Audit Evidence

Bob Dohrer, Audit Evidence Working Group Chair
IAASB Meeting, Toronto
Agenda Item 8–A
March 14, 2019
Audit Evidence—Overall Objectives

- Address Evolving Nature Of Audit Services
- Emerging Tools And Techniques, Including Data Analytics
- Professional Skepticism
- External Information Sources

The ways that business is transacted and reporting takes place has changed and thus information evaluated by the auditor is different than in the past.
Audit Evidence—Task Force Composition

IAASB Connections
- Eric Turner
- Susan Jones
- Alan Young
- Hiram Hasty
Key Proposals — Scope Section

Articulates relationship between audit evidence and other standards

Explains relationship between information obtained by the auditor and audit evidence

Includes explicit statement that this proposed standard does not establish incremental audit documentation requirements

Includes illustration of the attributes and factors relevant to audit evidence (“Cube”)
Key Proposals—Objective

“The objective of the auditor is to evaluate information to which audit procedures have been applied in the performance of the audit as a basis for concluding whether sufficient appropriate audit evidence has been obtained.”
<table>
<thead>
<tr>
<th>Key Proposals—Definitions</th>
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<tr>
<td><strong>Appropriateness</strong></td>
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<tr>
<td>- The measure of the relevance and reliability of audit evidence…</td>
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<tr>
<td><strong>Sufficiency</strong></td>
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<td>- The measure of the persuasiveness of audit evidence…</td>
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<td><strong>Audit Evidence</strong></td>
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<td>- Information to which audit procedures have been applied.</td>
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<td><strong>External Information</strong></td>
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<td>- The information obtained external to the entity, including information from external information sources…</td>
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<td><strong>External Information Sources</strong></td>
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<tr>
<td>- An external individual or organization that provides information that has been used by the entity in preparing the financial statements…</td>
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<tr>
<td><strong>Internal Information Sources</strong></td>
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<tr>
<td>- The information developed or maintained by the entity, including accounting records.</td>
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The sufficiency and appropriateness of audit evidence are interrelated. Sufficiency and appropriateness are integral factors in evaluating the persuasiveness of the audit evidence.

Appropriate audit evidence is sufficient (that is, persuasive) when an experienced auditor would be persuaded to draw conclusions based on consideration of the audit evidence.
Key Proposals

- Relocated content to another standard
- Considering new PCAOB use of specialists standard

Requirements and guidance not changed from extant at this point.
Key Proposals—Requirements/Application Material

Illustrates that attributes are considered in the context of other attributes.
“11. The auditor should evaluate information obtained as a basis for concluding whether sufficient appropriate audit evidence has been obtained by assessing its relevance and reliability in the context of the source from which it was obtained and whether the information obtained corroborates or contradicts the assertions in the financial statements as set out in paragraphs 12–14 of this standard.”
“12. In evaluating information obtained in accordance with paragraph 11, the auditor should assess the relevance and reliability of the information to be used as audit evidence.”

Relevance is the entry point, then reliability
- Accuracy
- Completeness
- Authenticity
- Risk of bias
  - By mgmt.
  - By auditor
“13. In evaluating information obtained in accordance with paragraph 11, the auditor should assess the sources of information to be used as audit evidence.”

Relative reliability is considered in the context of the source and nature of information.

If contradictory information is obtained from a social media source does the inability to “verify” accuracy and completeness negate its value?
“14. In evaluating information obtained in accordance with paragraph 11, the auditor should assess whether the information obtained corroborates or contradicts the assertions in the financial statements.”

However, the auditor does not consider contradictory audit evidence in isolation, but rather as part of the auditor’s consideration of the audit evidence obtained with respect to that management assertion taken as a whole.
Key Proposals—Requirements/Application Material

15. If
   • audit evidence obtained from one source is inconsistent with that obtained from another or
   • the auditor has doubts about the reliability of information to be used as audit evidence,
   the auditor should determine what modifications or additions to audit procedures are necessary to resolve the matter and should consider the effect of the matter, if any, on other aspects of the audit.
“The auditor may perform one or more procedures using different audit tools or techniques, including audit data analytics, visualization, or artificial intelligence in meeting objectives of the audit procedures.”

“In some instances, the auditor may achieve the objective of more than one type of audit procedure (for example, as both a risk assessment and further audit procedure) and may accomplish the objectives of both types of procedures simultaneously, including achieving such objectives through the use of automated tools or techniques.”
Next Steps

ED
May 2019

Discuss Comment Letters
October 2019

Final
January 2020

Effective Date
June 2021
Questions?