Audit Evidence

Bob Dohrer, Audit Evidence Working Group Chair
IAASB Meeting, Toronto
Agenda Item 8–A
March 14, 2019
The following slides walk through the current ISAs (including extant ISA 315 (Revised)) and demonstrate how they are interrelated.

(For best viewing, please view electronically using the slide show function in MS Powerpoint)
Design and perform audit procedures for the purpose of obtaining sufficient appropriate audit evidence

- ISA 200
  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

- ISA 315 (Revised)
  Perform risk assessment procedures to provide a basis for identification and assessment of risks of material misstatement (ROMM)

- ISA 450
  Evaluate misstatements

- ISA 700 (Revised)
  Conclude whether have obtained reasonable assurance about whether F/S are free from material misstatement

- ISA 330
  • Design and implement overall responses to address assessed ROMMs at F/S level
  • Design and perform further audit procedures that are responsive to assessed ROMMs at assertion level
  • Audit procedures to evaluate overall presentation of the F/S

- ISA 500
  Design and perform audit procedures for the purpose of obtaining sufficient appropriate audit evidence

  - ISA 240, ISA 402, ISA 501–ISA 520, ISA 540–ISA 580, ISA 600–ISA 620, ISA 710

  Consider relevance and reliability of information to be used as audit evidence, including information from external information source
  - Specific requirements regarding information prepared by management expert
  - Information produced by entity – consider if sufficiently reliable, including accuracy and completeness and sufficiently precise and detailed
  Modify audit procedures to resolve inconsistency in, or doubts over reliability of, audit evidence

- ISA 530
  Determine means of selecting items for testing

ISA 450
Evaluate misstatements

ISA 240, ISA 402, ISA 540, ISA 550, ISA 570

ISA 240, ISA 402, ISA 540–ISA 570, ISA 600–ISA 620, ISA 710

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Audit Evidence
Update
March 2019
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.”
Key Proposals—Definitions

Appropriateness
- The measure of the relevance and reliability of audit evidence...

Sufficiency
- The measure of the persuasiveness of audit evidence...

Audit Evidence
- Information to which audit procedures have been applied.

External Information
- The information obtained external to the entity, including information from external information sources...

External Information Sources
- An external individual or organization that provides information that has been used by the entity in preparing the financial statements...

Internal Information Sources
- The information developed or maintained by the entity, including accounting records.

Not focusing on “quantity” of audit evidence

Relocated EIS application material to an appendix
“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—Definitions

Sufficient

Appropriate

Persuasive
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?
Key Proposals—Requirements/Application Material

“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.
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?