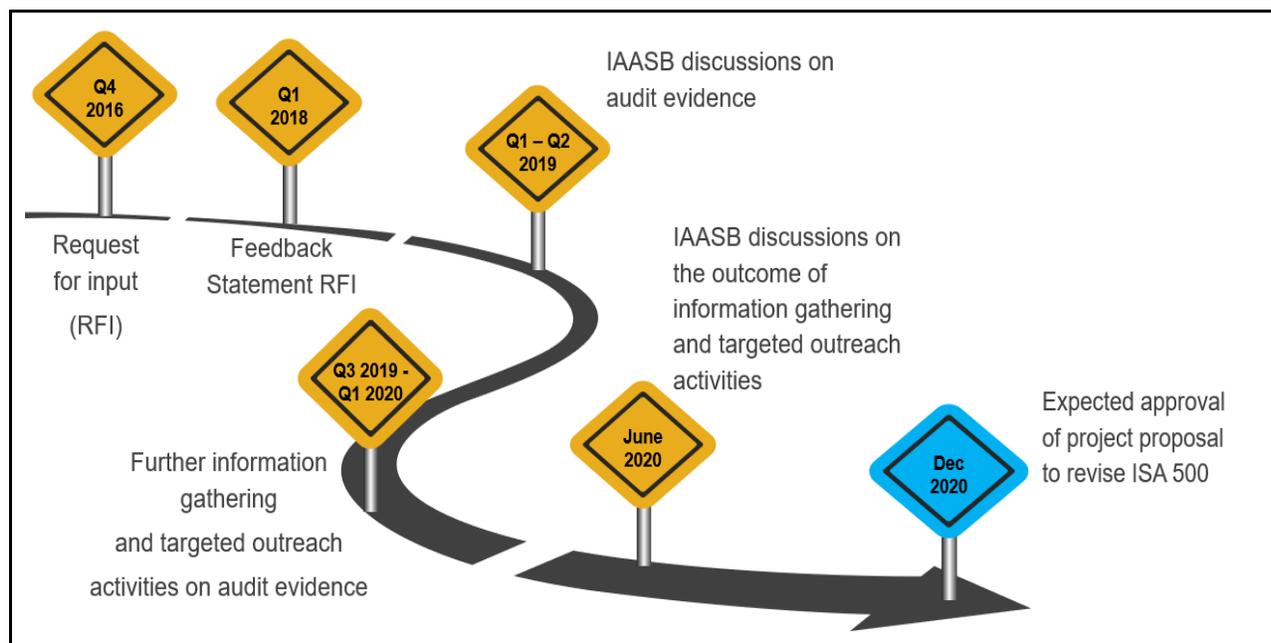


## REVISION OF ISA 500, *AUDIT EVIDENCE*

This publication has been prepared by the Audit Evidence Working Group (AEWG) to provide an update about the progress of work and issues being considered in the revision of ISA 500, *Audit Evidence* (subject to approval of the project proposal). It does not constitute an authoritative pronouncement of the International Auditing and Assurance Standards Board (IAASB), nor does it amend or override the International Standards on Auditing (ISAs)

### Our Journey

1. ISA 500 deals with the auditor's responsibilities to design and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion. ISA 500 was issued in December 2008 as part of the IAASB's revisions to improve the clarity of its International Standards. Conforming and consequential amendments were made to the standard in 2018 as part of the project to revise ISA 540<sup>1</sup> (i.e., to include material addressing external information sources, as defined).
2. The following roadmap presents a summary of the project timeline and the plan up until the date of the expected approval of a project proposal to revise ISA 500:

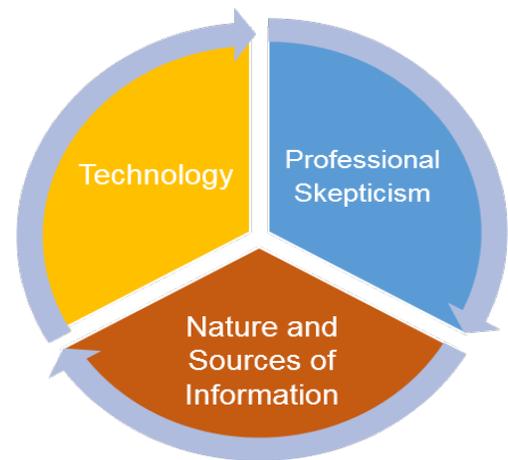


3. No other updates have been made to ISA 500 during a period where the way business is conducted globally has evolved and become more complex. In particular, developments in technology have affected how entities operate and process information, such as the increased use of artificial intelligence, robotics, blockchain, cloud computing, digital currencies and payment platforms. Simultaneously, developments in technology have affected how audits are performed, for example, the use of data analytics, machine

<sup>1</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

learning and artificial intelligence. Many auditors have made substantial investments in automated tools and techniques to replace or supplement manual audit procedures.<sup>2</sup> Changes brought about by factors such as big data and social media have further affected the sources and volume of information available to entities and auditors.

4. Given the evolving use of technology by auditors, the IAASB released the [Request for Input](#), *Exploring the Growing Use of Technology in the Audit, With a Focus on Data Analytics*, in December 2016. The paper identified and explored various issues and challenges associated with the use of data analytics in the performance of audits.
5. The IAASB issued a [Feedback Statement](#), *Exploring the Growing Use of Technology in the Audit, With A Focus on Data Analytics*, in January 2018. Key messages included that the ISAs aren't broken and should remain principle-based but need to reflect the digital era in application material. Moreover, specific views were expressed in relation to the topic of audit evidence, including:
  - Emphasizing the need to exercise professional skepticism when using data analytics.
  - Clarifying how the use of data analytics contributes to the audit evidence model.
  - Highlighting the importance of the source and quality of the data used and challenges in considering the relevance and reliability of both internal and external data.
6. Subsequently, the IAASB established the AEWG in January 2019 to identify and explore possible issues related to audit evidence and technology in the context of the ISAs (in particular, ISA 500), and develop recommendations for possible further actions.
7. The AEWG developed an initial listing of possible issues categorized into the following topics related to the auditor's consideration of audit evidence:
  - Changes in the source of information and how the information is processed, communicated and used;
  - Continual developments in technology; and
  - Professional skepticism.
8. The AEWG presented the initial listing of issues and possible actions to address the identified issues to the Board in June 2019.<sup>3</sup> In determining whether ISA 500 and possibly other standards needed to be revised, the Board was of the



<sup>2</sup> In applying the ISAs, an auditor may design and perform audit procedures manually or through the use of automated tools and techniques, and either technique can be used to effectively obtain audit evidence. Auditors are increasingly looking at technology and how to take advantage of the capabilities and functions of automated tools and techniques, depending on the facts and circumstances of the entity and the audit.

<sup>3</sup> [Agenda Item 7](#) of the June 2019 Audit Evidence issues paper

view that further information-gathering and targeted outreach activities were necessary to understand:

- The extent to which the issues identified or other issues (if any) are creating challenges in practice, including the reasons or causes of those issues; and
  - How the issues may be best addressed.
9. The nature and extent of the further information gathering and targeted outreach activities were captured in the [Audit Evidence Workstream Plan](#), and included:
- (a) Targeted outreach with stakeholders, including:
    - Regulators and audit oversight bodies, including representatives from regulator inspection teams;
    - National Standard Setters;
    - Accounting firms, including members of the Global Public Policy Committee and other members of the Forum of Firms;
    - Public Sector Organizations;
    - International Federation of Accountants' (IFAC) Professional Accountancy Organization Members, including the IFAC Small and Medium Practices Committee; and
    - Preparers of financial statements.
  - (b) Analysis of the Audit Evidence Project of the American Institute of Certified Public Accountants;
  - (c) Review of academic research on the topic of audit evidence;
  - (d) Consideration of the IAASB's [Strategy for 2020-2023](#) and [Work Plan for 2020-2021](#); and
  - (e) Consideration of the activities of the Professional Skepticism Working Group, in particular its work in relation to the IAASB's [Invitation to Comment](#), *Enhancing Audit Quality in the Public Interest*.
10. At its June 2020 meeting, the IAASB discussed the outcome of the AEWG's information gathering and targeted outreach activities, which included an updated listing of audit evidence related issues.<sup>4</sup> Key overall messages communicated to the Board included that:
- Issues creating the most difficulties in practice were generally closely related to the information to be used as audit evidence, the evaluation of whether sufficient appropriate audit evidence has been obtained and the definitions of "sufficiency" and "appropriateness." Further, the evolution of technology has created additional challenges in relation to the evaluation of whether sufficient appropriate audit evidence has been obtained.
  - Notwithstanding the evolution in technology, the relevance of many of the audit evidence issues identified were further emphasized in light of the COVID-19 pandemic.

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<sup>4</sup> [Agenda Item 7](#) of the June 2020 Audit Evidence issues paper

- A project to revise ISA 500, including conforming and consequential amendments to other ISAs, was broadly noted as the desired approach by stakeholders to address the identified audit evidence issues. Accordingly, the AEWG recommended, and the Board supported, prioritizing those issues that were directly related to a project to revise ISA 500, and only making conforming and consequential amendments to related standards.

## Issues Identified to Date and the Project Proposal

11. As directed by the Board, the AEWG is currently in the process of developing a project proposal to focus on the prioritization of the issues and the scoping of the project. The project proposal will be considered and discussed by the Board at its December 2020 meeting. In its deliberations, the AEWG has envisaged an approach whereby the following key public interest matters will guide the development of revisions to ISA 500:
- Responding to changes in the information that is being used by auditors, including the nature and source of the information;
  - Modernizing and supporting a principle-based standard that recognizes the evolution in technology; and
  - Fostering the maintenance of professional skepticism when making judgments about information to be used as audit evidence and evaluating whether sufficient appropriate audit evidence has been obtained.

An itemization of the audit evidence related issues that are within the scope of this project have been extracted from the Board agenda materials that were discussed at the June 2020 IAASB meeting and can be accessed [\[here\]](#).

## Way Forward

12. The AEWG will propose (subject to Board deliberation relating to approval of a project proposal):
- (a) To develop revisions to ISA 500 to establish more robust requirements and appropriate guidance to assist the auditor in considering information to be used as audit evidence and the evaluation of whether sufficient appropriate audit evidence has been obtained. It is intended that these revisions will achieve greater consistency in auditor judgements, as well as better explain the scope of the standard and its relationship with other standards, such as ISA 200<sup>5</sup> and ISA 330.<sup>6</sup>
  - (b) To determine what non-authoritative materials should be developed by the IAASB, or others, to supplement revisions to ISA 500 and thereby aid its effective implementation. First-time implementation support activities or non-authoritative support materials may include, for example, fact sheets, questions and answers, webinars, or presentations, flow charts, diagrams or illustrations.

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<sup>5</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

<sup>6</sup> ISA 330, *The Auditors Responses to Assessed Risks*

## Coordination with Other Working Groups

### *Technology Working Group*

13. In preparing the listing of audit evidence related issues, some issues were identified by the AEWG and the Technology Working Group as being more suited to be addressed by non-authoritative support material focused on the effect of technology when applying certain aspects of the ISAs. Therefore, where the Technology Working Group included any of these issues in the [Technology Workstream Plan](#) for the development of non-authoritative support material, the issue was excluded from the current itemization of issues to be covered through the audit evidence project proposal. The AEWG will continue to coordinate with the Technology Working Group.

### *Professional Skepticism Working Group*

14. The AEWG, in conjunction with the Professional Skepticism Working Group, will further explore what could be done to enhance ISA 500 in terms of more robustly addressing the need for professional skepticism when making judgments about information to be used as audit evidence.

## Project Timetable

15. The AEWG has proposed the following preliminary timetable, noting that specific project milestones and outputs may change as the project develops. The IAASB Consultative Advisory Group's input will be sought as appropriate throughout the project.

Timing	Action
July – November 2020	Prepare project proposal and evolve approach to progress the revision of ISA 500 and conforming and consequential amendments to other standards
December 2020	Approval of project proposal and deliberation of issues
January – November 2021	Development of the exposure draft – progressing issues and drafting the proposed revisions to ISA 500.
	Dialogue with stakeholders on key issues and proposals
December 2021	IAASB approval of exposure draft, with a 120-day comment period, including proposed conforming and consequential amendments to other ISAs
June 2022 – February 2023	Analysis of responses and resulting revisions to the exposure draft in developing the final standard
	Dialogue with stakeholders on key issues and proposals
March 2023	IAASB approval of ISA 500 (Revised)

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**International Auditing  
and Assurance  
Standards Board®**

529 Fifth Avenue, New York, NY 10017  
T + 1 (212) 286-9344 F +1 (212) 286-9570  
[www.iasb.org](http://www.iasb.org)