The Task Force added this paragraph to address Board comments asking to clarify the level at which the evaluation takes place. The Task Force discussed that the auditor's conclusion in accordance with paragraph 26 of ISA 330 about whether sufficient appropriate audit evidence has been obtained is influenced by, among other factors, the results of audit procedures performed to address assessed risks of material misstatement at the assertion level. The intent of paragraph A77b is to highlight that the auditor's evaluation required by paragraph 13(a) is made in the context of the requirements of ISA 330 and is therefore also done at the assertion level.
Appendix	
Paragraphs 2a-2b	<ul style="list-style-type: none"> The Task Force added these paragraphs to address offline comments from a Board member that paragraph 2 in the March 2022 draft did not reflect some of the limitations of inspection that are described in paragraphs A18-A20 of extant ISA 500.
Paragraph 3	<ul style="list-style-type: none"> The Task Force revised the first example based on offline Board suggestions to use a different example.

⁴ ISA 580, *Written Representations*

Reference	Significant Changes and the Rationale for Those Changes
Paragraph 7	<ul style="list-style-type: none"> The Task Force moved the second example to paragraph A3o as it was deemed to be a good illustration of how the type of audit procedure may affect the audit evidence obtained and also emphasizes the benefits of using automated tools and techniques in performing audit procedures.
Conforming and Consequential Amendments (see Agenda Item 3-D)	
ISA 200	<ul style="list-style-type: none"> Paragraph 13(b): See Agenda Item 3, Section C, paragraphs 55-60 for an explanation of the proposed consequential amendment to the definition of audit evidence. Paragraphs A30 and A32: The Task Force proposed conforming amendments to align the wording with paragraphs A2, A3i and A4 of Agenda Item 3-A. The Task Force recognizes that the proposed conforming amendments to paragraph A30 are lengthy and would result in an additional paragraph in ISA 200. However, the Task Force proposed the changes based on the fact that the current wording in ISA 200.A30 mirrors the wording in extant ISA 500. No changes were proposed to paragraph A31 of ISA 200 since the wording is consistent with paragraphs A3c and A3l of Agenda Item 3-A.
ISA 240 ⁵	<ul style="list-style-type: none"> Paragraph A38: The Task Force proposed this conforming amendment to align the wording with the definition of appropriateness of audit evidence in paragraph 7(a) and related application material in paragraph A3j of Agenda Item 3-A. As explained in paragraph A3j, the appropriateness of audit evidence is affected by the relevance and reliability of information intended to be used as audit evidence. The Task Force also has proposed changing the references to “obtain additional corroborative information” to “obtain additional audit evidence.” The Task Force noted that a reference to obtaining “corroborative information” may be viewed as inconsistent with the requirement in paragraph 8(a) to design and perform audit procedures in an unbiased manner.
ISA 315 (Revised 2019)	<ul style="list-style-type: none"> See Agenda Item 3, Section C, paragraphs 61-62 for an explanation of the proposed consequential amendment to add a definition of “accounting records” to ISA 315 (Revised 2019).

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

Reference	Significant Changes and the Rationale for Those Changes
ISA 505⁶	<ul style="list-style-type: none"> Paragraph 3: The Task Force proposed this conforming amendment to be consistent with the proposed conforming amendment to ISA 240 as described above.
ISA 530⁷	<ul style="list-style-type: none"> Appendix 4: The Task Force has proposed adding a sub-part (f) to explain that the application of any one or a combination of the methods in paragraphs (a) to (e) may be appropriate depending on the circumstances. The auditor may also use automated tools and techniques to identify and select items for testing. This proposed addition is consistent with the revision to paragraph A23 in Agenda Item 3-A.
ISA 540 (Revised)⁸	<ul style="list-style-type: none"> Paragraph 30: The Task Force has proposed conforming amendments to the hanging paragraph to align the wording more closely with paragraphs 9-10 of Agenda Item 3-A.

⁶ ISA 505, *External Confirmations*

⁷ ISA 530, *Audit Sampling*

⁸ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*