

Supplement 3 to Agenda Item 7

Audit Evidence – Other Sources of Information About Audit Evidence Issues

The Audit Evidence Working group (AEWG) has observed various other sources of information that are relevant in the IAASB's information gathering activities on audit evidence. This paper presents such information and is **for reference only**.

Other Research

1. The AEWG identified research-type literature that provides insights to some of the more foundational concepts of audit evidence, including definitions. The AEWG believes that these papers represent a source of information that may be drawn upon once a project proposal is developed in conjunction with possible actions to address issues identified.

Research Paper	Main Theme(s) of Literature
1999 Canadian Institute of Certified Accountants – A Framework for Assurance Evidence and Its Role in Accounting. <i>W.J. Smieliauskas</i>	This research paper describes: <ul style="list-style-type: none"> • That evidence starts with the entity's accounting systems, i.e. this is where audit evidence originates; • What audit evidence is. Good resource to draw upon if we intend to reconsider definitions (e.g. sufficiency and appropriateness); and • Evidence that contradicts assertions, and the challenges that this poses.
2003 Fundamental Theoretical Issues with Respect to Assurance in Assurance Engagements ("Principles of Assurance") deals with evidence for assurance engagements in paragraphs 552 to 632, 647 to 650, and 678 to 701. <i>Federation of European Accountants</i>	This research paper deals with the following fundamental issues: <ul style="list-style-type: none"> • The qualitative characteristics of information, including validity (relevance) and reliability; • The meaning and nature of evidence and other fundamental issues relating to evidence; and • How engagement processes affect the persuasiveness of evidence.
2007 Selected Issues in Relation to Financial Statement Audits deals with relevant audit evidence issues in paragraphs 158 to 173,	This research paper covers the following fundamental audit evidence issues: <ul style="list-style-type: none"> • Inherent limitations of an audit and its relationship to audit evidence;

181 to 184, 191 to 195, 205 to 210, and 214 to 249. <i>Federation of European Accountants</i>	<ul style="list-style-type: none"> Relationship between the inherent limitations of an audit, assurance and evidence; and Distinction between inherent limitations of an audit and a scope limitation.
2007 IDW Concept Paper – Additional Issues in Relation to a Conceptual Framework for Financial Reporting <i>Institut der Wirtschaftsprüfer</i>	This concept paper describes: <ul style="list-style-type: none"> Qualitative characteristics of financial reporting information: Costs vs. benefits and reliability; The relationship between accounting measurement, accounting evidence (information to support or undermine a particular assertion with respect to a certain matter), accounting documentation and accounting systems; Quality over financial reporting; and Posits that financial reporting conceptual frameworks are fundamentally incomplete.

Professional Skepticism

2. The AEWG considered the feedback to the IAASB's *Invitation to Comment, Enhancing Audit Quality in the Public Interest* ([ITC](#)) in relation to professional skepticism. High-level feedback from the responses to the ITC were summarized as follows:¹

- Monitoring Group members responding to the ITC noted that there should be a consistent approach between the different standard-setting boards on professional skepticism. ² One Monitoring Group member noted that a lack of due care, objectivity, or professional competence may sometimes be mislabelled as a lack of professional skepticism, which supports the view of many respondents that a coordinated approach to the topic across the standard-setting boards is necessary.
- Monitoring Group members also specifically expressed the view that the IAASB should consider additional requirements and application material throughout the International Standards on Auditing (ISA) that promotes a mindset that actively questions or makes inquiry regarding management's assumptions or audit evidence obtained. This could be reflected in the ISAs (including potentially the definition) by introducing a concept of a questioning mind that would tend to exhibit a more doubting attitude. The words used in the ISAs could change what is seen as the current confirmatory framework (obtain evidence to support management's assertion) to a framework which leads more to auditors seeking evidence both supporting and disconfirming management's assertions.
- Respondents supported the IAASB's plans to address professional skepticism in the projects on quality control, group audits, accounting estimates and risk assessment.

¹ See [IAASB's Issues Paper September 2016 Agenda Item 8-A](#) and [IAASB's Agenda Item 5-A Feedback to ITC September 2016](#)

² Basel Committee on Banking Supervision (BCBS), International Association of Insurance Supervisors (IAIS), and the International Organization of Securities Commissions (IOSCO)

- There were mixed responses on whether respondents' interpretation of professional skepticism is consistent with the way it is articulated in the ISAs. Many respondents expressed a view that their interpretation of professional skepticism is consistent with the way the concept is defined and articulated in ISA 200.³ Others believed there is a lack of common understanding of the definition of professional skepticism and suggested potential ways in which the definition could be enhanced, most notably by suggesting auditors should have a more "challenging" mindset. Notwithstanding their views on the definition, many respondents supported enhancements to the ISAs (both in requirements related to the expected work effort in key areas and related documentation requirements and through the provision of additional guidance) to better operationalize the definition and illustrate how to appropriately exercise professional skepticism. From an IAASB perspective, respondents across stakeholder groups specifically suggested a need to focus on elaborating what the phrase "a critical assessment of evidence" in the definition of professional skepticism entails (e.g., by seeking to enhance ISA 500⁴ and other ISAs) and reconsider requirements related to the auditor's documentation, in particular in relation to significant professional judgments made in planning and performing the audit.
 - The ITC also explored the drivers for and impediments to the appropriate application of professional skepticism. Respondents had the view that many different stakeholders have a role to play in mitigating the impediments and enhancing the drivers, and that action by not only the IAASB, but also the IESBA and IAESB, as well as accounting firms and professional bodies, was likely to be necessary to enhance the application of professional skepticism.
3. In 2016, the Professional Skepticism Working Group (PSWG) undertook a detailed review of the feedback (related to professional skepticism) to the ITC. The PSWG's recommendations included:⁵
- Explicitly address impediments to professional skepticism where possible in current projects (e.g., in relation to quality control using the quality management approach).
 - Commence information gathering and initial IAASB discussions on the topics of evidence and documentation, focusing on elaborating what the phrase "a critical assessment of evidence" in the definition of professional skepticism entails (e.g., by seeking to enhance ISA 500 and other ISAs) and reconsidering requirements related to the auditor's documentation in accordance with ISA 230,⁶ particularly in relation to significant professional judgments made in planning and performing the audit.
4. Based on the feedback to the ITC and the views expressed by the IAASB in December 2016 (see [IAASB minutes Dec 2016](#)), the PSWG focused its work on three specific themes.

Theme	IAASB Views
A requirement to seek out contradictory or	The IAASB noted a variety of views on the use of the term 'inconsistent evidence' rather than 'contradictory evidence.' It was agreed that the auditor should not be biased to obtaining evidence from only corroborative sources. It

³ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

⁴ ISA 500, *Audit Evidence*

⁵ See paragraph 21 of [IAASB Issues Paper Agenda Item 8-A Professional Skepticism](#)

⁶ ISA 230, *Audit Documentation*

inconsistent evidence	was also noted that it may be useful to explore the idea that further sources of evidence be accessed when more persuasive evidence is needed. The Board supported the PSWG's recommendation to not add a requirement within the ISAs to seek contradictory or inconsistent evidence in all circumstances in an audit. (IAASB minutes March 2018)
"Mindset" concepts of professional skepticism and the use of wording	The current concept of the attitude of professional skepticism involving a 'questioning mind' in the definition of professional skepticism continues to be appropriate and it is therefore in the public interest that it be retained, rather than being replaced by other concepts suggested by some respondents to the ITC, such as 'doubting mindset' or 'challenging mind(set)'. (IAASB minutes December 2017)
Variable vs. Invariant Concept of the Attitude of Professional Skepticism ('levels of professional skepticism')	<p>While some Board members expressed concern with referring to the current concept of professional skepticism as 'invariant,' because the actions that auditors take in applying professional skepticism vary, the Board agreed with the recommendations of the PSWG not to introduce the concept of 'levels' for the attitude of professional skepticism into the ISAs. Further, the analysis of the meaning of professional skepticism indicated that some minor improvements to the definition of professional skepticism might be considered in the public interest, and that better – and in particular, better structured – guidance on the meaning of professional skepticism could be considered. For example:</p> <ul style="list-style-type: none"> • The definition does not specify what about evidence is being critically assessed or evaluated (its persuasiveness), and • The guidance does not adequately explain how professional skepticism has an impact on <ul style="list-style-type: none"> - Risk assessment; - Risk response; - The evidence gathered; and - The evaluation of the sufficiency and appropriateness of evidence. <p>These matters could be undertaken by the planned project on audit evidence (together with professional skepticism). (IAASB minutes June 2017)</p>

5. In August 2017, the IAASB-IAESB⁷-IESBA⁸ Professional Skepticism Working Group published several observations regarding what the Working Group believes are central to enhancing the exercise of professional skepticism in an audit. The [publication](#) also highlights actions of the three boards regarding professional skepticism as it relates to auditors. For example, in relation to the IAASB:

⁷ International Accounting Education Standards Board (IAESB)

⁸ International Ethics Standards Board for Accountants (IESBA)

- The IAASB's Professional Skepticism [Q&A](#) highlights aspects of the ISAs that are particularly relevant to professional skepticism during an audit of financial statements. It also highlights the role of others in supporting professional skepticism.
- The publication recognizes that the IAASB sought input on how to reinforce the fundamental concept of professional skepticism throughout the audit in its approach to professional skepticism in its 2015 [ITC](#).
- The IAASB focuses on professional skepticism in every project and through different sections of the ISAs and in different ways. This is more than just referring to the concept—it involves looking for opportunities to embed the expectation of professional skepticism into the design of the requirements, and to challenge whether the standard can do more to promote professional skepticism.