

Audit Evidence – Issues Paper

Objectives of the IAASB Discussion:

The objective of this Agenda Item is to obtain the Board's input on the Audit Evidence Task Force's (AETF) proposals on the following topics related to ISA 500:¹

Section B: Definition of audit evidence and the meaning of audit procedures.

Section C: Information intended to be used as audit evidence.

Section D: Sufficient appropriate audit evidence and the persuasiveness of audit evidence.

Section E: Designing and performing audit procedures to obtain sufficient appropriate audit evidence.

Section F: Modernizing ISA 500 through incorporating technology.

Section A is the Introduction, which refers to the previous Board discussion in December 2020 and provides information about this issues paper and other agenda items for the March 2021 IAASB meeting.

Section G presents the way forward.

The AETF will use the feedback from the Board in preparing a full draft of ISA 500, to be presented to the Board in June 2021.

Section A – Introduction

1. At the December 2020 IAASB meeting, the Board discussed and approved a project proposal to revise ISA 500, including conforming and consequential amendments to the other ISAs. In addition, the Board provided direction on key topics, including:
 - (a) The purpose and scope of the standard;
 - (b) The concept and evaluation of sufficient appropriate audit evidence, including the concept of persuasiveness, and the relevance and reliability of information to be used as audit evidence;
 - (c) The distinction between sources of information in ISA 500; and
 - (d) The varying degree of work effort in considering information to be used as audit evidence, given the type of audit procedure the information will be used for.

The Audit Evidence Task Force's Proposals Outlined in this Paper and Accompanying Papers

Papers Provided to the Board:

Agenda Item 2 – Issues Paper

Agenda Item 2-A – Illustrative Drafting Reflecting Possible Application Material

Agenda Item 2-B (FOR REFERENCE) – Visual Illustration of Key Proposed Aspects Related to ISA 500 and the Interrelationship of the Aspects

¹ ISA 500, *Audit Evidence*

Agenda Item 2-C (FOR REFERENCE) – ISA 500 (Updated and renumbered for all conforming and consequential amendments)

2. This paper explains the AETF's proposals on a number of matters. In order to demonstrate how these proposals would be addressed and to support the Board's understanding of the proposals, the AETF has provided illustrative drafting for aspects of the proposals as follows:
 - (a) Illustrative drafting related to definitions and requirements have been included in boxes in this paper. These are reflected in track changes from the related definitions and requirements in extant ISA 500.
 - (b) Illustrative drafting reflecting possible application material has been included in **Agenda Item 2–A** and has been presented according to the topics in this paper. The application material in **Agenda Item 2–A** does not reflect track changes from extant ISA 500 because it is not a complete reflection of all the application material; at this stage, the possible application material is illustrative of how the AETF believes the issues discussed in this paper may be addressed in the standard.
3. The AETF is *not* seeking the Board's input on the drafting. Instead, the Board is asked to provide input on the concepts as outlined in this paper. Should the Board have specific suggestions on the drafting provided in this paper and **Agenda Item 2–A**, the AETF welcomes such input and requests the Board to provide drafting suggestions offline to the IAASB Staff.
4. **Agenda Item 2–B** illustrates the concepts discussed in this paper. In particular, it demonstrates how the definitions, requirements and application material discussed in this paper interrelate, and how they relate to certain requirements in other ISAs related to designing and performing audit procedures, and concluding whether sufficient appropriate audit evidence has been obtained.

References to Extant ISA 500 in this Paper

5. There have been a number of conforming and consequential amendments to ISA 500 from ISQM 1,² ISQM 2,³ ISA 220 (Revised),⁴ ISA 250 (Revised),⁵ ISA 315 (Revised 2019)⁶ and ISA 540 (Revised).⁷ The version of ISA 500 in the IAASB's 2018 Handbook does not include all such conforming and consequential amendments. As a result, a fully updated version of ISA 500, which has been renumbered, has been provided for reference purposes (see **Agenda Item 2–C**).
6. **All references to extant ISA 500 in this document refer to the fully updated version of ISA 500, as provided in Agenda Item 2–C.**

² ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

³ ISQM 2, *Engagement Quality Reviews*

⁴ ISA 220 (Revised), *Quality Management at Engagement Level*

⁵ ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

⁶ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

⁷ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

Appendices

7. This paper has the following appendices:
 - (a) Appendix 1 – Task Force members and activities, including outreach.
 - (b) Appendix 2 – Extract from the draft December 2020 IAASB meeting minutes.

Section B – Definition of Audit Evidence and the Meaning of Audit Procedures

Definition in paragraph 5(c) of extant ISA 500:

Audit evidence – Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and information obtained from other sources.

Background

8. As part of the AETF's information gathering activities in relation to audit evidence, stakeholders noted that the definition of audit evidence refers to "information used by the auditor," which implies that the auditor is performing something on or with such information. Stakeholders also noted that this term could be interpreted to imply that information and evidence are synonymous.
9. The AICPA's ASB⁸ amended its definition of audit evidence as follows:

"Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence is information to which audit procedures have been applied and consists of information that corroborates or contradicts assertions in the financial statements."

The addition of the term "to which audit procedures have been applied" was intended to clarify the notion that information becomes audit evidence once the auditor has applied audit procedures to such information.

Task Force Views

Does Information Need to be Subject to Audit Procedures to Become Audit Evidence?

10. The AETF observed that when reading ISA 500, there may be different views about whether information needs to be subject to audit procedures to become audit evidence. Specifically, paragraphs A5 and A30 of extant ISA 500 imply that audit evidence can include information to which audit procedures *have not* been applied. Conversely, paragraphs 6 and A14 of extant ISA 500 imply that audit evidence can only include information to which audit procedures *have* been applied.
11. The AETF is of the view that it is important to clarify in the definition whether information needs to be subject to audit procedures to become audit evidence because it affects:
 - (a) What information is subject to the requirements in ISA 500 regarding the relevance and reliability of information; and

⁸ In July 2020, The American Institute of Certified Public Accountants' Auditing Standards Board revised Auditing Standard – Clarified (AU-C) Section 500, *Audit Evidence*, which was based on ISA 500. The revised standard is effective for audits of financial statements for periods ending on or after December 15, 2022.

- (b) What information forms part of the auditor's evaluation of whether the auditor has obtained sufficient appropriate audit evidence.

Meaning of Audit Procedures

- 12. In order to resolve any confusion whether information needs to be subject to audit procedures to become audit evidence, the AETF noted the need to clarify the meaning of audit procedures.
- 13. The AETF noted that any interpretation about the meaning of audit procedures has a profound effect on concepts embedded in other ISAs, such as:
 - (a) Who may be considered a member of the engagement team, given the reference to audit procedures in the definition of engagement team in ISA 220 (Revised); and
 - (b) What matters need to be documented by the auditor, given the reference to audit procedures in the requirements in ISA 230.⁹
- 14. Paragraph A14 of extant ISA 500 explains that audit evidence to draw reasonable conclusions on which to base the auditor's opinion is obtained by performing risk assessment procedures and further audit procedures. Paragraph A6 of extant ISA 500 also explains that audit procedures to obtain audit evidence can include inspection, observation, confirmation, recalculation, reperformance, and analytical procedures, often in some combination, in addition to inquiry.

Considerations of Whether All Audit Procedures are Designed and Performed for the Purposes of Obtaining Audit Evidence

- 15. The AETF noted that throughout the ISAs the auditor is required to undertake activities or perform procedures that may not be risk assessment procedures or further audit procedures. The procedures may involve activities, such as communications with those charged with governance, audit planning, considering misstatements identified during the audit and forming an opinion on the financial statements, which are performed to comply with requirements such as:
 - (a) Paragraphs 11–22 of ISA 260 (Revised);¹⁰
 - (b) Paragraphs 7–11 of ISA 300;¹¹
 - (c) Paragraphs 5–6 and 10–11 of ISA 450;¹² and
 - (d) Paragraphs 16–54 of ISA 700 (Revised).¹³
- 16. As a result, the AETF is of the view that audit procedures broadly fall into one of two categories:
 - (a) Audit procedures designed and performed to obtain sufficient appropriate audit evidence, as part of risk assessment procedures and further audit procedures; or

⁹ ISA 230, *Audit Documentation*

¹⁰ ISA 260 (Revised), *Communication with Those Charged with Governance*

¹¹ ISA 300, *Planning an Audit of Financial Statements*

¹² ISA 450, *Evaluation of Misstatements Identified During the Audit*

¹³ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

- (b) Other audit procedures that are not designed and performed for the primary purpose of obtaining sufficient appropriate audit evidence. Such procedures are necessary to comply with the requirements of an ISA (i.e., those described in paragraph 15).

The Nature of Audit Procedures Designed and Performed to Obtain Sufficient Appropriate Audit Evidence

- 17. The AETF further considered the nature of audit procedures designed and performed to obtain sufficient appropriate audit evidence. As highlighted previously, paragraph A14 of extant ISA 500 explains that audit evidence to draw reasonable conclusions on which to base the auditor's opinion is obtained by performing risk assessment procedures and further audit procedures. The AETF identified that there are also audit procedures performed to comply with certain ISAs for the purposes of obtaining sufficient appropriate audit evidence, but which are not described as risk assessment procedures or further audit procedures. For example, these include procedures performed to comply with paragraphs 6–8, 10–12 and 14–15 of ISA 560.¹⁴
- 18. In addition, the AETF is of the view that the procedures the auditor performs to consider the relevance and reliability of information intended to be used as audit evidence in accordance with ISA 500 are also audit procedures to obtain sufficient appropriate audit evidence, albeit that they are neither risk assessment procedures nor further audit procedures. This is because the relevance and reliability of information to be used as audit evidence affects the auditor's considerations of whether the auditor has obtained sufficient appropriate audit evidence. The notion that procedures to consider the relevance and reliability of information are audit procedures is also supported by guidance in paragraph A61 of extant ISA 500.

Categories of Audit Procedures Across the ISAs and Scope of ISA 500

- 19. Based on the explanations in paragraphs 12–18 above, the AETF concluded that audit procedures fall into the following categories:
 - (a) Audit procedures to obtain sufficient appropriate audit evidence, such as:
 - (i) Risk assessment procedures;
 - (ii) Further audit procedures;
 - (iii) Other audit procedures that are required by the ISAs to obtain sufficient appropriate audit evidence, but which are neither risk assessment procedures or further audit procedures (see paragraph 17); and
 - (iv) Audit procedures to consider the relevance and reliability of information intended to be used as audit evidence (addressed in ISA 500) (see paragraph 18).
 - (b) Other procedures that are required to be performed to comply with an ISA that are not designed or performed for the primary purpose of obtaining sufficient appropriate audit evidence (see paragraph 15).
- 20. The AETF proposes that ISA 500 deals with audit procedures to obtain sufficient appropriate audit evidence, i.e., the relevance and reliability of information intended to be used in performing these

¹⁴ ISA 560, *Subsequent Events*

audit procedures, and how the results of these audit procedures affect the auditor's conclusions regarding sufficient appropriate audit evidence. The AETF is of the view that ISA 500 should not deal with other procedures that are required to be performed to comply with an ISA that are not designed or performed for the primary purpose of obtaining sufficient appropriate audit evidence.

Note: As part of the conforming and consequential amendments related to ISA 500, the AETF will consider how audit procedures that are not designed and performed for the primary purpose of obtaining sufficient appropriate audit evidence are described in ISA 230 and ISA 220 (Revised).

AETF Conclusion About Whether Information Needs to be Subject to Audit Procedures to Become Audit Evidence

21. The AETF is of the view that information intended to be used as audit evidence needs to be subject to audit procedures to become audit evidence, because, at a minimum, the information needs to be considered and evaluated for relevance and reliability (see Section C).

The Meaning of Audit Evidence, Including the Meaning of "Information Used by the Auditor" in the Extant Definition of Audit Evidence

22. The AETF noted that there may be different interpretations of the meaning of "information used by the auditor," which is referred to in the extant definition of audit evidence. Some interpret this to mean the information that is the input to the audit procedures (e.g., an inventory listing), while others view it as the output of the audit procedure, i.e., the combination of the information input into the audit procedure and the information arising from performing the audit procedure (e.g., the inventory listing and the information the auditor has learnt by applying audit procedures to that listing, such as attending the inventory count and testing the value of the inventory items).
23. The AETF is of the view that:
- (a) The term "information used by the auditor" in the definition of audit evidence in extant ISA 500, is the output, i.e., it is information that the auditor has determined will be used as audit evidence and has been subject to audit procedures so that it becomes information that the auditor is able to use to draw conclusions.
 - (b) The term "information to be used as audit evidence" in paragraph 7 of extant ISA 500, is the input, i.e., it is the information that the auditor considers for relevance and reliability (see Section C). However, the AETF noted that not all information to be used as audit evidence becomes audit evidence, because in considering whether the information is relevant and reliable, the auditor may decide the information is not relevant or reliable, and therefore, does not use it any further.
24. As a result, the AETF proposes:
- (a) Using the phrase "information intended to be used as audit evidence" throughout ISA 500 to describe the input to the audit procedures; and
 - (b) Amending the definition of audit evidence to clarify that audit evidence is the output, i.e., information that the auditor has determined will be used as audit evidence and has been subject to audit procedures so that it becomes information that the auditor is able to use to draw conclusions.

Proposed Changes to the Definition of Audit Evidence

25. As explained above, the AETF concluded that:
- (a) Information needs to be subject to audit procedures to become audit evidence (see paragraphs 10–21); and
 - (b) Audit evidence is the output of the audit procedure (see paragraphs 22–24).
26. The AETF also noted that the extant definition of audit evidence does not fully align with other terminology in the ISAs that describe audit evidence. For example:
- (a) Many ISAs, including extant ISA 500, refer to *drawing* conclusions (e.g., paragraphs 7 and 17 of ISA 200¹⁵ and paragraph 4 of extant ISA 500). The definition of audit evidence in extant ISA 500 uses the term *arriving at* conclusions.
 - (b) Paragraph A30 of ISA 200 describes audit evidence as necessary to support the auditor’s opinion *and report*. The overall objectives of the auditor, as set out in paragraph 11 of ISA 200, also deal with both the opinion and report. The definition of audit evidence in extant ISA 500 only refers to supporting the audit opinion.
27. The AETF observed that the second part of the definition of audit evidence in extant ISA 500 (i.e., audit evidence includes both information contained in the accounting records underlying the financial statements and information obtained from other sources) is outdated. Although an entity’s accounting records are a primary and important source of information during an audit of financial statements, there has been an evolution in the nature and sources of information available to auditors. The AETF therefore proposes removing the second sentence of the definition of audit evidence in extant ISA 500, and addressing the sources of information intended to be used as audit evidence in application material (see **Section C**).
28. Given these conclusions and observations, the AETF’s proposed revisions to the definition of audit evidence are as follows:

Proposed revised definition of audit evidence in track changes from extant ISA 500:

Information, which has been subject to audit procedures, used by that enables the auditor in arriving to draw at the conclusions that form the basis for on which the auditor’s opinion and report. is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and information obtained from other sources.

29. The AETF considered the AICPA’s addition to its definition of audit evidence, which refers to information that corroborates or contradicts assertions in the financial statements. The AETF’s view is that this description unduly limits the scope of audit evidence because:
- (a) It focuses on assertions in the financial statements, and some audit evidence may not specifically relate to an assertion in the financial statements. For example, audit evidence obtained through understanding the entity and its environment through the performance of risk

¹⁵ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

assessment procedures in accordance with ISA 315 (Revised 2019) may not relate to a specific assertion.

- (b) It focuses on information that corroborates or contradicts the assertions in the financial statements. In some cases, the auditor may obtain information that neither corroborates nor contradicts the assertions in the financial statements.

Matters for Board Consideration:

1. The Board is asked for their views on the initial thoughts and recommendations of the AETF relating to whether information needs to be subject to audit procedures to become audit evidence (see paragraphs 10–21). Specifically, does the Board support the AETF’s views relating to:
 - (a) The meaning of audit procedures and the resulting categories of audit procedures across the ISAs (see paragraphs 12–19); and
 - (b) That ISA 500 only deals with audit procedures designed and performed to obtain sufficient appropriate audit evidence (see paragraph 20).
2. The Board is asked for their views regarding the proposed revisions to the definition of audit evidence (see paragraphs 25–29), including:
 - (a) The AETF’s view that audit evidence is the output of the audit procedure (see paragraphs 22–24); and
 - (b) The proposal to use the phrase “information intended to be used as audit evidence” throughout ISA 500 to describe the input to the audit procedures (see paragraph 24).

Section C – Information Intended to be Used as Audit Evidence

Previous Board Discussion

30. At the December 2020 IAASB meeting, the AETF proposed a principles-based approach in considering information to be used evidence. Key features of the proposals included:
 - (a) No longer having specific requirements only for information produced by the entity;
 - (b) Using factors in relation to, or attributes of, information that may be considered by the auditor when making judgments about the relevance and reliability of information to be used as audit evidence; and
 - (c) The work effort when considering the relevance and reliability of such information, including how it may differ based on the nature of the audit procedure for which the information will be used.
31. **Appendix 2** includes the minutes from the December 2020 meeting and the Board’s views on the above proposals.

Task Force Views

The Relevance and Reliability of Information Intended to be Used as Audit Evidence

32. There are two requirements in extant ISA 500 addressing the relevance and reliability of information to be used as audit evidence:
- (a) Paragraph 7 of extant ISA 500 includes an overarching requirement for the auditor to consider the relevance and reliability of information to be used as audit evidence, which applies to all information irrespective of its source; and
 - (b) Paragraph 9 of extant ISA 500 includes a more specific requirement related to the reliability of information produced by the entity, including obtaining audit evidence about the accuracy and completeness of the information and evaluating whether it is sufficiently precise and detailed.
33. As proposed to the Board in December 2020, given the changes in the nature and number of information sources and evolution in technology, a more robust and principles-based approach is needed to deal with information to be used as audit evidence. This means that the requirements in paragraphs 7 and 9 of extant ISA 500 need to be:
- (a) Adjusted to be more principles-based; and
 - (b) Expanded to apply to all information intended to be used as audit evidence, in order to improve the robustness of the requirements.
34. The AETF observed that not all aspects of the requirement in paragraph 9 of extant ISA 500 remain appropriate or practicable in today's environment. In particular:
- (a) Obtaining audit evidence about the accuracy and completeness of all information intended to be used as audit evidence. For example:
 - (i) The auditor may not have access to the source of information external to the entity, and it may not be possible to obtain evidence about accuracy and completeness.
 - (ii) As noted by the Board in the discussion on technology on the January 26, 2021 Mid-Quarter Board Call, there is a degree to which such information needs to be accurate and complete based on a number of underlying factors (e.g., what the information will be used for), i.e., not all information intended to be used as audit evidence has to be accurate and complete to the same degree to be useable in the circumstances.
- The AETF also noted the Board's caution in December 2020 that the attributes may create an unnecessary burden, and that auditors may interpret that all of the attributes need to be considered for all information intended to be used as audit evidence. The Board also suggested that there is a spectrum of work effort in considering such information.
- (b) There are other attributes, such as bias, authenticity and credibility, that also affect the reliability of information (i.e., it is not only accuracy and completeness). In some circumstances, these attributes may be more important considerations for the auditor than accuracy and completeness (e.g., when the auditor intends using information from management related to an accounting estimate as audit evidence, bias may be an important consideration).

35. The AETF also observed that the requirement in paragraph 9(b) of extant ISA 500 that focuses on evaluating whether the information is sufficiently precise and detailed, also only addresses one attribute of relevance (i.e., precision). The attribute of the information in terms of its relation to the purpose of the audit procedure (paragraph A31 of extant ISA 500) is not considered in the requirement. As a result, the requirement appears too specific in focusing on precision, rather than the overall principle of relevance.
36. Accordingly, the AETF is of the view that it would be more appropriate, and robust, to have:
- (a) A principles-based requirement for the auditor to consider the relevance and reliability of information intended to be used as audit evidence, and evaluate whether such information is sufficiently relevant and reliable for the auditor's purposes; and
 - (b) Application material that explains the attributes of relevance and reliability and the factors that drive:
 - Which attributes may need to be considered;
 - The degree to which the attributes need to apply; and
 - The extent of work effort needed to consider the attributes and whether the information is sufficiently relevant and reliable for the auditor's purposes.
37. The proposed requirement described in paragraph 36(a) would replace paragraphs 7 and 9 of extant ISA 500, as follows:

- ~~7. The ~~When designing and performing audit procedures,~~ the auditor shall consider the relevance and reliability of the information intended to be used as audit evidence, ~~including information obtained from an external information source~~. In doing so, the auditor shall evaluate whether such information is sufficiently relevant and reliable for the auditor's purposes.~~
- ~~9. When using information produced by the entity, the auditor shall evaluate whether the information is sufficiently reliable for the auditor's purposes, including, as necessary in the circumstances:~~
- ~~(a) Obtaining audit evidence about the accuracy and completeness of the information;
and~~
 - ~~(b) Evaluating whether the information is sufficiently precise and detailed for the auditor's purposes.~~

The AETF notes that the Complexity Understandability Scalability Proportionality (CUSP) Working Group is considering the various terms used across the ISAs to describe the auditor's work effort, and plans to bring proposals to the Board in April 2021. Accordingly, the AETF will further consider the terms to describe the work effort (e.g., "consider" or "evaluate") following the April 2021 Board discussion.

Attributes of Relevance and Reliability, and the Factors That Drive the Auditor's Consideration of the Attributes

38. The AETF developed possible application material that reflects the approach in paragraph 36 (see paragraphs C.6–C.12 of **Agenda Item 2-A**). The basis for the possible application material is further explained below.

Application Material to Explain the Relevance and Reliability of Information Intended to be Used as Audit Evidence

39. The possible application material in paragraphs C.6–C.7 of **Agenda Item 2–A** explains the meaning of relevance and reliability, based on the attributes of information discussed with the Board in December 2020. The AETF focused on emphasizing that the attributes are examples to ensure that they are not inadvertently used as a checklist, and simplified the attributes as follows:

(a) Relevance of information:

- (i) The attributes of “relation” and “precision” were retained.
- (ii) The “impact” attribute was removed (i.e., the degree to which information is either consistent or inconsistent with a matter subject to an audit procedure). Although there is a logical rationale for this attribute, the AETF is of the view that it is overly-engineered and unlikely a critical element of the relevance consideration.
- (iii) The “understandability” attribute was removed and incorporated as part of the auditor’s consideration as to whether the information is available and accessible (see paragraphs 48–49). This consideration takes place before the auditor proceeds with considering the relevance and reliability of the information (i.e., the auditor will unlikely proceed with considering the information if the auditor is not able to understand the information).

(b) Reliability of information:

- (i) The attributes of “authenticity,” “accuracy,” “bias,” “completeness,” and “credibility” were retained.
- (ii) The attribute of “authorization” was included in “authenticity”.
- (iii) The following underlying factors that were explained as part of credibility were incorporated in other attributes:
 - “Authority” now forms part of “authenticity.”
 - “Bias” was previously presented as a factor of credibility. Given that “bias” was also an existing attribute, a separate factor was redundant. In addition, it was clarified that “bias” includes both intentional and unintentional bias.

40. The AETF is of the view that:

- (a) Consistent with the views of the Board, not all of these attributes need to be considered by the auditor for each piece of information in every circumstance;

- (b) As described in paragraph 34, there is a degree to which information needs to have the attributes, depending on a number of factors, including what the information will be used for; and
 - (c) There is a spectrum for the extent of the auditor's work effort to consider the relevance and reliability of the information and whether the information is sufficiently relevant and reliable for the auditor's purposes.
41. In order to promote a principles-based approach that is scalable and appropriate to the circumstances, the possible application material in paragraphs C.8–C.9 of **Agenda Item 2–A**:
- (a) Explains the notion described in paragraph 40; and
 - (b) The factors that drive which attributes may need to be considered, the degree to which the attributes need to apply and the extent of work effort needed to consider the attributes and whether the information is sufficiently relevant and reliable for the auditor's purposes.
42. For each of the factors described in paragraph C.9 of **Agenda Item 2–A**, an example has been provided to demonstrate how the factors affect the attributes considered, the degree to which the attributes need to apply and the work effort.
43. To respond to the Board's suggestion in December 2020, the possible application material in paragraph C.10 of **Agenda Item 2–A** addresses circumstances where it may not be practicable for the auditor to consider certain attributes in considering the reliability of the information to be used as audit evidence. The possible application material in paragraphs C.11–C.12 of **Agenda Item 2–A** provides further explanations of how the consideration of the relevance and reliability of information intended to be used as audit evidence may be performed.

Sources of Information Intended to be Used as Audit Evidence

44. The AETF noted the Board's suggestion to maintain the distinction between the various sources of information in ISA 500, albeit through application material. The AETF agrees with the Board's view since the source of the information remains an important factor when considering the relevance and reliability of the information and determining the auditor's work effort. The AETF is of the view that given the continual evolution in information sources, the manner in which the sources are described in the application material in ISA 500 should be illustrative (i.e., not all inclusive), to cater for any future evolution in how information is generated and obtained (e.g., through technological developments).
45. The AETF considered the sources of information that should be described in ISA 500. In doing so, the AETF considered the definition of an external information source introduced in ISA 500 as a conforming and consequential amendment of ISA 540 (Revised). The AETF observed that:
- (a) An external information source, as defined, is limited to information suitable for use by a broad range of users. The auditor may obtain information that is unique to the entity from a source external to the entity, for example, a bank confirmation. This information is neither an external information source (as defined), nor an internal information source. The AETF proposes that such information be described as information from another source external to the entity.

- (b) The definition of an external information source refers to an external individual or organization that provides information that is suitable for use by a broad range of users; however, when providing information in the capacity of a management's expert,¹⁶ service organization,¹⁷ or auditor's expert,¹⁸ the individual or organization is not an external information source with respect to that particular information. The AETF proposes that:
- (i) Information provided by sources external to the entity when acting in the capacity of a management's expert or service organization, is considered an internal information source because management still has responsibility for the information; and
 - (ii) Information provided by sources external to the entity when acting in the capacity of an auditor's expert is considered information from another source external to the entity.
46. Given the Board's feedback in December 2020, the AETF considered whether the category of "auditor generated information" should be described in ISA 500. Upon further reflection, the AETF acknowledges that the extent of such information may not be significant in comparison with the other sources of information (i.e., an internal information source, external information source or another source external to the entity). However, the AETF is of the view that the nature and extent of the auditor's work effort in considering auditor generated information may be different than for information from an internal information source, external information source or another source external to the entity. Therefore, the AETF has chosen to retain the category of "auditor generated information" pending the further consideration of the work effort considerations.
47. The AETF has therefore identified four categories of sources of information that will be described in ISA 500:
- (a) An internal information source, i.e., management or others internal to the entity that provide information, including information generated:
 - From the accounting records and the financial reporting process used to prepare the financial statements;
 - By other internal sources within the entity; or
 - By sources external to the entity when acting in the capacity of a management's expert or service organization.
 - (b) An external information source as defined, i.e., an external individual or organization that provides information that has been used by the entity in preparing the financial statements, or from which the auditor has obtained information, when such information is suitable for use by a broad range of users.
 - (c) Another source external to the entity, i.e., an external individual or organization from whom the auditor has obtained information, and the information is specific to the entity, or is not suitable for use by a broad range of users. This includes an auditor's expert.

¹⁶ ISA 500, paragraph 5(e)

¹⁷ ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*

¹⁸ ISA 620, *Using the Work of an Auditor's Expert*

- (d) The auditor, including the firm. For example, the auditor may independently develop or further process information to generate information intended to be used as audit evidence.

(As noted in paragraph 46, the AETF plans to further consider the category of auditor generated information in the context of the work effort considerations)

Availability, Accessibility and Understandability of Information

48. ISA 200 explains the inherent limitations of an audit, and that there are certain practical and legal limitations on the auditor's ability to obtain audit evidence.¹⁹ Further, ISA 200 addresses the difficulty, time, or cost involved in performing audit procedures, and recognizes that it is impracticable to address all information that may exist or to pursue every matter exhaustively.²⁰
49. If information is not available to the auditor, it cannot be used by the auditor (i.e., it is not information to be used as audit evidence). Similarly, if information is not understandable to the auditor, and it is impracticable for the auditor to further interpret or analyze the information so that it is understandable (including using an expert), it cannot be used by the auditor. The AETF proposes to develop application material to address the following (see paragraphs C.1–C.5 of **Agenda Item 2-A**):
- (a) Information that is not available or understandable is not subject to the further relevance and reliability considerations.
 - (b) The inherent limitations of an audit, information that is not available or understandable, or restrictions on access to information are not a justification for the auditor to be satisfied with less than persuasive audit evidence. The application material will emphasize the auditor's actions when the auditor is unable to obtain sufficient appropriate audit evidence.

Matters for Board Consideration:

3. The Board is asked for their views on the initial thoughts and recommendations of the AETF relating to the relevance and reliability of information intended to be used as audit evidence (see paragraphs 32–43). Specifically, does the Board support:
- (a) The AETF's proposals regarding the requirement in ISA 500 for addressing the relevance and reliability of information intended to be used as audit evidence (paragraphs 32–37)?
 - (b) The proposed approach to explain the attributes of relevance and reliability in application material, including the proposed principles-based approach for the auditor's consideration of such attributes (see paragraphs 39 – 43).
- In responding to this question, the Board also may consider the possible application material in paragraphs C.6–C.10 of **Agenda Item 2-A**.
4. The Board is asked for their views on the initial thoughts and recommendations of the AETF regarding the sources of information intended to be used as audit evidence (paragraphs 44–47).

¹⁹ ISA 200, paragraphs A47 and A49

²⁰ ISA 200, paragraph A50

5. The Board is asked for their views regarding the AETF's initial recommendations addressing the availability, accessibility and understandability of information intended to be used as audit evidence (paragraphs 48–49).

In responding to this question, the Board also may consider the possible application material in paragraphs C.1–C.5 of **Agenda Item 2–A**.

Section D – Sufficient Appropriate Audit Evidence, and the Persuasiveness of Audit Evidence

Previous Board Discussion

50. At the December 2020 IAASB meeting, the AETF proposed introducing the concept of persuasiveness when concluding whether sufficient appropriate audit evidence has been obtained. The AETF also suggested introducing factors to be taken into account by the auditor in considering the sufficiency and appropriateness of audit evidence. Other than the relevance and reliability considerations related to information to be used as audit evidence, the Board did not further discuss the factors affecting the sufficiency and appropriateness of audit evidence. **Appendix 2** includes the minutes from December 2020 meeting and the Board's views on these proposals.

Task Force Views

51. The AETF noted the Board's support for introducing the concept of persuasiveness, and agreed with the Board's view that defining persuasiveness may be impracticable. The AETF is of the view that ISA 500 should instead focus on explaining how to consider whether the audit evidence is sufficient and appropriate through explaining the factors that influence the sufficiency and appropriateness of audit evidence.
52. As summarized in paragraph 25, the AETF is of the view that audit evidence is the output of the audit procedure, and information needs to be subject to audit procedures to become audit evidence. This is an important proposal because it affects what "sufficient appropriate" relates to, and the factors the auditor takes into account when considering whether sufficient appropriate audit evidence has been obtained.

Factors that Affect the Sufficiency and Appropriateness of Audit Evidence

53. The AETF explored what factors the auditor would think about when considering whether sufficient appropriate audit evidence has been obtained. The AETF identified three categories of factors that affect the auditor's considerations:

Category 1: The assessed risks of material misstatement, including the nature of the risk of material misstatement, the relevant assertion(s), and the reasons for the assessment, and the results of audit procedures performed, including whether any instances of fraud or error were identified.

Category 2: The information to be used as audit evidence.

Category 3: The effectiveness of the audit procedures and whether the audit procedures have been appropriately applied.

54. The AETF considered paragraph A62 of ISA 330²¹ in developing the above categories (paragraph A62 of ISA 330 sets out the factors that affect the auditor's judgment as to what constitutes sufficient appropriate audit evidence). The AETF concluded that the following factors in paragraph A62 of ISA 330 are not relevant for the reasons stated:

(a) Experience gained during previous audits with respect to similar potential misstatements.

The AETF did not consider this to be an appropriate consideration since audit evidence from previous audits needs to be subject to audit procedures in the current audit (i.e., to evaluate whether the audit evidence from the previous audit is relevant and reliable for the purposes of the current audit). Adding this as a factor that drives sufficient appropriate audit evidence in the current audit appears to conflict with this notion. Furthermore, this forms part of the auditor's risk assessment (Category 1).

(b) Effectiveness of management's responses and controls to address the risks.

The AETF was of the view that this factor forms part of the risk assessment (Category 1) and this could drive auditors to place undue reliance on controls in considering whether audit evidence is sufficient and appropriate.

(c) Understanding of the entity and its environment, including internal control.

The AETF was of the view that this forms part of the risk assessment (Category 1).

55. The AETF considered how the above categories of factors could be presented in application material to explain how they affect the auditor's conclusion whether sufficient appropriate audit evidence has been obtained (see paragraphs D.1–D.2 in **Agenda Item 2-A**). The basis for the possible application material is further explained below for the different categories of factors.

Category 1: The Assessed Risks of Material Misstatement, Including the Nature of the Risk of Material Misstatement, the Relevant Assertion(s), and the Reasons for the Assessment and the Results of Audit Procedures Performed, Including whether any Instances of Fraud or Error Were Identified

56. The higher the assessment of risk, the more persuasive the audit evidence needs to be to support the conclusions on which the auditor's opinion is based. In addition, the nature of the risk of material misstatement, the relevant assertions and the reasons for the assessment may affect how persuasive the audit evidence needs to be (e.g., a risk of material misstatement involving management bias related to an accounting estimate with high subjectivity may need to have more persuasive audit evidence). As a result, when considering whether sufficient appropriate audit evidence has been obtained, the auditor considers whether the audit evidence is sufficient and appropriate in the context of the assessed risks of material misstatement.

57. The AETF is of the view that although this is one of the factors that drives the auditor's consideration of sufficient appropriate audit evidence, it is different from Category 2 and Category 3 because the risk of material misstatement is the measure against which the audit evidence is evaluated to determine whether it is sufficient and appropriate.

²¹ ISA 330, *The Auditor's Responses to Assessed Risks*

Category 2: The Information to be Used as Audit Evidence

58. The quality of the input used by the auditor in performing audit procedures, in particular the degree of relevance and reliability of the information, has a direct effect on the extent to which the audit evidence is sufficient and appropriate. Section C explores the AETF's proposals related to the relevance and reliability of information intended to be used as audit evidence.
59. In addition, if the auditor has information that is consistent or inconsistent with other information, it may affect the auditor's conclusions about whether sufficient appropriate audit evidence has been obtained. For example, information that is inconsistent may drive the auditor to determine that more information is needed, or more extensive audit procedures need to be performed, to enable the auditor to draw conclusions.
60. The source of the information, and the extent to which the information comes from multiple sources may also affect the auditor's conclusions about whether sufficient appropriate audit evidence has been obtained. In some cases, information from a single reputable source may be sufficient and appropriate for the auditor to draw conclusions. A combination of information from different sources may add strength to the audit evidence, particularly when the information is consistent.

Category 3: The Effectiveness of the Audit Procedures and Whether the Audit Procedures have Been Appropriately Applied

61. ISA 200 states the following:
 - (a) Reasonable assurance is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk to an acceptably low level (paragraph 17 of ISA 200).
 - (b) Audit risk is a function of the risks of material misstatement and detection risk (paragraph A34 of ISA 200).
 - (c) Detection risk is the risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements (paragraph 13(e) of ISA 200). Detection risk is further described in paragraph A45 of ISA 200, as being the risk related to the nature, timing and extent of the auditor's procedures that are determined by the auditor to reduce audit risk to an acceptably low level. ISA 200 further explains that detection risk is therefore a function of the effectiveness of an audit procedure and of its application by the auditor. It also provides examples of matters that enhance the effectiveness of an audit procedure and of its application and reduce the possibility that an auditor might select an inappropriate audit procedure, misapply an appropriate audit procedure, or misinterpret the audit results. Such matters include the proper assignment of personnel to engagement teams as well as supervision and review of the audit work performed.
 - (d) The acceptable level of detection risk bears an inverse relationship to the assessed risks of material misstatement at the assertion level (i.e., the higher the risks of material misstatement, the lower the detection risk that can be accepted and the more persuasive the audit evidence needs to be) (paragraph A44 of ISA 200).

62. Accordingly, the effectiveness of the audit procedures and whether the audit procedures have been appropriately applied by the auditor are essential in reducing detection risk to an acceptably low level and providing the auditor with sufficient appropriate audit evidence.
63. The effectiveness of the audit procedures (i.e., the design and performance of the audit procedures) relates to the nature, timing and extent of the audit procedures. For example:
- (a) The type of audit procedure may affect whether it is sufficient and appropriate for the auditor to draw conclusions (e.g., inspection may provide stronger evidence than inquiry). If the type of audit procedure is not responsive to the risk of material misstatement, it may not provide sufficient appropriate audit evidence (e.g., confirming accounts receivable to obtain audit evidence about the existence of accounts receivable does not also provide sufficient appropriate audit evidence regarding recoverability of accounts receivable).
 - (b) Performing audit procedures on the valuation of assets at the period end date, instead of at an interim date, may provide sufficient appropriate audit evidence. Audit procedures performed at an interim date may need to be supplemented at the period end date, to provide sufficient appropriate audit evidence.
 - (c) Applying an audit procedure to a larger portion of a population may increase the strength of the audit evidence and affect whether the evidence is sufficient and appropriate.
64. Whether the audit procedure has been appropriately applied by the auditor relates to how the audit procedure has been performed, including which resources were assigned to perform the audit procedure, and the nature and extent of direction, supervision and review. For example:
- (a) If a senior engagement team member is assigned to inquire from management about how management formulated their assumptions for the going concern assessment, the senior engagement team member may have appropriate knowledge and experience to consider the information provided by management. The senior engagement team member is also likely to have knowledge of other audit evidence obtained by the engagement team that may be consistent or inconsistent with management's information. This may enable the senior engagement team member to determine whether to accept the information provided by management, or whether further inquiries of management or other audit procedures are needed to obtain sufficient appropriate audit evidence.
 - (b) If a junior engagement team member is assigned to inquire from management about how management formulated their assumptions for the going concern assessment, the individual may not have appropriate knowledge or experience to properly consider the information, and determine whether further inquiries or other audit procedures are needed.

As a result, how the audit procedures have been applied influences the auditor's considerations of whether sufficient appropriate audit evidence has been obtained.

Definitions of Appropriateness and Sufficiency of Audit Evidence

65. The AETF considered how these factors affect the definitions of appropriateness and sufficiency of audit evidence. The AETF noted that the definitions of appropriateness and sufficiency of audit evidence in extant ISA 500 include the following elements, which echo the factors described above:

- (a) The relevance and reliability of audit evidence; and
- (b) The effect of the risks of material misstatement.

Appropriateness of Audit Evidence

66. The AETF is of the view that the appropriateness of audit evidence is about the suitability of the audit evidence, which is affected by:
- (a) The information to be used as audit evidence, including the relevance and reliability of the information (see Category 2 above); and
 - (b) The effectiveness of the audit procedures and whether the audit procedures have been appropriately applied (see Category 3 above).
67. The AETF considered incorporating the above factors into the definition of appropriateness of audit evidence. The AETF concluded that a broad, principles-based definition would be more appropriate, since there could be other factors that affect the appropriateness of audit evidence (e.g., factors unique to the engagement or factors arising in the future given the evolution in the audit environment).
68. The AETF noted that the term “quality,” referenced in the definition of appropriateness of audit evidence in extant ISA 500,²² does not fully encapsulate the two factors described in paragraph 66 that affect the appropriateness of audit evidence. The AETF is of the view that the term “suitability” is more descriptive of the factors that affect the appropriateness of audit evidence.

Appropriateness (of audit evidence) – The measure of the ~~suitability 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.~~

Sufficiency of Audit Evidence

69. The AETF observed that the extant definition of sufficiency of audit evidence appears overly focused on the quantity of audit evidence.²³ This inappropriately implies that the auditor can simply obtain more of the same audit evidence to achieve sufficiency. However, increasing the quantity of audit evidence may not improve its sufficiency in all circumstances. For this reason, the AETF is of the view that the sufficiency of audit evidence is highly dependent on the appropriateness of the audit evidence. In particular, the AETF believes that the auditor considers:
- (a) Whether the audit evidence is appropriate; and
 - (b) In view of the degree of the appropriateness of the audit evidence, whether it is sufficient in the context of the assessed risks of material misstatement, and the results of audit procedures

²² ISA 500, paragraph 5(b)

²³ ISA 500, paragraph 5(f)

performed (Category 1) to persuade the auditor in drawing conclusions on which the auditor's opinion is based.

70. The AETF is therefore of the view that the lens through which the sufficiency of audit evidence is considered, is by considering the sufficiency of **the appropriate** audit evidence.
71. Given these considerations, the AETF has proposed an amendment to the definition of sufficiency of audit evidence as follows:

Sufficiency (of appropriate audit evidence) – The measure of the persuasiveness ~~quantity~~ of appropriate audit evidence in enabling the auditor to draw conclusions that form the basis for the auditor's opinion and report. ~~The quantity of the audit evidence needed is affected by the auditor's assessment of the risks of material misstatement and also by the quality of such audit evidence.~~

Note: As part of the conforming and consequential amendments related to ISA 500, the AETF will consider paragraph A62 of ISA 330 and how to incorporate the three categories of factors as considerations for the auditor when concluding whether sufficient appropriate audit evidence has been obtained in accordance with paragraph 26 of ISA 330.

Matters for Board Consideration:

6. The Board is asked for their views on the initial thoughts and recommendations of the AETF relating to:
- (a) The three categories of factors affecting the auditor's considerations of whether sufficient appropriate audit evidence has been obtained (paragraphs 53 and 56–64);
 - (b) The proposed revisions to the definition of appropriateness of audit evidence (paragraphs 66–68); and
 - (c) The proposed revisions to the definition of sufficiency of audit evidence, including the proposal to shift the definition to “the sufficiency of **appropriate** audit evidence” (paragraphs 69–71).

Section E – Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence

72. As explained in paragraphs 61–64, the effectiveness of the audit procedures and whether the audit procedures have been appropriately applied by the auditor affects the sufficiency and appropriateness of audit evidence.
73. Other ISAs deal with the effectiveness of audit procedures and managing the quality of the audit to support the proper application of the audit procedures, for example:
- (a) Paragraph 6 of ISA 330 requires the auditor to design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risk of material misstatement at the assertion level.

- (b) Paragraph 13 of ISA 315 (Revised 2019) requires the auditor to design and perform risk assessment procedures to obtain audit evidence that provides an appropriate basis for the identification and assessment of risks of material misstatement and the design of further audit procedures. Paragraph 35 of ISA 315 (Revised 2019) also requires the auditor to evaluate whether the audit evidence obtained from the risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement.
 - (c) ISA 220 (Revised) deals with quality management at the engagement level, including direction, supervision and review, determining that there are sufficient and appropriate resources assigned or made available on a timely basis to perform the engagement, and the competence and capabilities of the engagement team members.
74. In considering the requirement in paragraph 6 of extant ISA 500 and whether it remains relevant and appropriate, the AETF observed that since the other ISAs deal with the design and performance of audit procedures, there is no need for ISA 500 to also have a requirement for the auditor to design and perform audit procedures. Similarly, there is no need for ISA 500 to also address the quality management aspects of performing the audit that affect the appropriate application of the audit procedures, such as direction, supervision and review, resources and the competence and capabilities of the engagement team members.
75. Nevertheless, the AETF is of the view that, in order to support the auditor's consideration of whether sufficient appropriate audit evidence has been obtained, paragraph 6 of extant ISA 500 should be revised to require the auditor to consider whether the audit procedures provide an appropriate basis for concluding on the sufficiency and appropriateness of audit evidence.

6. The auditor shall consider whether the design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining provide an appropriate basis for concluding on the sufficiency and appropriateness of audit evidence.

76. This requirement could be supported by application material that clarifies how the effectiveness of the audit procedures and whether the audit procedures have been appropriately applied by the auditor affects the sufficiency and appropriateness of audit evidence. The AETF has developed possible application material for this purpose explaining (see paragraph E.1 in **Agenda Item 2-A**):
- (a) The concept of detection risk and how it relates to obtaining sufficient appropriate audit evidence.
 - (b) How ISA 220 (Revised) addresses quality management at the engagement level, which contributes to the appropriate application of the audit procedures.

Types of Audit Procedures

77. Extant ISA 500 provides examples in the application material of the types of audit procedures that may be used to obtain sufficient appropriate audit evidence. These types of procedures include inspection, observation, external confirmation, recalculation, reperformance, analytical procedures and inquiry (paragraphs A18–A29 of extant ISA 500).

78. The AETF is of the view that these types of audit procedures are still appropriate examples to demonstrate the general types of procedures that auditors may perform. However, the AETF reconsidered the application material in extant ISA 500 and explored how aspects of the application material may be enhanced. As a result, the AETF has developed possible application material that:
- (a) Describes the types of audit procedures, which has been modernized and updated to include examples, including examples to incorporate technology and the use of automated tools and techniques (see paragraphs E.2–E.14 of **Agenda Item 2-A**);
 - (b) Acknowledges that these are not the only types of audit procedures that may be performed (the lead-in of paragraph E.2 of **Agenda Item 2-A** refers to “may include”). The AETF believes it is important that the types of procedures are not conveyed as being exhaustive, to allow for future developments in how audit procedures are performed.

*Note: The AETF has provided the examples in paragraphs E.2–E.14 of **Agenda Item 2-A** to the Technology Working Group to obtain their input. Their feedback will be considered and incorporated into the examples following the March 2021 Board meeting.*

Matters for Board Consideration:

7. The Board is asked for their views on the initial thoughts and recommendations of the AETF:
- (a) To address the effectiveness of the audit procedures and whether the audit procedures have been appropriately applied by the auditor (paragraphs 72–76), in particular the proposed approach to revising paragraph 6 of extant ISA 500 (see paragraph 75).

In responding to this question, the Board also may consider the possible application material in paragraph E.1 of **Agenda Item 2–A**.
 - (b) To modernize and enhance the descriptions of the types of audit procedures (paragraphs 77–78).

In responding to this question, the Board also may consider the possible application material in paragraphs E.2–E.14 of **Agenda Item 2–A**.

Section F – Modernizing ISA 500 Through Incorporating Technology

79. As highlighted previously, the AETF has incorporated a principles-based approach in ISA 500 to support the modernization of the standard and enable it to be applied in an evolving audit environment. To demonstrate how the principles apply when using technology, the AETF has proposed including examples in the application material in **Agenda Item 2–A**. The AETF was cognizant that examples may outdate given the rapid pace of change, and therefore aimed to avoid

overly specific examples. The AETF recognize that more targeted or timely guidance may be accommodated through non-authoritative support materials.

Proposals to Better Reflect Technology in ISA 500

80. The AETF has proposed updates to ISA 500 to reflect technology throughout the standard, demonstrate how the principles of ISA 500 apply to technology and to modernize the standard. For example, such updates include:
- (a) References in the application material to information in digital form (previously described as information in electronic form).
 - (b) Application material to highlight the auditor's use of automated tools and techniques to perform audit procedures (see paragraph E.3 of **Agenda Item 2–A**).
 - (c) Examples or references to information in digital form, or to the client's use of technology (see paragraphs C.1, C.3, C.4, C.9, E.5 and E.7 of **Agenda Item 2–A**).
 - (d) Examples that refer to the auditor's use of automated tools and techniques, including demonstrating how the concepts of ISA 500 apply when the auditor uses automated tools and techniques (see paragraphs C.3, C.9, D.2, E.3, E.4, E.5, E.6, E.7, E.8 and E.9 of **Agenda Item 2–A**).
81. In developing the material outlined above, the AETF considered the Technology Working Group's recently published non-authoritative support materials in relation to the auditor's use of automated tools and techniques.²⁴ The AETF engaged with the Technology Working Group prior to the March 2021 Board meeting to obtain their initial input on the material described above. Their feedback will be considered and incorporated into the examples following the March 2021 Board meeting.

Categorization of Audit Procedures When Using Automated Tools and Techniques

82. The following issue was included as one of the items to be addressed as part of the ISA 500 project:

The categorization of procedures in terms of:

- (a) The types of audit procedures that may be performed (i.e., inspection, observation, inquiry etc.); and
- (b) The nature of audit procedures (i.e., risk assessment procedures or further audit procedures comprising tests of controls and substantive procedures (which include tests of details and substantive analytical procedures)). Further, whether an audit procedure can be both a risk assessment procedure and a substantive procedure at the same time.

83. The AETF has developed proposed examples to address this issue in the application material by including examples of how automated tools and techniques may be used in performing certain types of audit procedure (see paragraphs E.3–E.9 of **Agenda Item 2-A**). In particular, the example in

²⁴ Non-Authoritative Support Material: Using Automated Tools and Techniques When Identifying Risks of Material Misstatement in Accordance with ISA 315 (Revised); Non-Authoritative Support Material: Using Automated Tools and Techniques and Audit Documentation; and Non-Authoritative Support Materials: Using Automated Tools & Techniques in Performing Audit Procedures

paragraph E.4 of **Agenda Item 2-A** describes a situation where an automated tool and technique may be used in performing a risk assessment procedure and a further audit procedure. This guidance is based on an example that was published as non-authoritative support material by the Technology Working Group.²⁵

Matters for Board Consideration:

8. Does the Board support the approach thus far in terms of how the AETF proposes that technology be incorporated into ISA 500, through specific material focused on technology and examples throughout the application material?
9. The Board is asked for their views regarding the proposed application material in paragraph E.4 of **Agenda Item 2-A** that addresses whether an audit procedure can be both a risk assessment procedure and a substantive procedure at the same time?

Section G – Way Forward

84. Following the March 2021 discussion with the Board, the AETF will continue to progress the issues related to audit evidence and further develop drafting. The AETF will consider the Board's feedback on the issues outlined in this paper. In addition, the AETF plans to explore the following areas that were not part of the March 2021 proposals:
- (a) The introductory material of ISA 500, specifically clarifying the relationship of ISA 500 with the other ISAs.
 - (b) The objective of ISA 500, taking into account the Board's feedback and further work undertaken by the AETF on the requirements of ISA 500. The AETF also plans to map the requirements across the standards to better reflect the relationships and support any further proposals on the objective.
 - (c) The use of the terms "information" and "data" in the ISAs and whether there are any differences in their respective meaning, in particular in the context of ISA 500.
 - (d) Professional skepticism, specifically:
 - (i) The role of professional skepticism when making judgments about information to be used as audit evidence and considering the sufficiency and appropriateness of audit evidence.
 - (ii) How to address bias towards seeking audit evidence that supports management's assertions (consistent or corroborating evidence), rather than evidence that may be contradictory.
 - (iii) The concepts of corroborative and contradictory to management's assertions and consistency and inconsistency of information, and how they affect sufficient appropriate audit evidence.

In doing so, the AETF plans to consider how ISA 220 (Revised) has addressed the different types of biases that may affect the engagement team's professional judgments, and possible actions the auditor can take to mitigate impediments to the exercise of professional skepticism.

²⁵ Non-Authoritative Support Materials: Using Automated Tools & Techniques in Performing Audit Procedures

- (e) The auditor's responsibilities related to the authenticity of information to be used as audit evidence. In doing so, the AETF plans to consider the feedback from the IAASB's Discussion Paper, *Fraud and Going Concern in an Audit of Financial Statements*, and the Impact Assessment of the Financial Reporting Council in relation to proposed ISA (UK) 240 (Revised 2020).²⁶
 - (f) The work effort in relation to the evaluation of information to be used as audit evidence (i.e., "evaluate" or "consider"), based on the outcome of further discussion and coordination activities between the AETF and the CUSP Working Group in quarter 2 of 2021.
 - (g) Technology, in particular addressing:
 - (i) Over-reliance on technology; and
 - (ii) The capabilities of new technologies that allow the auditor to analyze larger populations.
85. The AETF will also liaise with the International Ethics Standards Board for Accountants to identify any ethics considerations or matters of relevance in terms of the audit evidence.
86. Depending on the outcome of the March 2021 Board discussion, the AETF plans to present a full draft of ISA 500 in June 2021. Following June 2021, the AETF will begin to develop the conforming and consequential amendments to the other ISAs as a result of the ISA 500 project.

²⁶ Proposed International Standard on Auditing (ISA) (UK) 240 (Updated January 2020), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

AETF Members and Activities, Including Outreach

AETF Members

1. Information about the Task Force members and the project can be found [here](#).

AETF Activities since the December 2020 IAASB Meeting (Virtual by Videoconferencing)

2. The AETF held five virtual meetings.

Coordination with Other Task Forces and Working Groups, and Standard Setting Boards

3. Staff of the AETF and the Technology Working Group met to discuss the examples in ISA 500 to demonstrate the use of technology. The AETF Chair and Staff also attended the Technology Working Group meeting to discuss the examples.
4. Staff of the AETF and the AETF Chair met with a Board member, to discuss how detection risk, as described in ISA 200, may affect the auditor's consideration of sufficient appropriate audit evidence.
5. Staff of the AETF and the Fraud and Going Concern Working Groups met to discuss the preliminary feedback to the IAASB's Fraud and Going Concern [Discussion Paper](#).
6. Staff of the AETF and the CUSP Working Group met to discuss:
 - (a) Work being done in relation to aspects of the CUSP Working Group's activities that may impact the audit evidence project; and
 - (b) The general approach taken by the AETF in describing the auditor's work effort in relation to information intended to be used as audit evidence more broadly.

Outreach Activities

7. In January 2021, the AETF undertook outreach with the Global Public Policy Committee to discuss the impact of the Covid-19 pandemic on audit evidence.

Extracts from the Draft December 2020 IAASB Meeting Minutes

ISA 500, *Audit Evidence*

PROJECT PROPOSAL

Mr. Dohrer provided the Board with an overview of **Agenda Item 3-A**, the draft ISA 500 project proposal (the draft project proposal).

Mr. Dohrer noted that a draft version of the project proposal was discussed with the IAASB CAG Representatives at its meeting in September 2020. The IAASB CAG Representatives noted broad support for the project and recommended that, given existing guidance in other ISAs, consideration is given to whether the concept of persuasive audit evidence should be introduced to ISA 500.

The IAASB was supportive of the draft project proposal and in addition to various editorial suggestions, suggested the Audit Evidence Working Group (AEWG) add the following to the project proposal:

- Additional emphasis on the development of a principles-based standard that would contribute to the standard being scalable to a wide variety of circumstances and that it remains fit for purpose.
- Clarifying that the scope of consequential amendments may include that requirements from extant ISA 500 are relocated to another standard, however the project does not include the broader revision of any other standard.
- Specifically recognizing that the IAASB will explore whether, and if so, how, the material in ISA 220 (Revised)²⁷ in relation to professional skepticism may be drawn upon.
- Clarifying that future coordination activities will include the consideration of the work of the IAASB's Fraud Working Group, Audits of Less Complex Entities Working Group and the Complexity, Understandability, Scalability and Proportionality Working Group.

PIOB OBSERVER'S REMARKS

- Ms. Stothers emphasized the importance and urgency of the Audit Evidence project from a public interest perspective, in particular as the relevance of many of the issues identified were further emphasized in light of the COVID-19 pandemic.

APPROVAL OF THE PROJECT PROPOSAL

After presenting an updated version of the project proposal, based on the recommended additions, no further changes were required and the IAASB unanimously approved the project proposal to revise ISA 500 with 18 affirmative votes out of the 18 IAASB members who participated in the virtual meeting.

ISSUES AND RECOMMENDATIONS

Mr. Dohrer explained that the AEWG identified four issues that were considered to be fundamental to the direction and progression of the project, and provided an overview of the four issues, as outlined in **Agenda Item 3**.

²⁷ ISA 220 (Revised), *Quality Management at Engagement Level*, paragraphs A35–A36.

Purpose and Scope of ISA 500

The Board noted its agreement with specific observations of the AEWG in relation to the role of ISA 500 and its interaction with the other ISAs.

Although the Board agreed that there is overlap in the objectives of ISA 500 and ISA 330,²⁸ the Board expressed mixed views about whether further clarity is needed regarding the purpose and scope of ISA 500. In particular, the Board:

- Encouraged the Audit Evidence Task Force (AETF) to consider whether a proposed change in the focus of the objective of ISA 500 (i.e., away from designing and performing audit procedures) is appropriate in the context of its relationship with other ISAs, and whether doing so could weaken the linkages with the ISAs. For example, the Board noted that there are ISAs other than ISA 315 (Revised 2019)²⁹ and ISA 330 that deal with the performance of audit procedures to obtain sufficient appropriate evidence.
- Noted that clarifying the objective and scope is not a priority.

One Board member asked whether a change in the objective will still be aligned with the IAASB's International Framework for Assurance Engagements.

The Board supported the proposal to further clarify and enhance the relationship of ISA 500 with other ISAs in the application material, including enhancements to the application material to explain the role of professional skepticism when making judgments about information to be used as audit evidence. In clarifying the relationship of ISA 500 with other standards, the Board asked the AETF to specifically consider linkages with:

- ISA 220 (Revised), including the different types of biases that may affect the engagement team's professional judgments, and possible actions the auditor can take to mitigate impediments to the exercise of professional skepticism at the engagement level.
- ISA 315 (Revised 2019), including that risks of material misstatement at the assertion level are assessed in order to determine the nature, timing and extent of further audit procedures necessary to obtain sufficient appropriate audit evidence.

The Concept and Evaluation of Sufficient Appropriate Audit Evidence

The Board supported the proposal to introduce the concept of persuasive audit evidence in ISA 500. However, the Board questioned whether the proposal to define persuasiveness of audit evidence is practicable, noting that the concept is intended to address the combination of the sufficiency and appropriateness of audit evidence and that there is a spectrum of persuasiveness.

The Board also supported introducing factors in relation to, or attributes of, information that may be considered by the auditor when making judgments about information to be used as audit evidence. However, the Board cautioned that the factors and attributes may have unintended consequences and create an unnecessary burden. For example, auditors may use the list as a checklist, or interpret that all of the factors need to be considered for all information to be used as audit evidence.

²⁸ ISA 330, *The Auditor's Responses to Assessed Risks*

²⁹ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

In addition, the Board asked the AETF to further consider:

- The definition of audit evidence.
- Whether the category of “auditor generated information” is necessary and appropriate, given that the initial source of such information is either an “internal information source” or an “information source external to the entity.”
- The proposed work effort (i.e., “evaluate” or “consider”) in relation to the evaluation of information to be used as audit evidence, given that the work effort may vary based on the particular circumstances, in particular between internal and external information sources (i.e., there may be a ‘spectrum of work effort’).
- Simplifying the proposed factors and attributes, and:
 - Combining terms that overlap (e.g., the term “credibility” may be combined with other terms);
 - Using terms that auditors are familiar with;
 - Providing guidance for circumstances when the consideration of an attribute or factor may not be practicable (such as the accuracy of information from sources external to the entity); and
 - Clarifying the meaning of the term bias, including whether it includes both intentional and unintentional bias.
- The proposal to enhance application material on the auditor’s consideration of the “authenticity” of audit evidence in ISA 500, given that this concept is addressed in ISA 240.³⁰ In considering the linkages of ISA 500 with ISA 240 more broadly, the Board encouraged the AETF to consider the work of the recent Consultation Paper and Impact Assessment of the Financial Reporting Council, in relation to proposed ISA (UK) 240 (Revised 2020).³¹

Professional Skepticism

The Board broadly supported the proposals of the AETF to emphasize the need for the auditor to exercise professional skepticism in making judgments about information to be used as audit evidence.

The Distinction Between Sources of Information in ISA 500

The Board expressed caution about no longer distinguishing between “information produced by the entity” and “information sources external to the entity.” In particular, the Board suggested that the application material may still need to distinguish between the different sources of information.

The Board supported the proposal to enhance the application material to clarify the scope of ISA 500 in circumstances where the auditor is unable to gain access to the source of information to be used as audit evidence.

³⁰ ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

³¹ Proposed International Standard on Auditing (ISA) (UK) 240 (Updated January 2020), *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

Using Information for Different Types of Audit Procedures

The Board provided the following comments on the required work effort when considering the relevance and reliability of information to be used as audit evidence, as it relates to different types of audit procedures:

- The documentation burden that could arise, given the work effort and factors that need to be considered by the auditor.
- There may be circumstances where the information will be used for different types of audit procedures.
- It may be more appropriate to emphasize the relative importance of the purpose of the audit procedure itself. For example, in relation to information used in performing risk assessment procedures, it may be helpful to include linkages to ISA 315 (Revised 2019) to highlight the required evaluation of whether the audit evidence obtained from risk assessment procedures provides an appropriate basis for the identification and assessment of risks of material misstatement.³²

WAY FORWARD

The AETF will progress changes to ISA 500 based on Board members' feedback. The AETF will bring further matters for discussion to the March 2021 meeting.

³² ISA 315 (Revised 2019), paragraph 35