Audit Evidence

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IAASB Meeting, New York

Agenda Item 6

March 18, 2020

IAASB International Auditing and Assurance Standards Board

- IAASB meeting June 2019
  - Issues related to audit evidence (AE), including potential actions to address such issues
  - The Board recommended
    - o Further information-gathering and research activities (IG&R)
    - o Establishing an '*Audit Evidence Workstream Plan*'
- Workstream plan sets out
  - Objective – to provide informed recommendations to the Board by **June 2020**
  - Targeted outreach with stakeholders
  - Other information gathering activities, including academic research

Audit Evidence – Targeted Outreach Process

- Development and distribution of background paper
  - Background and context
  - Questions
  - Possible issues identified (appendix – adapted from June 2019 IAASB paper)
- Video or teleconferences conducted to date
  - Selection of medium-tier firms
  - Inspectors from audit oversight bodies
  - Representatives from CEAOB
  - IOSCO
  - Rapid Response Task Force – SMPC

Questions to stakeholders:

(a) Which issues are creating the most difficulties?

(b) What other issues are there (not identified in appendix)?

(c) How are firms, regulators, national standard setters and member organizations currently dealing with these issues?

(d) What actions do you believe should the IAASB take, and how urgent are these?

Outreach activities in process / to be completed

- National Standard Setters, Member Organizations and GPPC
  - Information sessions in January 2020 to provide background and emphasize the objective of the information gathering
  - Requested stakeholders to solicit input from their stakeholders and networks – encouragement to focus on those who are "on the ground"
  - Written feedback requested by April 17, 2020
- Public Sector
  - In-person discussion at INTOSAI meeting March 2020 (Kampala, Uganda)
- IFIAR
  - In-person discussion at IFIAR Standards Coordination Working Group meeting March 2020 (Rome)
- FOF
  - In-person discussion at FOF meeting March 2020 (London)
  - Session intended for those firms that have not already engaged with IAASB

Audit Evidence – Targeted Outreach Process

What Have We heard So Far?

- Medium-tier firms
- Representatives and inspector from audit oversight bodies
- IOSCO
- SMPC Rapid Response Task Force
- Other sources

Feedback presented to the Board is based on a preliminary analysis of information gathering activities by Staff in coordination with the WG Chair. All input will be analyzed in detail and shared with the AEWG for deliberation in Q2 of 2020.

Audit Evidence – What Have We Heard So Far?

- Selection of medium tier firms (FOF)
  - Concur with issues identified by AEWG
  - Significant issues discussed

Technology	• Concept of '***sufficient appropriate audit evidence***' (SAAE) when using technology – how much is enough?
	• Technology not optimally utilized due to different interpretations by Regulators (also in the context of risk of over-reliance on technology)
	    – Nature and extent of the audit response (required) when technology is used to identify or assess risk
	    – Concept of 'testing' versus 'analyzing' when using technology

Nature and Sources of Information	Concern about • Ability to assess reliability of external information • Notion that AE in documentary form is more reliable • Social media – caution against mandatory search in all instances
Professional Skepticism (PS)	Acknowledgement that there may be objectivity concerns, however the nature of an audit results in natural bias towards confirmatory evidence

- Selection of medium tier firms (FOF) (continued)
  - Other possible issues
    - Where client, such as some less complex entities (LCE), have weak internal controls – how does this affect the auditor's use of automated tools and techniques (ATT)
    - Status or acceptability of oral confirmations / representations
  - What should the IAASB do
    - Standard setting or related activities (also to promote use of technology)
      - Distinguish evidence from procedures versus evidence from information gathering
      - Develop framework for relevance and reliability of AE
      - Consider PS indicators or qualities in firm's recruitment policies
      - Enhance application material to **demonstrate how the auditor exercises PS** in gathering and evaluating AE
      - Keep the standards principles-based
    - Use influence to input regarding education of professional accountants to enhance PS to the extent possible

Audit Evidence – What Have We Heard So Far?

- Representatives and Inspectors from Audit Oversight Bodies
  - Strong support for standard setting to address AE issues
  - Significant issues discussed
    - o Why no revision of ISA 330? (link between ISA 315 (Revised 2019) and ISA 500)
    - o Distinction between risk assessment procedures and 'testing' - concern with the value of only 'comparing' data
    - o Clarify how the auditor's use of technology affects
      - Determination of materiality
      - Audit sampling (e.g. extent of testing 'outliers')
      - Quality management practices to be implemented by firm (ISQM 1)
    - o Requirements throughout ISAs adequately address PS (principles-based) – expand application material to provide guidance / examples
    - o Technology may cause firms to move away from test of controls despite risks where '*substantive procedures alone cannot provide SAAE*'
    - o Questions about the concept of SAAE
      - Acknowledging professional judgment, there should be a framework to determine SAAE
      - Basis for SAAE should be included in requirements of ISA 500

Audit Evidence – What Have We Heard So Far?

- IOSCO
  - Broadly concurred with issues identified by AEWG
  - Significant issues discussed
    - Evolution of technology is recognized, however the application of PS may be the real concern
    - Concerns expressed about the auditor's
      - Exercise of PS when considering information used by management's expert
      - Use of technology and how this affects
        - Audit sampling
        - Distinguishing between risk assessment procedures and substantive procedures
      - Reliance on the client's information system ('black box') without reconciling inputs and outputs
    - Questions about the reliability of external information, recognizing fraudulent or false information (e.g. social media) – should the AEWG include a forensic specialist?

- SMPC RRTF
  - Concur with issues identified by AEWG
  - Significant issues discussed
    - Questions how the auditor's use of technology affects
      - Determination of materiality and setting thresholds (analytical review procedures)
      - Audit sampling
      - Audit documentation
      - The concept of SAAE
    - Difficulties in demonstrating the auditor's exercise of PS

  - Other broader concerns (not limited to AE)
    - Although supportive of AE initiative, caution against 'automation bias'
      - High cost of ATT, including training of staff
      - Concern about inferring that the use of ATT is required to achieve audit quality
      - Revise standards but 'speed' is not the main goal – fit for purpose for all auditors

- Sourced academic research on AE related issues, including
  - Prof. K Marten
  - Professional Skepticism Working Group
- Some of the themes to be considered (deep-dive by WG in Q2 2020)
  - Enhancing PS in an audit of financial statements – tone at the top (culture)
  - Artificial Intelligence (AI) – effect on traditional audits (questions about the continued relevance of the profession)
  - Use of AI by auditors may be premature, due to, e.g., biases embedded in AI, complexity of 'black box' technology, different skill sets required and questions whether standards allow adoption of 'disruptive technology'
  - Limitations in the use of 'Big Data' (BD) – questions about ambiguity, overload, reliability and relevance of information

Audit Evidence – Other Information Sources

- Activities of Other National Standard Setters

  - AICPA Auditing Standards Board

    o Project to revise AU-C section 500, *Audit Evidence*

    o Exposure Draft (ED) June 2019

      - Understanding attributes and factors to consider in evaluating information as a basis for SAAE

      - Definition of 'sufficiency' – '*quantity*' versus '*persuasiveness*'

      - Examples to recognize and promote the use of ATT

    o Forty comment letters

      - Broad support for direction of proposals

      - Three respondents did not support ED

    o ASB to vote on standard in April 2020

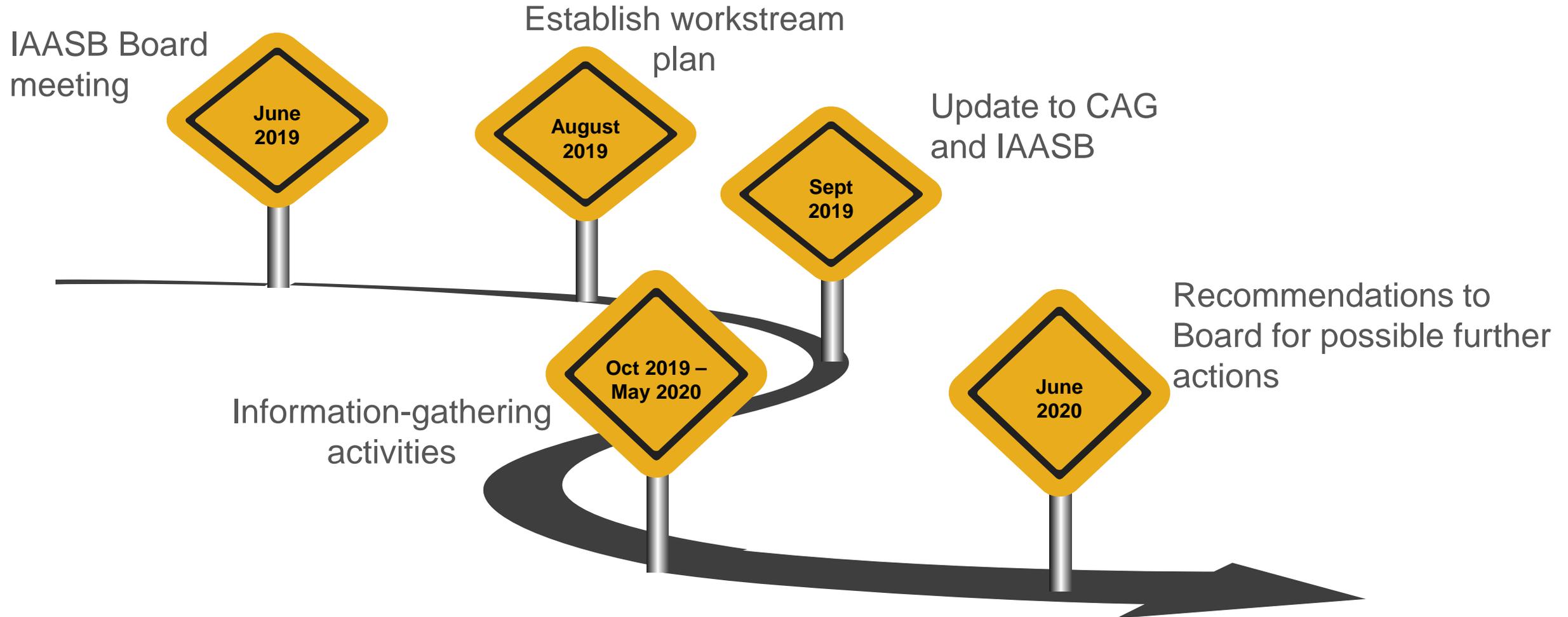# Audit Evidence – Question to the Board

- Expected Outcome of Audit Evidence Workstream Plan

    "The overall results of the information-gathering and research activities (IGRA) are planned to be provided to the Board at the June 2020 IAASB meeting, together with the AEWG's recommendations for possible further actions, such as guidance or standard setting, if it is identified that further action is necessary"

- Question to the Board

    Taking into account our interim feedback on audit evidence, do you have any recommendations as the AEWG finalizes its IGRA and prepares recommendations for the Board?

Audit Evidence – The Journey so Far and the Journey Ahead

IAASB Board meeting

Establish workstream plan

Update to CAG and IAASB

June 2019

August 2019

Sept 2019

Oct 2019 – May 2020

June 2020

Information-gathering activities

Recommendations to Board for possible further actions

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