

# Audit Evidence

## Agenda Item 1

IAASB Meeting

July 20, 2021



# Highlights of March 2021 Board Discussion

- Audit evidence model – input and output
- Meaning of audit procedures
- 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 intended to be used as audit evidence
- Sufficient appropriate audit evidence (SAAE), and three factors that affect SAAE
- Definitions of “appropriate audit evidence” and “sufficiency (of appropriate) audit evidence”

# July 2021 Discussion

- **Section B** – Relevance and reliability of information intended to be used as audit evidence
- **Section C** – Reinforcing the exercise of professional skepticism
- **Section D** – Purpose and scope of ISA 500 and the requirements that the standard should address
- **Section E** – Addressing the concept of detection risk in the requirements of ISA 500
- **Section F** – Proposed approach in presenting examples in ISA 500

**Ask of Board**  
**Views on the  
proposed  
concepts**

## Agenda Papers

Agenda Item 1	Issues Paper	Supplement 1 to Agenda Item 1	Analysis of ISAs that deal with core requirements to obtain SAAE (For Ref)
Agenda Item 1–A	Application Material in support of paragraph 7	Supplement 2 to Agenda Item 1	Visual Illustration (For Ref)

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

- What did we focus on since March 2021?
  - Simplifying the requirement into a single work effort
  - The verb to use in the requirement that reflects the appropriate work effort
    - “Consider” versus “Evaluate”
  - How to focus auditors on the applicable attributes of relevant and reliable information
    - Addressing attributes of completeness and accuracy

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

- Simplified requirement into one work effort to address relevance and reliability of information
  - “Consider” versus “evaluate”

**Consider:** To think carefully about (something), typically before making a decision. A more active<sup>4</sup> reflection by the auditor about a specific matter or relevant matters in the circumstances. Also known as “reflect upon.”

**Evaluate:** Identify and analyze the relevant issues, including performing further procedures as necessary, to come to a specific conclusion on a matter. “Evaluation,” by convention, is used only in relation to a range of matters, including evidence, the results of procedures and the effectiveness of management’s response to a risk.

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

- Identifying the applicable attributes to evaluate the relevance and reliability of information
  - Explored options to include completeness and accuracy proportionately in the requirements
  - Robust principles-based requirement that focuses on appropriate work effort
  - Enhanced application material

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

## Question 1:

The Board is asked for their views on the proposed principles-based requirement to evaluate whether **information intended to be used as audit evidence** is sufficiently relevant and reliable for the auditor's purposes, which would apply to all information for all audit procedures, including:

- (a) Whether the description for the work effort (i.e., “evaluate”) is appropriate?
- (b) Whether the Board supports the proposed approach to the application material to address the applicable attributes, and emphasize the attributes of “accuracy” and “completeness”?

# Reinforcing the Exercise of Professional Skepticism

- Background – Professional skepticism with respect to Audit Evidence
  - Part of Audit Evidence project
  - Relevant previous Board discussions on professional skepticism (March 2018)

# Reinforcing the Exercise of Professional Skepticism

- Outcome of previous Board discussions
  - Agreement about the meaning of the terms “inconsistent” and “contradictory”



- Broad range of views about the use of the terms – no clear path forward
- Between 2017–2019, requirements were added using “corroborative” and “contradictory”
  - ISA 540 (Revised)
  - ISA 315 (Revised 2019)

# Reinforcing the Exercise of Professional Skepticism

- AETF's proposal – case-by-case approach
- Guidelines for drafting:

## Corroborative and contradictory

Used in relation to management assertions, in context of designing and performing audit procedures

## Consistent and inconsistent

Used in relation to audit evidence and information, and in context when auditor is evaluating audit evidence or information to be used as audit evidence

NB consistent/inconsistent *with what*

# Reinforcing the Exercise of Professional Skepticism

- AETF's proposals address **four** requirements to reinforce the exercise of professional skepticism relating to audit evidence
- Proposed requirement to avoid auditor bias when designing and performing audit procedures

## Requirement 1 of 4

**The auditor shall design and perform audit procedures in a manner that does not result in audit evidence that is biased towards corroborating the assertions in the financial statements or towards contradicting the assertions in the financial statements**

- Application material to drive intended behaviors

# Reinforcing the Exercise of Professional Skepticism

- Proposed revisions to the requirement when there are doubts about the reliability of information intended to be used as audit evidence
  - Based on paragraph 11(b) of extant ISA 500
  - Proposal to also encourage auditors to seek alternative sources when needed, including external sources

## Requirement 2 of 4

**If information intended to be used as audit evidence is not sufficiently relevant and reliable for the auditor's purposes, the auditor shall:**

- (a) Determine what modifications or additions to audit procedures are necessary to resolve the matter, including attempting to obtain additional information that is sufficiently relevant and reliable for the auditor's purposes; and**
- (b) Consider the effect of the matter, if any, on other aspects of the audit**

# Reinforcing the Exercise of Professional Skepticism

- Proposed revisions to the requirement when information or audit evidence is inconsistent with other audit evidence
  - Expand to include information intended to be used as audit evidence
  - Application material to explain interrelationship of information that is relevant and reliable and degrees of inconsistencies between audit evidence or information

## Requirement 3 of 4

**If audit evidence or information intended to be used as audit evidence is inconsistent with other audit evidence the auditor shall:**

- (a) Determine what modifications or additions to audit procedures are necessary to resolve the matter;  
or**
- (b) Consider the effect of the matter, if any, on other aspects of the audit**

# Reinforcing the Exercise of Professional Skepticism

- Proposed requirement in ISA 500 to conclude whether SAAE has been obtained

## Requirement 4 of 4

**The auditor shall conclude whether sufficient appropriate audit evidence has been obtained. In forming an opinion, the auditor shall consider all relevant audit evidence, including audit evidence that is consistent or inconsistent with other audit evidence, or audit evidence that appears to corroborate or contradict the assertions in the financial statements**

# Reinforcing the Exercise of Professional Skepticism

## Question 2:

In the context of the terms “consistent and inconsistent” or “corroborate and contradict” the Board is asked for their views on:

- (a) The proposal to use a case-by-case approach in applying these terms, whereby the terms are considered in the context in which they are being used.
- (b) The proposal to develop guidelines for the contexts in which the terms are used, i.e.:
  - (i) The terms “corroborative and contradictory” are used in relation to management assertions, and in the context of when the auditor is designing and performing audit procedures; and
  - (ii) The terms “inconsistent and consistent” are used in relation to audit evidence and information, and in the context of when the auditor is evaluating audit evidence or information to be used as audit evidence.

# Reinforcing the Exercise of Professional Skepticism

## Question 3:

The Board is asked for their views on the following proposed requirements that address professional skepticism in relation to audit evidence:

- (a) A requirement in ISA 500, which applies to all audit procedures, to design and perform audit procedures in a manner that does not result in audit evidence that is biased towards corroborating the assertions in the financial statements, or towards contradicting the assertions in the financial statements. The Board is also asked for views on the proposed approach to developing application material for this requirement (see paragraphs 46–54).
- (b) Responding when information intended to be used as audit evidence is not sufficiently relevant and reliable for the auditor's purposes (see paragraphs 56–58).
- (c) Responding when audit evidence or information intended to be used as audit evidence is inconsistent with other audit evidence (see paragraphs 59–62).
- (d) Concluding whether sufficient appropriate audit evidence has been obtained, and in forming an opinion, considering all relevant audit evidence, including audit evidence that is consistent or inconsistent with other audit evidence, or that appears to corroborate or contradict the assertions in the financial statements. In this regard, the Board is asked for their views whether this requirement should be added to ISA 500 (see paragraphs 63–66).

## Purpose and Scope of ISA 500, and the Requirements that the Standard Should Address

- December 2020 Board discussions
  - Mixed views about whether clarity is needed regarding purpose and scope
  - Questioned whether a change in focus or objective may weaken the linkages with other ISAs
- AETF's approach
  - Understand the core requirements that need to exist across the ISAs that address obtaining SAAE
  - To what extent do the ISAs, including extant ISA 500, currently deal with these core requirements and do they continue to be appropriately located?
  - How do the AETF's proposals regarding the location of the core requirements impact the objective of ISA 500 and the other requirements in ISA 500?

# Purpose and Scope of ISA 500, and the Requirements that the Standard Should Address

- Identification of core requirements – paragraph 77 of Issues paper

#	Core Requirements
1.	The auditor shall plan and perform an audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated.
2.	The auditor shall exercise professional judgment in planning and performing an audit of financial statements.
3.	To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.
4.	<p>(a) <b>The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.</b></p> <p>(b) The auditor shall design and perform audit procedures in a manner that does not result in audit evidence that is biased towards corroborating the assertions in the financial statements or towards contradicting the assertions in the financial statements.</p>
5.	The auditor shall evaluate whether the information intended to be used as audit evidence is sufficiently relevant and reliable for the auditor's purposes.
6.	<p>If information intended to be used as audit evidence is not sufficiently relevant and reliable for the auditor's purposes, the auditor shall:</p> <p>(a) Determine what modifications or additions to audit procedures are necessary to resolve the matter, including attempting to obtain additional information that is sufficiently relevant and reliable for the auditor's purposes; and</p> <p>(b) Consider the effect of the matter, if any, on other aspects of the audit.</p>
7.	<p>If audit evidence or information intended to be used as audit evidence is inconsistent with other audit evidence, the auditor shall:</p> <p>(i) Determine what modifications or additions to audit procedures are necessary to resolve the matter, or</p> <p>(ii) Consider the effect of the matter, if any, on other aspects of the audit.</p>
8.	<p>Concluding on sufficient appropriate audit evidence</p> <p>(a) <b>The auditor shall conclude whether sufficient appropriate audit evidence has been obtained to draw reasonable conclusions on which to base the auditor's opinion. In forming an opinion, the auditor shall consider all relevant audit evidence, including audit evidence that is consistent or inconsistent with other audit evidence, or audit evidence that appears to corroborate or contradict the assertions in the financial statements.</b></p> <p>(b) In forming an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion shall take into account the auditor's conclusion, in accordance with ISA 330, whether sufficient appropriate audit evidence has been obtained</p>

## Purpose and Scope of ISA 500, and the Requirements that the Standard Should Address

**Core requirement 4(a) is paragraph 6 of extant ISA 500**

- Core requirements 4(a) and 4(b)

- (a) The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence**
- (b) The auditor shall design and perform the audit procedures in a manner that does not result in audit evidence that is biased towards corroborating the assertions in the financial statements or towards contradicting the assertions in the financial statements**

- Location of core requirement 4(a) – proposal to retain in ISA 500
- Core requirement 4(b) – proposed new requirement in ISA 500

## Purpose and Scope of ISA 500, and the Requirements that the Standard Should Address

Core requirement 8(a) is based on paragraph 26 of extant ISA 330

- Core requirement 8(a)

**The auditor shall conclude whether sufficient appropriate audit evidence has been obtained to draw reasonable conclusions on which to base the auditor's opinion. In forming an opinion, the auditor shall consider all relevant audit evidence, including audit evidence that is consistent or inconsistent with other audit evidence, or audit evidence that appears to corroborate or contradict the assertions in the financial statements**

- Location of core requirement 8(a) – proposal to incorporate in ISA 500

## Purpose and Scope of ISA 500, and the Requirements that the Standard Should Address

- Location of core requirements has a significant impact in progressing ISA 500
- Issues paper includes proposals about the location of other requirements in ISA 500
  - Paragraph 8 clarified and remain in ISA 500
  - Paragraph 10 relocated to ISA 330

## Purpose and Scope of ISA 500, and the Requirements that the Standard Should Address

### Question 4:

The Board is asked to share their views on the location of the core requirements, in particular whether the Board supports the following proposals:

- (a) Retaining paragraph 6 of ISA 500 in its current form in ISA 500 (see paragraph 84).
- (b) Building on paragraph 6 of ISA 500 to also require the auditor to design and perform audit procedures in a manner that does not result in audit evidence that is biased towards corroborating the assertions in the financial statements or towards contradicting the assertions in the financial statements (see paragraph 85).
- (c) Including a new requirement in ISA 500 addressing the evaluation of whether sufficient appropriate audit evidence has been obtained to draw reasonable conclusions on which to base the auditor's opinion, so that ISA 500 provides a complete reference framework for the auditor when making judgments in relation to audit evidence (see paragraphs 87–91).

### Question 5:

Does the Board agree with the proposed location of paragraphs 8 and 10 of extant ISA 500 (see paragraphs 92–95)?

# Addressing the Concept of Detection Risk in the Requirements of ISA 500

- Previous Board discussions
  - March 2021 Audit Evidence Issues paper proposed a new requirement in ISA 500

**The auditor shall consider whether the audit procedures provide an appropriate basis for concluding on the sufficiency and appropriateness of audit evidence**

- Requirement was not discussed in March 2021
- AETF's July 2021 revised proposal
  - Retain paragraph 6 of extant ISA 500
  - No additional requirement in ISA 500 for detection risk
  - Explore in application material

## Addressing the Concept of Detection Risk in the Requirements of ISA 500

### Question 6:

Does the Board agree with the view of the AETF not to include an additional requirement in ISA 500 to consider whether the audit procedures provide an appropriate basis for concluding on the sufficiency and appropriateness of audit evidence?

## Proposed Approach in Presenting Examples to Support the Application of Principles and Concepts of the Requirements in ISA 500

- Preliminary approach in presenting examples
  - Examples essential to understanding a concept presented in ISA 500 – included in the body of application material
  - An Appendix may be used where examples may be distracting or overwhelming in the body of the application material
  - Developing a non-authoritative publication in parallel with ISA 500 when there is a need to be more descriptive or the example may easily become redundant or outdated

## Proposed Approach in Presenting Examples to Support the Application of Principles and Concepts of the Requirements in ISA 500

### **Question 7:**

The Board is asked for their views on the proposed approach to developing and presenting examples.

## Proposed Approach in Presenting Examples to Support the Application of Principles and Concepts of the Requirements in ISA 500

- Way forward
  - Presenting a full draft of proposed ISA 500 (Revised) in March 2022
  - Matters to address include
    - Introductory material – relationship and linkages with other ISAs
    - Application material in relation to auditor bias and professional skepticism
    - Auditor’s responsibility related to authenticity of information to be used as audit evidence – based on feedback to IAASB’s Discussion Paper on fraud and going concern
    - Conforming and consequential amendments
    - Continue coordination efforts, including with PSWG, TWG and the IESBA

**In developing the first full draft the AETF will continue monitor the development of the CUSP Drafting Guidelines**

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