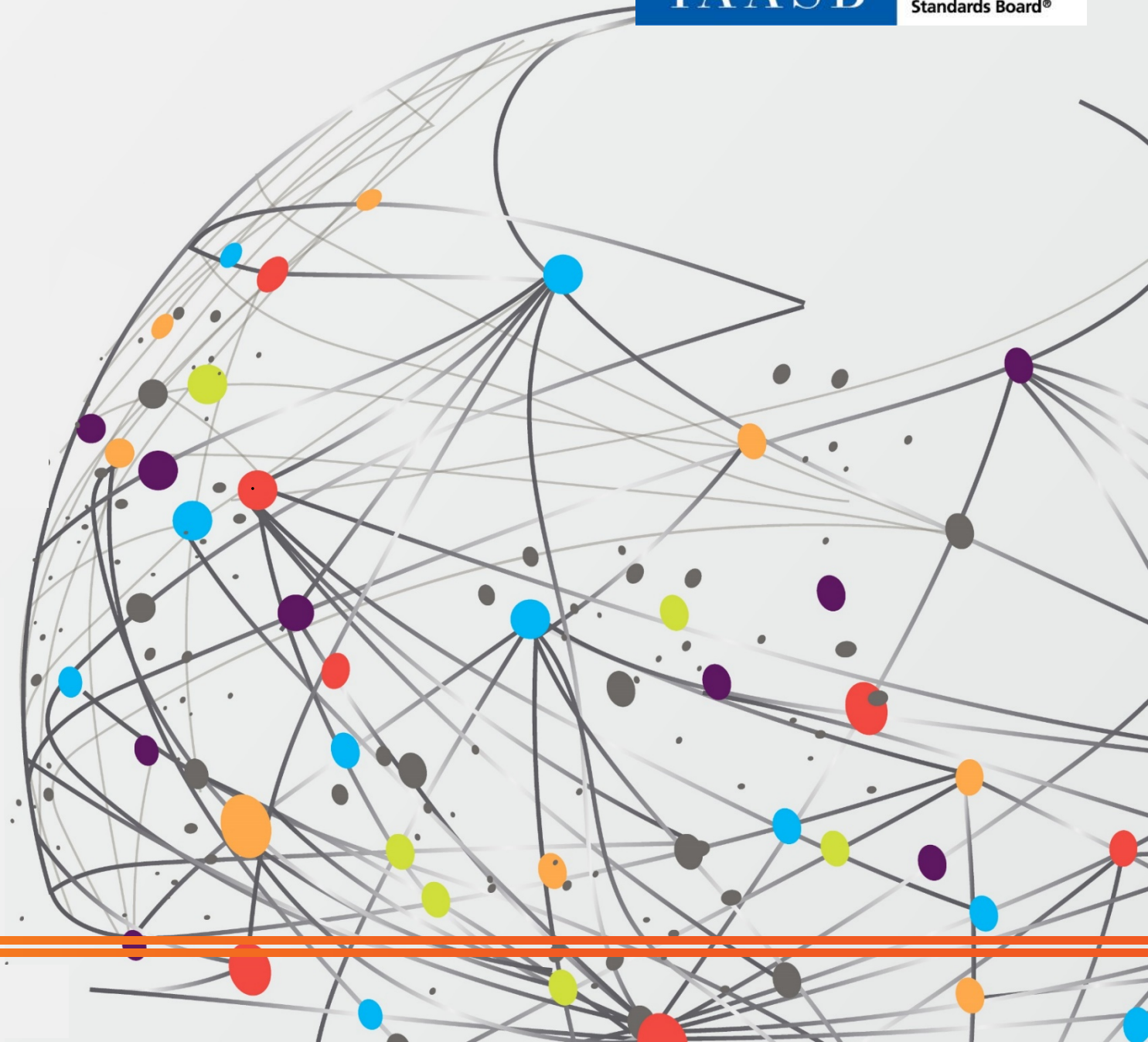


Audit Evidence

Agenda Item 2

IAASB Meeting

March 15, 2021



Last Board Discussion – December 2020

- Key issues and initial direction
 - Purpose and scope of standard
 - Concept and evaluation of sufficient appropriate audit evidence – including persuasiveness of audit evidence
 - Information to be used as audit evidence
 - Principles-based approach in considering relevance and reliability of information to be used as audit evidence – applicable to all information irrespective of its source
 - Sources of information
 - Varying degree of work effort in considering information to be used as audit evidence
- Approval of Project Proposal

March 2021 Audit Evidence Discussion

- **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

Ask of Board

**Views on the
proposed
concepts**

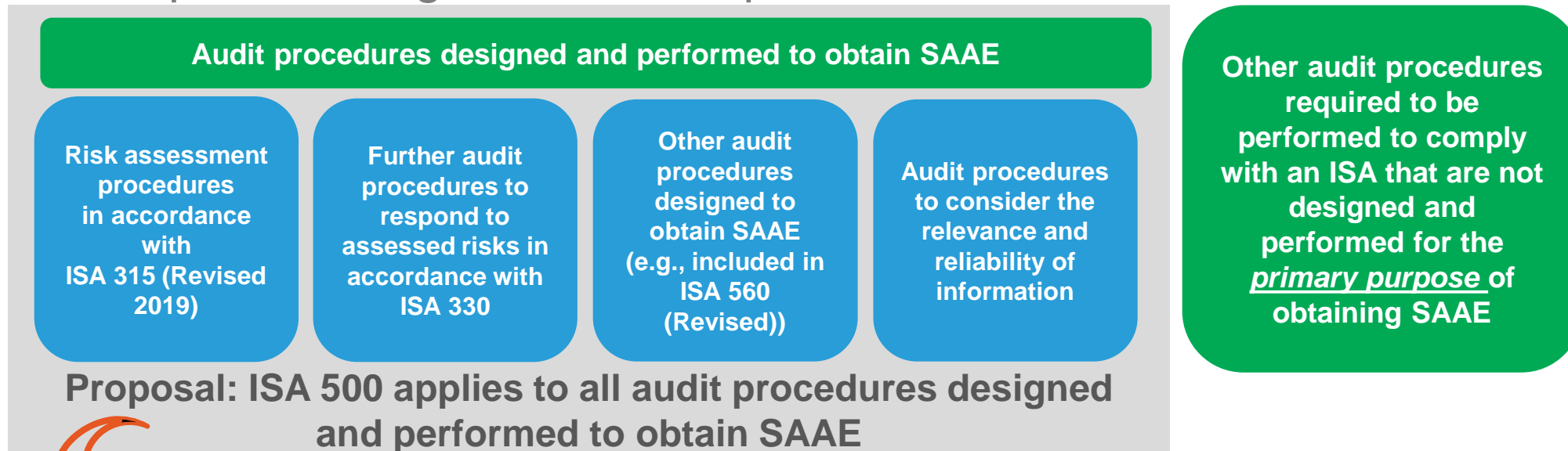
Agenda Papers			
Agenda Item 2	Issues Paper	Agenda Item 2–B	Visual Illustration (For Reference)
Agenda Item 2–A	Possible Application Material	Agenda Item 2–C	Extant ISA 500 renumbered (For Reference)

Definition of Audit Evidence and the Meaning of Audit Procedures

- Why does the definition of audit evidence need to be considered?
 - Stakeholder feedback – lack of clarity on meaning of “information used by the auditor”
 - Clarity needed given evolution in information: is all information audit evidence (i.e., its mere existence makes it audit evidence), or does information need to be subject to audit procedures to become audit evidence?
- Also leads to the following questions that affects the scope and content of ISA 500, and how it interrelates with other ISAs:
 - What are audit procedures? – E.g., are all audit procedures designed/performed to obtain audit evidence?
 - Are risk assessment procedures and further audit procedures the only procedures that are designed and performed to obtain audit evidence? Are there others?
 - Does ISA 500 apply only to those audit procedures that are designed/performed to obtain audit evidence? Or should it be broader and apply to all audit procedures?

Definition of Audit Evidence and the Meaning of Audit Procedures

Proposed categories of audit procedures across the ISAs



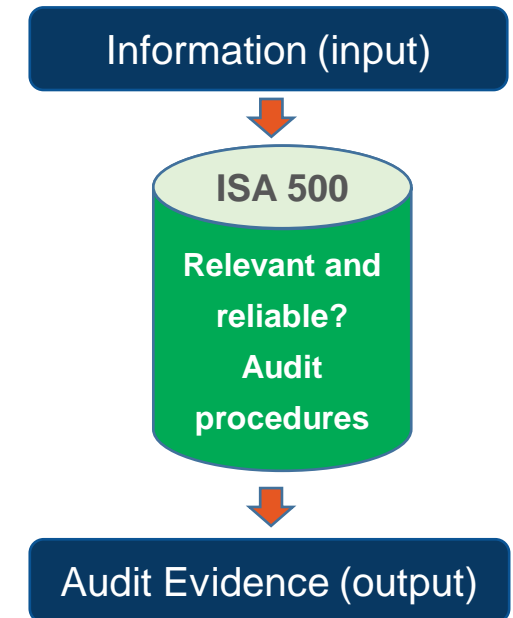
What does this mean?

The following requirements in ISA 500 only apply to these procedures

- Considering relevance and reliability of information that will be used in performing the procedures
- Considering whether audit procedures provide an appropriate basis for concluding on the sufficiency and appropriateness of audit evidence

Definition of Audit Evidence and the Meaning of Audit Procedures

- Definition of audit evidence – key proposals:
 - “Information **to be** used as audit evidence” is the input
 - Not all information to be used as audit evidence becomes audit evidence
 - New term proposed to add clarity: “information intended to be used as audit evidence”
 - “Information used by the auditor” is the output
 - Auditor has determined will use the information as audit evidence - it has been subject to audit procedures so that it becomes information that the auditor is able to use
 - Information needs to be subject to audit procedures to become audit evidence:
 - Therefore: Audit evidence is the output of the audit procedure



Definition of Audit Evidence and the Meaning of Audit Procedures

Proposed revised definition of audit evidence

~~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.~~

Definition of Audit Evidence and the Meaning of Audit Procedures

Question 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:

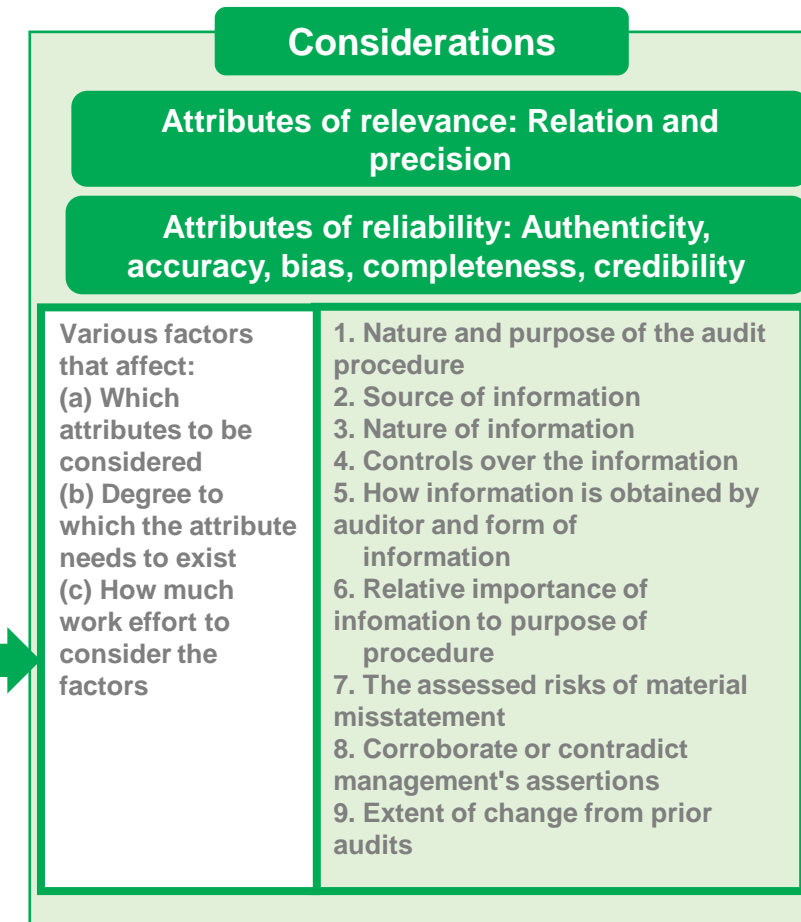
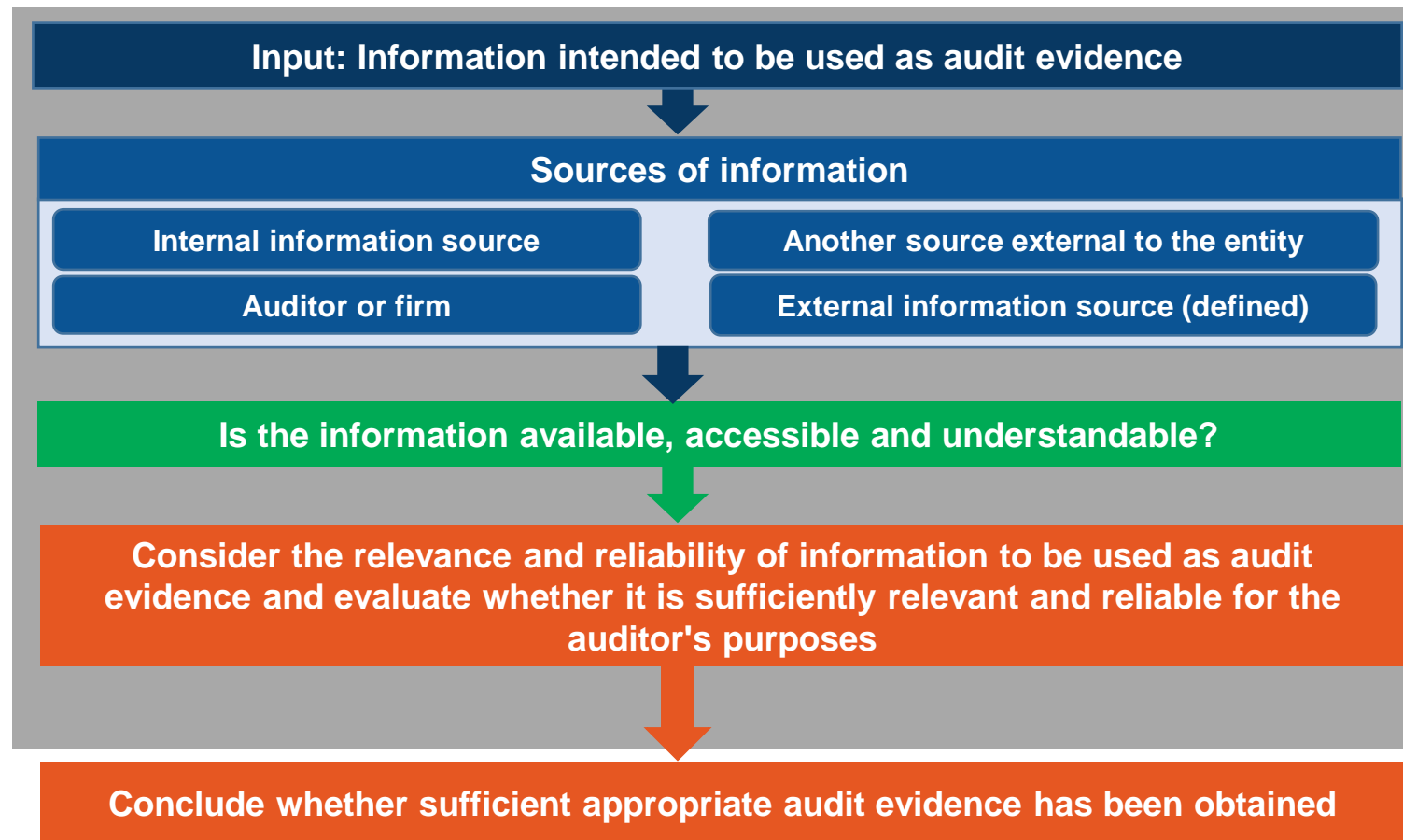
- (a) The meaning of audit procedures and the resulting categories of audit procedures across the ISAs (see paragraphs 12–19); and
- (b) That ISA 500 only deals with audit procedures designed and performed to obtain sufficient appropriate audit evidence (see paragraph 20).

Question 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 procedures (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).

Information Intended to be Used as Audit Evidence



Information Intended to be Used as Audit Evidence

- Proposed requirement for relevance and reliability of audit evidence

Extant ISA 500

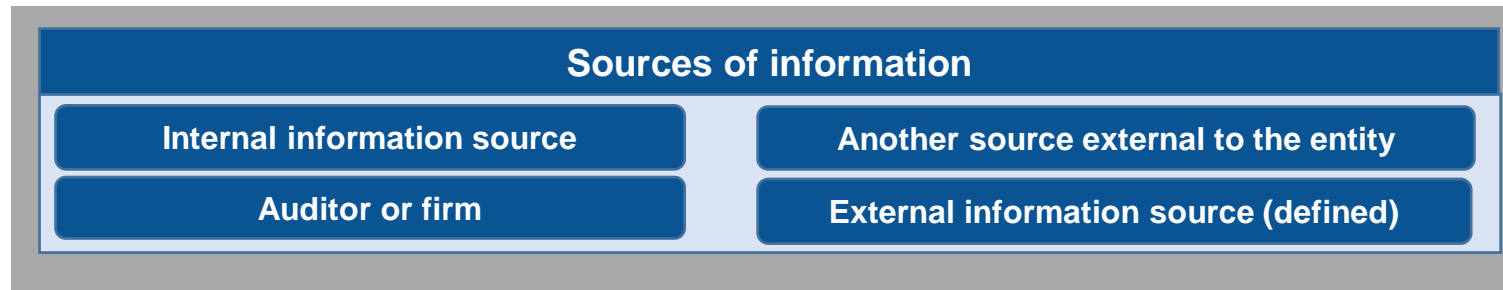
- Consider relevance/reliability for all information
- Evaluate whether information is sufficiently relevant/reliable only for IPE
- Specific focus on accuracy, completeness and precision

New proposal

- Consider relevance/reliability for all information
- Evaluate whether information is sufficiently relevant/reliable for all information
- Principles based (not focused on specific attributes)
 - Adds to robustness because refocuses on other important attributes
 - Adaptable to all information, irrespective of source

Information Intended to be Used as Audit Evidence

- Sources of information to intended to be used audit evidence
 - Important in considering relevance and reliability of information / determining work effort



- Needed to reconcile with definition of “external information source”
 - Internal information source includes information provided by source external to entity, in capacity of management expert / service organization (management still responsible)
 - Another source external to the entity includes auditor’s expert

Information Intended to be Used as Audit Evidence

- Application material
 - Availability, accessibility and understandability of information (consider before relevance / reliability)
 - Examples of attributes of relevance and reliability (discussed with Board in December)
 - Factors that affect
 - Which attributes apply
 - The degree to which the attributes need to apply
 - Extent of auditor's work effort in considering relevance and reliability
- *Also include examples to demonstrate how these factors affect the auditor's considerations*

Information Intended to be Used as Audit Evidence

Question 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.

Information Intended to be Used as Audit Evidence

Question 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).

Question 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.

Sufficient Appropriate Audit Evidence and the Persuasiveness of Audit Evidence

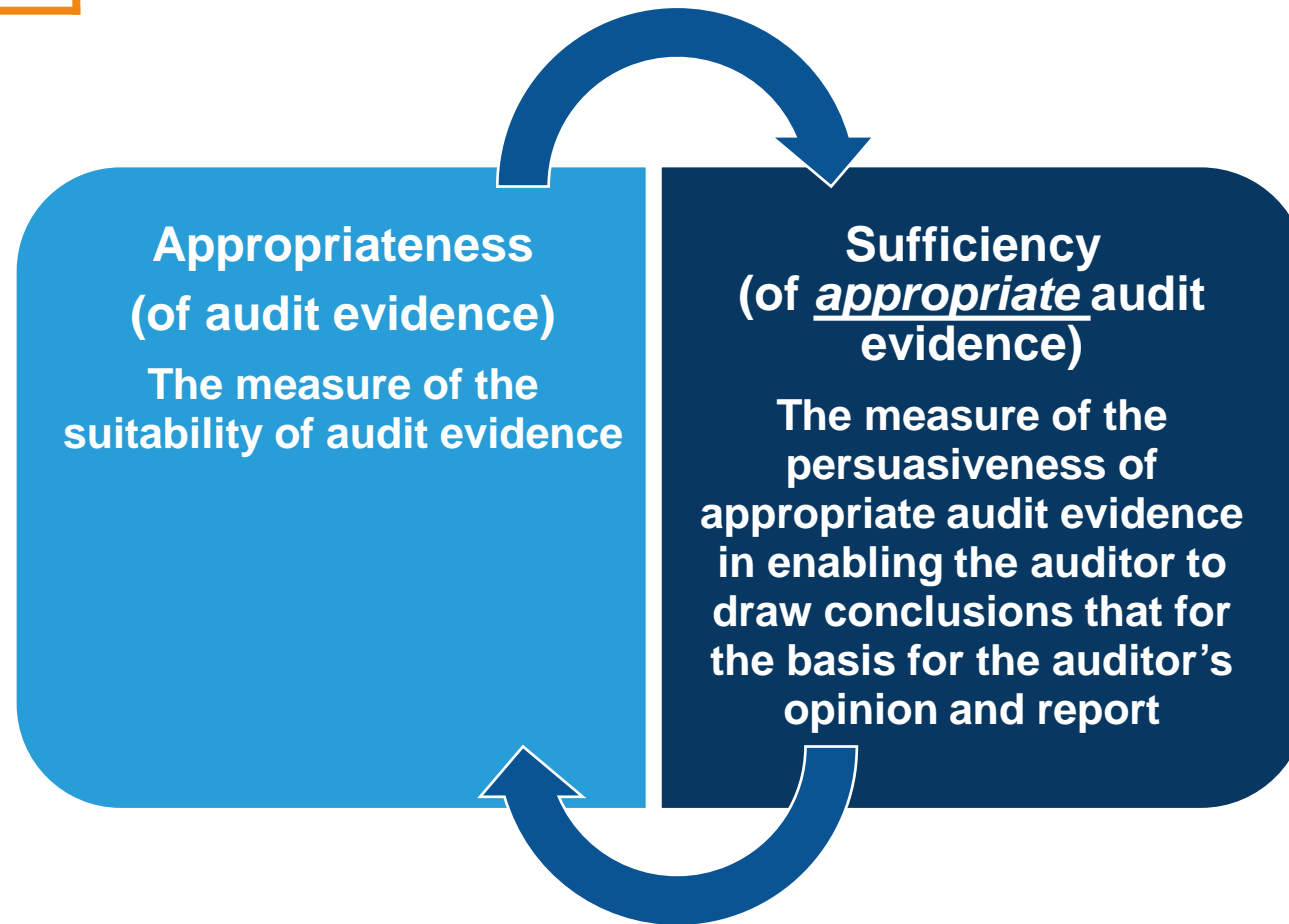
Factors that affect the sufficiency and appropriateness of audit evidence

Assessed risks of material misstatement and the results of audit procedures

Information to be used as audit evidence

Effectiveness of audit procedures and whether audit procedures have been appropriately applied

Sufficient Appropriate Audit Evidence and the Persuasiveness of Audit Evidence



Sufficient Appropriate Audit Evidence and the Persuasiveness of Audit Evidence

Question 6:

The Board is asked for their views on the initial thoughts and recommendations of the AETF relating to:

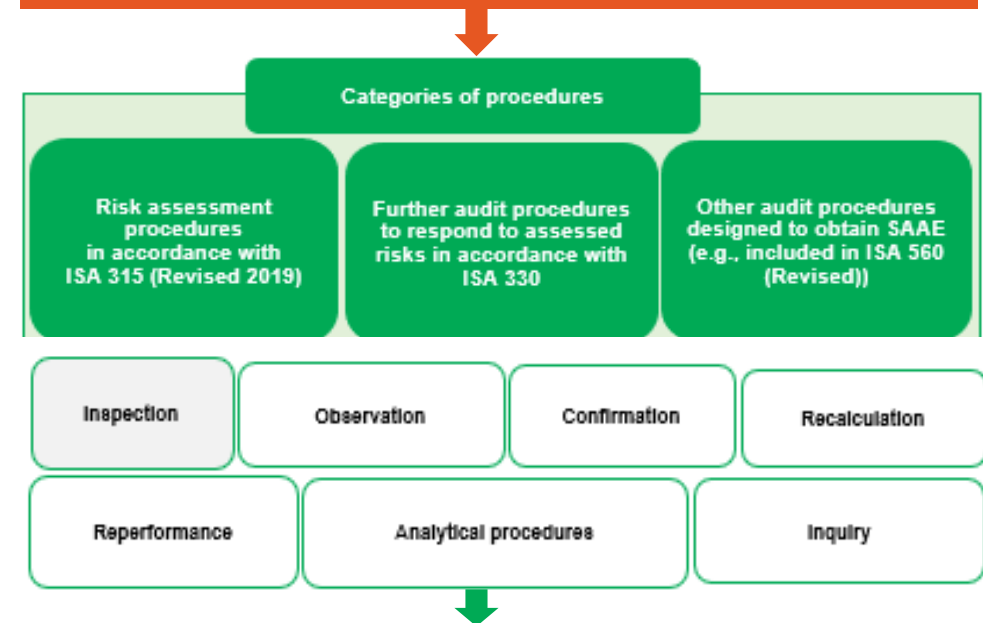
- (a) The three categories of factors affecting the auditor's considerations of whether sufficient appropriate audit evidence has been obtained (paragraphs 53 and 56–64);
- (b) The proposed revisions to the definition of appropriateness of audit evidence (paragraphs 66–68); and
- (c) The proposed revisions 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).

Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence

- Proposed requirement focused on whether audit procedures provide an appropriate basis for concluding on the sufficiency and appropriateness of audit evidence

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.

Other ISAs: Design and perform audit procedures for the purpose of obtaining sufficient appropriate audit evidence



Consider whether audit procedures provide an appropriate basis for concluding on the sufficiency and appropriateness of audit evidence

ISA 330: Conclude whether sufficient appropriate audit evidence has been obtained

Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence

- Proposals to modernize the descriptions of the types of audit procedures
 - Extant categories of types of procedures still appropriate
 - More emphasis that the types of procedures described are not exhaustive
 - Examples in application material demonstrate how automated tools and techniques (ATT) may be used in the context of the different types of audit procedures

Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence

Question 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.

Modernizing ISA 500 Through Incorporating Technology

- Updated terminology: from information in “electronic” form to information in “digital” form
- Examples that demonstrate how ISA 500 applies to technology
 - Information in digital form or client’s use of technology
 - Auditor’s use of ATT
 - Coordination with Technology Working Group (TWG)
 - Input on examples
 - Consideration of guidance by TWG
- Application material: example of how an automated tool and technique may be used in performing a risk assessment procedure and a further audit procedure

Modernizing ISA 500 Through Incorporating Technology

Question 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?

Question 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?



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