

PROPOSED INTERNATIONAL STANDARD ON AUDITING 500

(REDRAFTED)

CONSIDERING THE RELEVANCE AND RELIABILITY OF OBTAINING SUFFICIENT APPROPRIATE AUDIT EVIDENCE (Mark-up Showing Changes from ED)

(Effective for audits of financial statements for periods beginning on or after December 15, 2009)^{*}

NOTE TO IAASB

The mark-ups in italics are from the EDs of ISA 620 (Experts) and ISA 505 (Confirmations), each of which is subject to a separate due process that may result in changes to the words ultimately used here. Also, the exact wording of some text which appears both here and in ISA 200 is subject to decisions made on ISA 200.

CONTENTS

| | Paragraph |
|--|---------------|
| Introduction | |
| Scope of this ISA | 1-2 |
| <u>Audit Evidence</u> | <u>3-7</u> |
| Effective Date | 8 |
| Objective | 9 |
| Definitions | 10 |
| Requirements | |
| <u>Sufficient Appropriate Audit Evidence</u> | <u>11.1</u> |
| Information to be Used as Audit Evidence | 11-12 |
| Selecting Items for Testing to Obtain Audit Evidence..... | 13 |
| Inconsistency in, or Doubts Over Reliability of, Audit Evidence..... | 14 |
| Application and Other Explanatory Material | |
| <u>Sources of Sufficient Appropriate</u> Audit Evidence | A1-A3 |
| <u>Audit Procedures for Obtaining Audit Evidence</u> | <u>A4 A19</u> |
| Information to be Used as Audit Evidence | A20-A30 |
| Selecting Items for Testing to Obtain Audit Evidence..... | A31-A34 |
| Inconsistency in, or Doubts Over Reliability of, Audit Evidence..... | A35 |

^{*} See footnote 1.

International Standard on Auditing (ISA) 500 (Redrafted), “Audit Evidence” should be read in the context of the “Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services,” which sets out the authority of ISAs.

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) explains what constitutes audit evidence in an audit of financial statements, and deals with the auditor’s responsibility to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion ~~design and perform audit procedures to obtain relevant and reliable audit evidence~~.
2. This ISA is applicable to all the audit evidence obtained during the course of the audit. Other ISAs deal with specific aspects of the audit (for example, ISA 315), the audit evidence to be obtained in relation to a particular topic (for example, ISA 570), ~~the specific~~ procedures to ~~be performed in~~ obtaining audit evidence (for example, ISA 520), and the evaluation of whether sufficient appropriate audit evidence has been obtained (ISAs 200 and 330).¹

Audit Evidence

~~PARAs 3 to 7 have been moved without mark up to become paras Aa to Ae~~

Effective Date

8. This ISA is effective for audits of financial statements for periods beginning on or after December 15, 2009.~~{date}~~.²

Objective

9. 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 audit opinion. ~~so as to be able to obtain relevant and reliable audit evidence~~.

Definitions

10. For purposes of the ISAs, the following terms have the meanings attributed below:³

¹ ISA 315 (Redrafted), “Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment,” ISA 570 (Redrafted), “Going Concern,” ISA 520 (Redrafted), “Analytical Procedures,” ISA 200 (Revised and Redrafted), “Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing,” ISA 330 (Redrafted), The Auditor's Procedures in Response to Assessed Risks.”

² ~~This date will not be earlier than December 15, 2008.~~

- (a) Accounting records – The records of initial accounting entries and supporting records, such as checks and records of electronic fund transfers; invoices; contracts; the general and subsidiary ledgers, journal entries and other adjustments to the financial statements that are not reflected in formal journal entries; and records such as work sheets and spreadsheets supporting cost allocations, computations, reconciliations and disclosures.
- (~~db~~) Appropriateness – The measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the audit opinion is based, or detecting misstatements in, the financial statements.
- (~~bc~~) Audit evidence – All the information used by the auditor in arriving at the conclusions on which the audit opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information.
- (*d*) Management’s expert – a person or organization employed or engaged by the entity and possessing expertise in a field other than accounting.
- (~~ee~~) Sufficiency – The measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the risks of material misstatement and also by the quality of such audit evidence.

Requirements

Sufficient Appropriate Audit Evidence

11.1 The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. (Ref: Para. Aaa-A19)

Information to be Used as Audit Evidence

- 11. When designing and performing audit procedures, the auditor shall consider the relevance and reliability of the information to be used as audit evidence. (Ref: Para. A20-A27)
- 12. When using information ~~used by the auditor for purposes of the audit was~~ produced by the entity, including any management’s expert, the auditor shall evaluate ~~whether~~ the information ~~is sufficiently~~ reliability for the auditor’s purposes, including as necessary in the circumstances:
 - (a) Obtaining audit evidence about the accuracy and completeness of the information;
 - (b) Evaluating whether the information is ~~sufficiently~~ precise enough and ~~or~~ detailed enough for the auditor’s purposes; and
 - (*c*) Evaluating the capabilities, competence and objectivity of a management’s expert, if any. (Ref: Para. A28-A30)

³ DRAFTING NOTE: THE PRESENTATION OF THESE DEFINITIONS DIFFERS FROM THAT IN ISA 200, WHICH COMBINES THE DEFINITIONS OF “SUFFICIENCY” AND “APPROPRIATENESS” AS PART OF THE DEFINITION OF “AUDIT EVIDENCE.” THE IAASB’S VIEWS ON THIS WOULD BE WELCOMED.

Selecting Items for Testing to Obtain Audit Evidence

13. When designing tests of controls and tests of details, the auditor shall determine means of selecting items for testing that are effective in meeting the purpose of the audit procedure.
(Ref: Para. A31-A34) ~~The means available to the auditor are:~~
- (a) ~~Selecting all items (100% examination);~~
 - (b) ~~Selecting specific items; and~~
 - (c) ~~Audit sampling. (Ref: Para. A31-A34)~~

Inconsistency in, or Doubts ~~O~~ver Reliability of, Audit Evidence

14. ~~When If:~~
- (a) ~~a~~ Audit evidence obtained from one source is inconsistent with that obtained from another~~;~~; or
 - (b) ~~t~~ The auditor has doubts over the reliability of information to be used as audit evidence,
the auditor shall determine what modifications to or additional audit procedures are necessary to resolve the matter. (Ref: Para. A35)

Application and Other Explanatory Material

Sufficient Appropriate Audit Evidence (Ref: Para. 11.1)

Aa3. ~~Audit evidence is all the information used by the auditor in arriving at the conclusions on which the audit opinion is based.~~ Audit evidence is necessary to support the auditor's opinion and the auditor's report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as, e.g., previous audits (provided the auditor has determined whether changes have occurred since the previous audit that may affect its relevance to the current audit⁴) and a firm's quality control procedures for client acceptance and continuance. In addition to other sources inside and outside the entity, the entity's accounting records are an important source of audit evidence along with other sources inside and outside the entity. Also, information that may be used as audit evidence may have been prepared by an expert employed or engaged by the entity. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. In addition, in some cases the existence of a lack of evidence (e.g., management's failure to provide a requested representation) also represents information used by the auditor and therefore also constitutes audit evidence. (Ref: Para. A1-A3)

Ab4. Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence. Audit procedures to obtain audit evidence can include inspection,

⁴ ISA 315 (Redrafted), paragraph 9.

observation, confirmation, recalculation, reperformance and analytical procedures ~~and inquiry~~, often in some combination, in addition to inquiry. Although inquiry may provide important audit evidence, inquiry alone ordinarily does not provide sufficient audit evidence to detect a material misstatement at the assertion level, nor of the operating effectiveness of controls. (Ref: Para. A4 A19)

Ac5. As explained in [proposed] ISA 200 (Revised and Redrafted), “Overall Objective of the Independent Auditor, and Concepts Relevant to an Audit of Financial Statements,” reasonable assurance is obtained when the auditor has reduced audit risk to an acceptably low level by obtaining sufficient appropriate audit evidence.

Ad. Sufficiency is the measure of the quantity of audit evidence. The quantity of audit evidence needed is affected by the auditor’s assessment of the risks of misstatement (the higher the assessed risks, the more audit evidence is likely to be required) and also by the quality of such audit evidence (the higher the quality, the less may be required). Obtaining more audit evidence, however, may not compensate for its poor quality.

Ae6. Appropriateness is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor’s opinion is based, or detecting misstatements in, the financial statements. The reliability of evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained.

Af7. ISA 330 requires the auditor to conclude whether sufficient appropriate audit evidence has been obtained.⁵ The sufficiency and appropriateness of audit evidence are interrelated. Whether sufficient appropriate audit evidence has been obtained 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, is a matter ~~for the auditor to determine using of~~ professional judgment. ISA 200 (Redrafted) contains discussion of such matters as the nature of audit procedures, and the timeliness of financial reporting and the balance between benefit and cost, which are relevant factors when the auditor exercises professional judgment regarding whether sufficient appropriate audit evidence has been obtained.

Sources of Audit Evidence (Ref: Para. 3)

Sources of Audit Evidence

A1. ~~Management is responsible for the preparation of the financial statements based upon the accounting records of the entity.~~ Some audit evidence is obtained by performing audit procedures to test the accounting records, e.g., through analysis and review, reperforming procedures followed in the financial reporting process, and reconciling related types and applications of the same information. Through the performance of such audit procedures, the auditor may determine that the accounting records are internally consistent and agree to the financial statements.

⁵ ISA 330 (Redrafted), paragraph 27.

- A2. More assurance is ordinarily obtained from consistent audit evidence obtained from different sources or of a different nature than from items of audit evidence considered individually. For example, corroborating information obtained from a source independent of the entity may increase the assurance the auditor obtains from evidence existing within the accounting records or from a management representation.
- A3. Information from sources independent of the entity that the auditor may use as audit evidence may include confirmations from third parties, analysts' reports, and comparable data about competitors (benchmarking data).

Audit Procedures for Obtaining Audit Evidence (Ref: Para. 4)

Audit Procedures for Obtaining Audit Evidence

- A4. As required by, and explained further in ISA 315 (Redrafted), ~~“Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment,”~~ and ISA 330 (Redrafted), ~~“The Auditor’s Procedures in Response to Assessed Risks,”~~ audit evidence to draw reasonable conclusions on which to base the audit opinion is obtained by performing:
- (a) Risk assessment procedures; and
 - (b) Further audit procedures, which comprise:
 - (i) Tests of controls; and
 - (ii) Substantive procedures, including tests of details and substantive analytical procedures.
- A5. The audit procedures described in paragraphs A8-A19 below may be used as risk assessment procedures, tests of controls or substantive procedures, depending on the context in which they are applied by the auditor. As explained in ISA 330 (Redrafted), audit evidence obtained from previous audits may, in certain circumstances, provide appropriate audit evidence where the auditor performs audit procedures to establish its continuing relevance.
- A6. The nature and timing of the audit procedures to be used may be affected by the fact that some of the accounting data and other information may be available only in electronic form or only at certain points or periods in time. For example, source documents, such as purchase orders and invoices, may exist only in electronic form when an entity uses electronic commerce, or may be discarded after scanning when an entity uses image processing systems to facilitate storage and reference.
- A7. Certain electronic information may not be retrievable after a specified period of time, e.g., if files are changed and if backup files do not exist. Accordingly, the auditor may find it necessary as a result of an entity’s data retention policies ~~may require the auditor~~ to request retention of some information for the auditor’s review or to perform audit procedures at a time when the information is available.

Inspection

Inspection

- A8. Inspection involves examining records or documents, whether internal or external, in paper form, electronic form, or other media, or a physical examination of an asset. Inspection of records and documents provides audit evidence of varying degrees of reliability, depending on their nature and source and, in the case of internal records and documents, on the effectiveness of the controls over their production. An example of inspection used as a test of controls is inspection of records for evidence of authorization.
- A9. Some documents represent direct audit evidence of the existence of an asset, for example, a document constituting a financial instrument such as a stock or bond. Inspection of such documents may not necessarily provide audit evidence about ownership or value. In addition, inspecting an executed contract may provide audit evidence relevant to the entity's application of accounting policies, such as revenue recognition.
- A10. Inspection of tangible assets may provide reliable audit evidence with respect to their existence, but not necessarily about the entity's rights and obligations or the valuation of the assets. Inspection of individual inventory items ordinarily may accompany ies the observation of inventory counting.

ObservationObservation

- A11. Observation consists of looking at a process or procedure being performed by others, e.g., the auditor's observation of inventory counting by the entity's personnel, or of the performance of control activities. Observation provides audit evidence about the performance of a process or procedure, but is limited to the point in time at which the observation takes place, and by the fact that the act of being observed may affect how the process or procedure is performed. See ISA 501, "~~Audit Evidence—Additional Considerations for Specific Items,~~" for further guidance on observation of the counting of inventory.⁶

~~A12 TO A15, AND ASSOCIATED HEADING, MOVED WITHOUT MARK UP TO FOLLOW OLD A19~~

ConfirmationExternal Confirmation

- A16. An external cConfirmation represents audit evidence obtained by the auditor as a direct written response to the auditor is a specific type of inquiry that is the process of obtaining a representation of information or of an existing condition directly from a third party (the confirming party) in paper form, or by electronic or other medium. External cConfirmation procedures are frequently are used in relation to account balances and their constituent partselements. For example, the auditor may seek direct confirmation of receivables by communication with debtors. However, external confirmations need not be restricted to these

⁶ ISA 501 (Revised), "Audit Evidence—Additional Considerations for Specific Items."

items. For example, the auditor may request confirmation of the terms of agreements or transactions an entity has with third parties; the confirmation request is designed to ask if any modifications have been made to the agreement and, if so, what the relevant details are. ~~External c~~Confirmation ~~procedures~~ also are used to obtain audit evidence about the absence of certain conditions, e.g., the absence of a “side agreement” that may influence revenue recognition. See ISA 505, ~~“External Confirmations,”~~ for further guidance.⁷

~~Recalculation~~

Recalculation

A17. Recalculation consists of checking the mathematical accuracy of documents or records. Recalculation ~~can~~may be performed manually or electronically.

~~Reperformance~~

Reperformance

A18. Reperformance involves the auditor’s independent execution of procedures or controls that were originally performed as part of the entity’s internal control.

~~Analytical Procedures~~

Analytical Procedures

A19. Analytical procedures consist of evaluations of financial information made by a study of plausible relationships among both financial and non-financial data. Analytical procedures also encompass the investigation of identified fluctuations and relationships that are inconsistent with other relevant information or deviate significantly from predicted amounts. See ISA 520, ~~“Analytical Procedures”~~ for further guidance.

~~Inquiry~~

Inquiry

A12. Inquiry consists of seeking information of knowledgeable persons, both financial and non-financial, ~~within throughout~~ the entity or outside the entity. Inquiry is used extensively throughout the audit ~~in addition as a complement~~ to other audit procedures. Inquiries may range from formal written inquiries to informal oral inquiries. Evaluating responses to inquiries is an integral part of the inquiry process.

A13. Responses to inquiries may provide the auditor with information not previously possessed or with corroborative audit evidence. Alternatively, responses might provide information that differs significantly from other information that the auditor has obtained, e.g., information regarding the possibility of management override of controls. In some cases, responses to inquiries provide a basis for the auditor to modify or perform additional audit procedures.

⁷ ISA 505 (Revised and Redrafted), “External Confirmations.”

- A14. Although corroboration of evidence obtained through inquiry is often of particular importance, in the case of inquiries about management intent, the information available to support management's intent may be limited. In these cases, understanding management's past history of carrying out its stated intentions ~~with respect to assets or liabilities~~, management's stated reasons for choosing a particular course of action, and management's ability to pursue a specific course of action may provide relevant information to corroborate the evidence obtained through inquiry about management's intent.
- A15. In respect of some matters, the auditor is required to obtain written representations from management and, where appropriate, those charged with governance to confirm responses to oral inquiries. See ~~[proposed]~~ ISA 580 (Revised and Redrafted), ~~"Written Representations,"~~ for further guidance.⁸

Information to be Used as Audit Evidence

Relevance and Reliability (Ref: Para. 11)

- A20. As noted in paragraph 3Aa, while audit evidence is primarily obtained from audit procedures performed during the course of the audit, it may also include information obtained from other sources such as, e.g., previous audits, and a firm's quality control procedures for client acceptance and continuance. The quality of all audit evidence is affected by the relevance and reliability of the information upon which it is based.

Relevance

- A21. Relevance deals with the logical connection with, or bearing upon, the purpose of the audit procedure and, where appropriate, the assertion under consideration. ~~Considering~~ The relevance of information to be used as audit evidence ~~includes considering~~ may be affected by the direction of testing. For example, if the purpose of an audit procedure is to test for overstatement in the existence or valuation of accounts payable, testing the recorded accounts payable may be ~~appropriate~~ a relevant audit procedure. On the other hand, when testing for understatement in the existence or valuation of accounts payable, testing the recorded accounts payable ~~is would not appropriate be relevant,~~ but testing such information as subsequent disbursements, unpaid invoices, suppliers' statements, and unmatched receiving reports may be relevant ~~appropriate~~.
- A22. A given set of audit procedures may provide audit evidence that is relevant to certain assertions, but not others. For example, inspection of documents related to the collection of receivables after the period end may provide audit evidence regarding existence and valuation, but not necessarily cutoff; similarly, obtaining audit evidence of the existence of inventory is not a substitute for obtaining audit evidence regarding the valuation of that inventory. On the other hand, ~~the auditor often obtains~~ audit evidence from different sources or of a different nature ~~that is~~ may often be relevant to the same assertion.
- A25. Tests s of controls are designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level.

⁸ ISA 580 (Revised and Redrafted), "Written Representations."

Designing tests of controls to obtain relevant audit evidence includes identifying conditions (characteristics or attributes) that indicate performance of a control, and deviation conditions which indicate departures from adequate performance. The presence or absence of those conditions can then be tested by the auditor.

- A26. Substantive procedures are designed to detect material misstatements at the assertion level. They comprise tests of details and substantive analytical procedures. Designing substantive procedures includes identifying conditions relevant to the purpose of the test that constitute a misstatement in the relevant assertion.

Reliability

- A23. ~~Due to the fact that~~ The reliability of information to be used as audit evidence, and therefore of the audit evidence itself, is influenced by its source and its nature, and the circumstances under which it is obtained, including the controls over its preparation and maintenance where relevant, and whether the information was prepared by a management's expert. Therefore, generalizations about the reliability of various kinds of audit evidence are subject to important exceptions. Even when information to be used as audit evidence is obtained from sources external to the entity, circumstances may exist that could affect its reliability. For example, information obtained from an independent external source may not be reliable if the source is not knowledgeable, or an expert engaged by the entity may lack objectivity. While recognizing that exceptions may exist, the following generalizations about the reliability of audit evidence may be useful:

- The reliability of audit evidence is increased when it is obtained from independent sources outside the entity.
- The reliability of audit evidence that is generated internally is increased when the related controls, including those over ~~their~~ its preparation and maintenance, imposed by the entity are effective.
- Audit evidence obtained directly by the auditor (e.g., observation of the application of a control) is more reliable than audit evidence obtained indirectly or by inference (e.g., inquiry about the application of a control).
- Audit evidence in documentary form, whether paper, electronic, or other medium, is more reliable than evidence obtained orally (e.g., a contemporaneously written record of a meeting is more reliable than a subsequent oral representation of the matters discussed).
- Audit evidence provided by original documents is more reliable than audit evidence provided by photocopies or facsimiles, or documents that have been filmed, digitized or otherwise transformed into electronic form, the reliability of which may depend on the controls over their preparation and maintenance.

- A24. The auditor's consideration of the reliability of audit evidence rarely involves the authentication of documentation. ISA 240 (Redrafted), ~~"The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements,"~~ deals with circumstances where the

auditor has reason to believe that a document may not be authentic, or may have been modified without that modification having been disclosed to the auditor.⁹

~~PARAGRAPHS A25 AND A26 HAVE BEEN MOVED, WITHOUT MARK-UP, TO FOLLOW OLD PARA A22~~

~~A27. When designing tests of controls and tests of details, the auditor may need to make an assessment of the expected rate of deviation or expected misstatement in the population to be tested.~~

Information Produced by the Entity and Used for Audit Purposes (Ref: Para. 12)

- A28. In order for the auditor to obtain reliable audit evidence, information produced by the entity that is used for performing audit procedures needs to be sufficiently complete and accurate. For example, the effectiveness of auditing revenue by applying standard prices to records of sales volume is affected by the accuracy of the price information and the completeness and accuracy of the sales volume data. Similarly, if the auditor intends to test a population (e.g., payments) for a certain characteristic (e.g., authorization), the results of the test will be less reliable if the population from which items are selected for testing is not complete.
- A29. Obtaining audit evidence about the accuracy and completeness of such information may be performed concurrently with the actual audit procedure applied to the information when obtaining such audit evidence is an integral part of the audit procedure itself. In other situations, the auditor may have obtained audit evidence of the accuracy and completeness of such information by testing controls over the preparation and maintenance of the information. In some situations, however, the auditor may determine that additional audit procedures are needed.
- A30. In some cases, the auditor may intend to use information produced by the entity for other audit purposes. For example, the auditor may intend to make use of the entity's performance measures for the purpose of analytical procedures, or to make use of the entity's information produced for monitoring activities, such as internal auditor's reports. In such cases, the appropriateness of the audit evidence obtained is affected by whether the information is sufficiently precise or detailed for the auditor's purposes. For example, performance measures used by management may not be precise enough to detect material misstatements.

Information Produced by a Management's Expert and Used for Audit Purposes (Ref: Para. 12(c))

A30a. The preparation of an entity's financial statements may require expertise in a field other than accounting, such as actuarial calculations, valuations, or engineering data. The entity may employ or engage experts in these fields in order to obtain the needed expertise to prepare the financial statements. Failing to do so when such expertise is necessary increases the risks of material misstatement. The capabilities, competence and objectivity of a management's expert, and any controls within the entity over that expert's work, are

⁹ ISA 240 (Redrafted), "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements," paragraphs 13 and A9.

important factors in considering the reliability of any information produced by a management's expert.

A30b. Information regarding the capabilities, competence and objectivity of a management's expert may come from a variety of sources, such as:

- Personal experience with previous work of that expert.
- Discussions with others who are familiar with that expert's work.
- Knowledge of that expert's qualifications, membership of a professional body or industry association, license to practice, or other forms of external recognition.
- Published papers or books written by that expert.

A30c. When considering the capabilities, competence and objectivity of a management's expert, it may be relevant to consider whether that expert's work is subject to technical performance standards or other professional or industry requirements, e.g., ethical standards and other membership requirements of a professional body or industry association, accreditation standards of a licensing body, or requirements imposed by law or regulation.

A30d. Other matters that may be relevant include:

- The relevance of that expert's capabilities and competence to the matter for which that expert's work will be used, including any areas of specialty within that expert's field. For example, a particular actuary may specialize in property and casualty insurance, but have limited expertise regarding pension calculations.
- The expert's capabilities and competence with respect to relevant accounting requirements, including experience in assisting with the preparation of financial statements, and the use and knowledge of assumptions and methods consistent with the applicable financial reporting framework.

A30e. Objectivity relates to the effects that bias, conflict of interest or the influence of others may have on the professional or business judgment of the expert. A broad range of circumstances may threaten objectivity, e.g., self-interest threats, advocacy threats, familiarity threats, self-review threats and intimidation threats. Safeguards may reduce such threats, and may be created either by external structures (e.g., the management's expert's profession, legislation or regulation), or by the management's expert's work environment (e.g., quality control policies and procedures).

A30f. Although safeguards cannot eliminate all threats to a management's expert's objectivity, the significance of threats such as intimidation threats may be less to an expert engaged by the entity than to an expert employed by the entity, and the significance of safeguards such as quality control policies and procedures may be greater. Because the threat to objectivity created by being an employee of the entity will always be present, an expert employed by the entity cannot ordinarily be regarded as being more likely to be objective than other employees of the entity.

A30g. When evaluating the objectivity of an expert engaged by the entity, it may be relevant to discuss with management and the expert any circumstances that may create threats to the

expert's objectivity, and any relevant safeguards, including any professional requirements that apply to the expert; and to evaluate whether the safeguards are adequate. Circumstances creating threats may include interests or relationships with the entity, such as:

- Financial interests.
- Business and personal relationships.
- Provision of other services.

Selecting Items for Testing to Obtain Audit Evidence (Ref: Para. 13)

A31. An effective test provides appropriate audit evidence to an extent that, taken with other audit evidence obtained or to be obtained, will be sufficient for the auditor's purpose. In selecting items for testing, the auditor is required by paragraph 11 to determine the relevance and reliability of information to be used as audit evidence; the other aspect of effectiveness (sufficiency) is an important consideration in selecting items to test. The means available to the auditor for selecting items for testing are:

- (a) Selecting all items (100% examination);
- (b) Selecting specific items; and
- (c) Audit sampling.

The application of any one or combination of these ~~se~~ means ~~of selecting items for testing identified in paragraph 13~~ may be appropriate depending on the particular circumstances, e.g., the risks of material misstatement related to the assertion being tested, and the practicality and efficiency of the different means.

Selecting All Items

A32. The auditor may decide that it will be most appropriate to examine the entire population of items that make up a class of transactions or account balance (or a stratum within that population). 100% examination is unlikely in the case of tests of controls; however, it is more common for tests of details. 100% examination may be appropriate when, e.g.:

- The population constitutes a small number of large value items;
- There is a significant risk and other means do not provide sufficient appropriate audit evidence; or
- The repetitive nature of a calculation or other process performed automatically by an information system makes a 100% examination cost effective.

Selecting Specific Items

A33. The auditor may decide to select specific items from a population. In making this decision, factors that may be relevant include the auditor's understanding of the entity, the assessed risks of material misstatement, and the characteristics of the population being tested. The judgmental selection of specific items is subject to non-sampling risk. Specific items selected may include:

- *High value or key items.* The auditor may decide to select specific items within a population because they are of high value, or exhibit some other characteristic, e.g., items that are suspicious, unusual, particularly risk-prone or that have a history of error.
- *All items over a certain amount.* The auditor may decide to examine items whose recorded values exceed a certain amount so as to verify a large proportion of the total amount of a class of transactions or account balance.
- *Items to obtain information.* The auditor may examine items to obtain information about matters such as the nature of the entity, the nature of transactions.

A34. While selective examination of specific items from a class of transactions or account balance will often be an efficient means of obtaining audit evidence, it does not constitute audit sampling. The results of audit procedures applied to items selected in this way cannot be projected to the entire population; accordingly, selective examination of specific items does not provide audit evidence concerning the remainder of the population.

Audit sampling

A34.1 Audit sampling, ~~on the other hand,~~ is designed to enable conclusions to be drawn about an entire population on the basis of testing a sample drawn from it. Audit sampling is discussed in ISA 530,¹⁰ ~~“Audit Sampling and Other Means of Testing.”~~

Inconsistency in, or Doubts Over Reliability of, Audit Evidence (Ref: Para. 14)

A35. Obtaining audit evidence from different sources or of a different nature may indicate that an individual item of audit evidence is not reliable, such as when audit evidence obtained from one source is inconsistent with that obtained from another. This may be the case when, for example, responses to inquiries of management, internal audit, and others are inconsistent, or when responses to inquiries of those charged with governance made to corroborate the responses to inquiries of management are inconsistent with the response by management. ISA 230 includes a specific documentation requirement if the auditor identified information that is inconsistent with the auditor’s final conclusion regarding a significant matter.¹¹

¹⁰ ISA 530 (Redrafted), “Audit Sampling.”

¹¹ ISA 230 (Redrafted), “Audit Documentation,” paragraph 11.

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