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Basis for Conclusions: ISA 500 (Redrafted), Audit Evidence

*Prepared by the Staff of the International Auditing and
Assurance Standards Board*



**International Federation
of Accountants**

**BASIS FOR CONCLUSIONS:
ISA 500 (REDRAFTED), AUDIT EVIDENCE**

This Basis for Conclusions has been prepared by staff of the International Auditing and Assurance Standards Board (IAASB). It relates to, but does not form part of, ISA 500 (Redrafted), “Audit Evidence,” which was approved by the IAASB in September 2008.¹

Background

1. In September 2006, the IAASB agreed the conventions to be used in drafting future International Standards on Auditing (ISAs). These conventions are commonly referred to as the IAASB’s Clarity conventions.²
2. The IAASB has undertaken to redraft all of its ISAs in accordance with the Clarity conventions. This approach responds to the desire for all ISAs to be consistently drafted, and subject to a single statement of their authority and effect. The IAASB has agreed, in response to the general call for the Clarity project to be completed within a reasonable time, that while a significant number of the ISAs are under substantive revision as well as redrafting to reflect the new conventions, others will be subject to a limited redrafting to reflect only the conventions and matters of clarity generally. ISA 500 is in the latter category.
3. The IAASB issued an exposure draft of proposed ISA 500 (Redrafted)³ (ED-ISA 500) in April 2007. The comment period for the exposure draft closed on September 15, 2007. The IAASB received forty-six comment letters from a variety of respondents, including regulators and oversight authorities, IFAC member bodies, national auditing standard setters, audit firms, and professional and public sector organizations. Input was also received from IFAC’s Small and Medium Practices Committee. In general, respondents expressed support for the clarifications made to the extant ISA as a result of the redraft.
4. In addition, the IAASB discussed significant issues in the development of ED-ISA 500, and the finalization of ISA 500 (Redrafted), with its Consultative Advisory Group (CAG). The CAG raised no significant concerns about the proposed treatment of these issues with the IAASB.
5. The IAASB made changes to ED-ISA 500 as a result of the comments received. This Basis for Conclusions explains the more significant issues raised by respondents on ED-ISA 500, and how the IAASB has addressed them.

¹ See minutes of the September 15-19, 2008 IAASB meeting at <http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4426>.

² The IAASB’s Clarity conventions, and the authority and obligation attaching to them, are established in ISA 200 (Revised and Redrafted), “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing.”

³ Proposed ISA 500 (Redrafted), “Considering the Relevance and Reliability of Audit Evidence.”

Sufficiency and Appropriateness of Audit Evidence

6. The Explanatory Memorandum accompanying ED-ISA 500 noted the following:

The IAASB is of the view that the overarching bold type requirement in paragraph 2 of extant ISA 500, “Audit Evidence” for the auditor to obtain sufficient appropriate audit evidence is a fundamental audit requirement, appropriate for inclusion as a requirement in proposed ISA 200 (Revised and Redrafted), “Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing.” Further, the IAASB believes that including this requirement in proposed ISA 200 (Revised and Redrafted) provides the appropriate context for the requirement of that ISA that the auditor use objectives to consider whether sufficient appropriate audit evidence has been obtained.

Accordingly, the requirement for the auditor to obtain sufficient appropriate audit evidence has been moved from extant ISA 500 to proposed ISA 200 (Revised and Redrafted) along with supporting Application and Other Explanatory Material. As a result of the repositioning of this requirement, proposed ISA 500 (Redrafted) focuses on the auditor’s responsibility to design and perform audit procedures to obtain relevant and reliable audit evidence; it has been re-titled accordingly.

7. While agreeing that the fundamental requirement to obtain sufficient appropriate audit evidence should be in ISA 200 (Revised and Redrafted),⁴ the majority of respondents who provided commented on this matter were strongly of the view that ISA 500 (Redrafted) should cover both the sufficiency and the appropriateness of audit evidence. It was argued that the focus in ED-ISA 500 solely on appropriateness of audit evidence gives rise to a risk that auditors might fail to fully appreciate the importance of the relationship between sufficiency and appropriateness, and creates inconsistency with the other ISAs as sufficiency and appropriateness are generally considered together. Respondents also felt that the result is an ISA that is imbalanced. In addition, several respondents did not find the clarity of the ISA enhanced by the use of the term “relevant and reliable audit evidence,” the introduction of which was necessitated by the proposed focus of ED-ISA 500.
8. Some of these respondents also noted that ED-ISA 500 already includes coverage of various aspects of sufficiency but is incomplete, and the rationale as to what has been included and what has been excluded is not clear.

IAASB Decision

9. In the light of the strong opposition to the approach in ED-ISA 500, the IAASB accepted that ISA 500 (Redrafted) should cover both sufficiency and appropriateness of audit evidence. Accordingly, the IAASB agreed the following:

⁴ ISA 200 (Revised and Redrafted),” Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing.”

- (a) To amend the title of the ISA, from “Considering the Relevance and Reliability of Audit Evidence,” to “Audit Evidence;”
 - (b) To amend the objective to read: “The objective of the auditor is to design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor’s opinion.” See paragraph 4 of ISA 500 (Redrafted); and
 - (c) To require the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. See paragraph 6 of ISA 500 (Redrafted).
10. The IAASB believes these amendments create an appropriate linkage between the three ISAs that deal directly with the sufficiency and appropriateness of audit evidence:
- (a) ISA 200 (Revised and Redrafted), which contains an overarching requirement to obtain sufficient appropriate audit evidence, and contains discussion of relevant factors when the auditor exercises professional judgment regarding whether sufficient appropriate audit evidence has been obtained;
 - (b) ISA 500 (Redrafted), which focuses on designing and performing procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence; and
 - (c) ISA 330 (Redrafted)⁵, which considers audit evidence in the context of further audit procedures to respond to assessed risks, and includes a requirement to conclude whether sufficient appropriate audit evidence has been obtained.

Repetition of Text from ISA 200 (Revised and Redrafted)

11. Paragraphs 3-7 of the Introduction section of ED-ISA 500 included a discussion of the sufficiency and appropriateness of audit evidence. This material largely repeated that which was also included in the Application and Other Explanatory Material of ISA 200 (Revised and Redrafted). This material provided context for the requirements of ED-ISA 500, and emphasized in both the context of ED-ISA 500 and ISA 200 (Revised and Redrafted) the importance of the concept of sufficiency and appropriateness of audit evidence to the conduct of an audit in accordance with ISAs.
12. Most respondents who provided commented on this matter accepted that some duplication is necessary, and many advocated covering both sufficiency and appropriateness of audit evidence in ISA 500 (Redrafted) as well as ISA 200 (Revised and Redrafted), notwithstanding the further duplication that would arise. Some respondents suggested however that some or all of the duplicated text should be moved out of the Introduction section of the ISA and into either the Application and Other Explanatory Material or the Requirements.
13. Some respondents indicated a preference for some or all of the duplicate text to be deleted, and a few respondents were of the view that the degree of duplication suggests that there is merit to having ED-ISA 500 entirely subsumed in other ISAs.

⁵ ISA 330 (Redrafted), “The Auditor’s Responses to Assessed Risks.”

IAASB Decision

14. The IAASB reaffirmed its view that the benefits of emphasizing this material in the context of both ISA 500 (Redrafted) and ISA 200 (Revised and Redrafted) outweigh the disadvantages of repetition. The IAASB agreed, however, that the structure of ISA 500 (Redrafted) would be enhanced by moving the relevant text from the Introduction section to the Application and Other Explanatory Material section. See paragraphs A1-A6 of ISA 500 (Redrafted).
15. The IAASB concluded that retaining a separate ISA dealing with audit evidence is important to the structure of the ISAs overall, and therefore did not support the notion that ED-ISA 500 should be subsumed in other ISAs.

Audit Procedures for Obtaining Audit Evidence

16. Paragraphs A8-A19 of ED-ISA 500 listed, and provided guidance on, the following audit procedures for obtaining audit evidence: inspection, observation, confirmation, recalculation, reperformance, analytical procedures and inquiry. Some respondents were of the view that the ISA should mandate, or mandate consideration of, some or all of the listed procedures.

IAASB Decision

17. The IAASB concluded that it is neither necessary nor appropriate to mandate the listed procedures or consideration thereof. Paragraph 6 of ISA 500 (Redrafted), as discussed above, requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. To obtain that evidence, the auditor will necessarily use a selection of the procedures listed in paragraphs A14-A25 of ISA 500 (Redrafted). The exact procedures to be used will vary considerably from one aspect of the audit engagement to another, and from year to year. It therefore would serve little purpose to include in the requirements of ISA 500 (Redrafted) a list of procedures that are all the classes of procedure available to the auditor. In addition, the IAASB was of the view that mandating the list of procedures would yield a standard that was set at too procedural a level.

Selecting Items for Testing

18. ED-ISA 500 proposed that material dealing with the selection of items for testing by means other than audit sampling (i.e., the selection of all items or specific items) be moved from ISA 530 (Redrafted)⁶ to ISA 500 (Redrafted) in order for ISA 530 (Redrafted) to provide a clear focus on audit sampling.
19. Respondents' views on this proposal, and the basis for the IAASB's conclusion to retain that material in ISA 500 (Redrafted), are outlined in the "Basis for Conclusions: ISA 530 (Redrafted), Audit Sampling."⁷

⁶ ISA 530 (Redrafted), "Audit Sampling."

⁷ The document "Basis for Conclusions: ISA 530 (Redrafted), Audit Sampling," is available on the IAASB website at [http://web.ifac.org/download/Basis_for_Conclusions_-_ISA_530_\(Redrafted\).pdf](http://web.ifac.org/download/Basis_for_Conclusions_-_ISA_530_(Redrafted).pdf).

Management's Experts

20. A new requirement and a significant amount of supporting Application and Other Explanatory Material has been added to ISA 500 (Redrafted) to deal with the audit evidence implications of management experts (i.e., experts employed or engaged by the entity). This topic had previously been dealt with in ISA 620,⁸ but proposed conforming amendments included in an exposure draft of proposed ISA 620 (Revised and Redrafted)⁹ suggested it be moved to ISA 500 (Redrafted).
21. Respondents' views on those proposed conforming amendments, and the basis for the IAASB's conclusion to move that material to ISA 500 (Redrafted), are outlined in the "Basis for Conclusions: ISA 620 (Revised and Redrafted), Using the Work of an Auditor's Expert."¹⁰

⁸ ISA 620, "Using the Work of an Expert."

⁹ Proposed ISA 620 (Revised and Redrafted), "Using the Work of an Auditor's Expert."

¹⁰ The document "Basis for Conclusions: ISA 620 (Revised and Redrafted), Using the Work of an Auditor's Expert," is available on the IAASB website at http://web.ifac.org/download/Basis_for_Conclusions_ISA_620_Revised_and_Redrafted.pdf.