

## Audit Evidence – Issues

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:<sup>1</sup>

**Section B:** Relevance and reliability of information intended to be used as audit evidence;

**Section C:** Reinforcing the exercise of professional skepticism with respect to audit evidence;

**Section D:** The 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; and

**Section F:** Proposed approach in presenting examples to support the application of principles and concepts of the requirements in ISA 500.

**Section A** provides background and general information, and **Section G** presents the way forward.

The AETF will use the feedback from the Board in preparing a full draft of proposed ISA 500 (Revised) (herein after referred to as "ISA 500," as appropriate to the context) to be presented to the Board in March 2022.

### Navigation of the Paper:

- An important objective of this paper is to identify and discuss the key requirements that ISA 500 should address in obtaining and evaluating sufficient appropriate audit evidence. This discussion is addressed in **Section D**.
- **Section B** and **Section C** discuss foundational concepts that build up to the requirements that are identified and discussed in **Section D**. The AETF recommends fully reading **Sections B, C and D** together, before considering the questions in each Section.

## Section A: Introduction

### Previous Board Discussions

1. At the December 2020 IAASB meeting, the Board provided direction on the initial views of the AETF related to the:
  - (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.

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<sup>1</sup> ISA 500, *Audit Evidence*

2. At the March 2021 IAASB meeting, the Board discussed:
- (a) The definition of audit evidence and the meaning of audit procedures;
  - (b) Information intended to be used as audit evidence, including how to address the relevance and reliability of such information in ISA 500; and
  - (c) The definitions of sufficiency of audit evidence and appropriateness of audit evidence, factors that influence sufficient appropriate audit evidence, and the concept of persuasiveness of audit evidence.
- The following items were also included in **Agenda Item 2** of the March 2021 IAASB meeting, but not discussed in plenary by the Board (offline comments were submitted by some Board members):
- (a) The concept of detection risk and designing and performing audit procedures to obtain sufficient appropriate audit evidence.
  - (b) Modernizing ISA 500 through incorporating technology.
3. The approved minutes of the March 2021 IAASB meeting, presented in **Appendix 2**, provide further explanation about the proposals that were discussed at the meeting, including the Board's views on such proposals.

#### The AETF's Proposals Outlined in this Paper and Accompanying Papers

Papers Provided to the Board:	
Agenda Item 1	Issues Paper
Agenda Item 1–A	Illustrative drafting reflecting the requirement to evaluate the relevance and reliability of information intended to be used as audit evidence, and related application material (discussed in <b>Section B</b> of this paper).
Supplement 1 (For reference)	Analysis of the extent to which the ISAs, including extant ISA 500, currently deal with the core requirements that address obtaining sufficient appropriate audit evidence (discussed in <b>Section D</b> of this paper).
Supplement 2 (For reference)	Visual illustration of the core requirements related to audit evidence and the interrelationship of the core requirements (discussed in <b>Section D</b> of this paper).

4. The AETF notes the recent updates to the IAASB's forward agenda<sup>2</sup> that has resulted in changes to the timeline of the audit evidence project. Following the discussion in July 2021, audit evidence will not be discussed again by the Board until March 2022 when the first full draft of the proposed revised standard will be presented. Given the time lapse between July 2021 and March 2022, the AETF is seeking clear direction on the issues and related matters for Board consideration in Sections B to F of this Agenda Item to be able to progress its work in the intervening period:

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<sup>2</sup> [IAASB Revised Detailed Work Plan Table for 2020 – 2021 \(May 2021\)](#)

5. In particular, the Board's views about the purpose and scope of ISA 500 are critical to progressing this project since it directly affects which requirements are located in ISA 500, versus being located in other ISAs. This has a fundamental impact on the structure of ISA 500 and the organization of the material. It also affects the relationship between ISA 500 and the other ISAs, and how these relationships will be explained in ISA 500.
6. In order to demonstrate how key 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 of requirements, including new requirements or changes to extant requirements are presented as part of the discussions in this Issues Paper, in mark-up, as applicable.
  - (b) Illustrative drafting of application material that supports the discussion in **Section B** of this paper is reflected in **Agenda Item 1-A**. The application material does not include all application material that would be included in ISA 500, and has been provided for purposes of soliciting directional feedback from the Board.
7. The AETF is not seeking to discuss the drafting included in **Agenda Item 1-A**. Instead, the Board is asked to provide input on the concepts as outlined in this Issues Paper. Should the Board have specific suggestions on the drafting provided in **Agenda Item 1-A**, the AETF welcomes such input and requests the Board to provide drafting suggestions offline to IAASB Staff by July 26, 2021, if possible.
8. The AETF plans to consider the drafting principles and guidelines proposed by the IAASB's Complexity, Understandability, Scalability and Proportionality (CUSP) Working Group ("the CUSP Guidelines") in developing the draft of proposed ISA 500 (Revised) that will be presented in March 2022.

#### References to Extant ISA 500 in this Paper

9. A fully updated version of extant ISA 500 was provided to the Board in March 2021 that reflects all conforming and consequential amendments to extant ISA 500 from recent projects (see [Agenda Item 2-C \(For Reference\)](#) as presented in March 2021). All references to extant ISA 500 in this document refer to this fully updated version of extant ISA 500.

#### Appendices

10. This paper has the following appendices:
  - (a) Appendix 1 – Task Force members and activities, including outreach.
  - (b) Appendix 2 – Extract from the approved March 2021 IAASB meeting minutes.

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

#### Previous Board Discussions

11. In March 2021, the AETF proposed a 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 intended to be used as audit evidence. The requirement would replace paragraphs 7 and 9 of extant ISA 500.

12. Although broadly supportive of a principles-based requirement, the Board expressed mixed views about the clarity and robustness of the proposed requirement. Suggestions included:
  - (a) Retaining the requirement about obtaining evidence about the accuracy and completeness of information intended to be used as audit evidence, which could be a conditional requirement;
  - (b) Clarifying or explaining the auditor's required work effort; and
  - (c) Simplifying the proposed requirement, as the March 2021 drafting implied a two-step process.
13. The Board encouraged the AETF to:
  - (a) Further emphasize that the attributes that may be considered by the auditor relating to relevance and reliability, respectively, are not intended to be used as a checklist;
  - (b) Address the risk of auditor bias when considering the attributes, particularly when the information has been generated through technology; and
  - (c) Include more examples to demonstrate that in some cases the consideration of the relevance and reliability of information intended to be used as audit evidence may be performed concurrently with the actual audit procedure applied to the information when obtaining such audit evidence.

#### **AETF's Views**

##### *The Auditor's Work Effort in Addressing the Relevance and Reliability of Information to be Used as Audit Evidence*

14. In March 2021, the AETF proposed a requirement that appeared to have two discrete steps in addressing the relevance and reliability of information to be used as audit evidence, which arose as a result of combining paragraphs 7 and 9 of extant ISA 500. The requirement used two different verbs that described the auditor's work effort ("consider" and "evaluate"). The AETF agrees with the Board's view that the proposed requirement should be simplified, which would result in a single verb being used to describe the auditor's work effort as follows (marked from the requirement presented in March 2021):

The auditor shall [a single verb such as "consider" or "evaluate", see discussion below] whether the ~~relevance and reliability~~ of information intended to be used as audit evidence. ~~In doing so, the auditor shall evaluate whether such information~~ is sufficiently relevant and reliable for the auditor's purposes.

15. Following the discussion with the Board in March 2021, the CUSP Working Group presented the CUSP Guidelines for the ISAs to the Board (see [Agenda Item 1-A Drafting Principles and Guidelines](#) of the April 2021 IAASB meeting). The proposals included a description of commonly used verbs in the ISAs and explained the possible work effort associated with the verbs and possible

documentation implications.<sup>3</sup> The AETF noted the Board's support for the proposals of the CUSP Working Group, and the Board's encouragement to further reduce the number of verbs used in future ISAs. The description of the work effort associated with the verbs in the CUSP Guidelines for the verbs "consider" and "evaluate" are as follows, as presented to the Board in April 2021:

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.

16. The AETF considered the CUSP Working Group's interpretation of the work effort associated with the verbs, and the related documentation implications, in the context of the extant requirements in ISA 500 addressing the relevance and reliability of information to be used as audit evidence. The AETF is of the view that the use of the terms "consider" in paragraph 7 and "evaluate" in paragraph 9 of extant ISA 500 are consistent with the intended meaning of these verbs as described in the CUSP Guidelines.
17. The AETF considered which verb would be most appropriate to use in the new principles-based requirement that addresses the relevance and reliability of all information to be used as audit evidence. With respect to whether the verb "evaluate" or "consider" should be used, the AETF noted the following:
  - (a) The term "evaluate" is used in paragraph 9 of extant ISA 500 to describe the auditor's work effort for addressing the relevance and reliability of *information produced by the entity*. Changing the work effort to "consider" would result in the requirement being less robust with regards to *information produced by the entity*.
  - (b) As per the CUSP Guidelines, the description of the work effort associated with the term "evaluate" refers to "analyze." This may be interpreted that the auditor has to analyze each attribute of relevant and reliable information (i.e., the term "evaluate" may drive a checklist approach, as opposed to when using the term "consider"). The AETF noted the Board's views in March 2021 that the attributes of relevant and reliable information should not be used as a checklist.

<sup>3</sup> Based on the current version of the IAASB's forward agenda, the intention of the CUSP Working Group is to provide an updated version of the CUSP Guidelines to the Board in early 2022. The CUSP Working Group plans to finalize the CUSP Guidelines before, or soon after, the comment period for the Exposure Draft on the ISA for Audits of Financial Statements of Less Complex Entities closes.

<sup>4</sup> Represents a more active reflection in comparison to the work effort implied by other commonly used verbs, included in **Appendix 2** of the CUSP Guidelines.

- (c) As also described in the CUSP Guidelines, an evaluation includes “performing further procedures as necessary, to come to a specific conclusion on a matter.” In this regard:
- (i) A key difference between “evaluate” and other verbs, such as “consider,” “remain alert” and “take into account,” is the need to come to a conclusion. The AETF is of the view that the auditor needs to *conclude* whether the information is sufficiently relevant and reliable for the auditor’s purposes, and therefore whether the auditor will use the information.
  - (ii) The reference to “performing further procedures as necessary” in “evaluate” is an important concept, because it is driving a more active approach whereby the auditor does enough work with respect to establishing whether the information is relevant and reliable for the auditor’s purposes. In contrast, the term “consider” is described as an “active reflection” (i.e., “think carefully about (something), typically before making a decision.”) Therefore, the reference to “performing further audit procedures as necessary” is a key factor in differentiating “evaluate” from the verb “consider” in the CUSP Guidelines.
18. The AETF is of the view that the verb “evaluate” is the appropriate term in the circumstances because the work effort describes the need to perform enough work to establish that the information is relevant and reliable for the auditor’s purposes, and it would not be in the public interest to reduce the robustness of the current standard by using the term “consider.” The requirement in paragraph 7 of **Agenda Item 1-A** reflects the proposed requirement. Since the attributes of relevance and reliability are not intended to be used as a checklist, it is important that the auditor determines which attributes are applicable. Paragraphs 21–27 further address the AETF’s considerations relating to identifying the applicable attributes.
19. In evaluating the attributes, there is scalability in the work effort, because the work effort may vary based on a number of factors, including the purpose for which the information is used and the source of the information. In some circumstances, it may be evident that the information is sufficiently relevant and reliable for the auditor’s purposes without much work effort (e.g., verifying a prime-based interest rate on a loan, whereby the prime rate is established by a central bank of the jurisdiction). The scalability of work effort, and the factors that drive this, are described in the illustrative application material (see paragraphs A35b–A35f in **Agenda Item 1-A**).
20. Further enhancements to the application material, as presented in **Agenda Item 1–A**, since the March 2021 IAASB meeting include:
- (a) Clarifying in paragraph A35a that in evaluating whether information intended to be used as audit evidence is sufficiently relevant and reliable for the auditor’s purposes, the auditor exercises professional judgment in determining:
    - The nature and extent of the auditor’s procedures;
    - Which attributes are applicable; and
    - The degree to which the information needs to exhibit the applicable attributes.
  - (b) Additional examples in paragraph A35g to demonstrate that in some cases the consideration of the relevance and reliability of information intended to be used as audit evidence may be

performed concurrently with other audit procedures to obtain sufficient appropriate audit evidence.

*Applicable Attributes, Including Addressing the Completeness and Accuracy of Information Intended to be Used as Audit Evidence*

21. Paragraph 9 of extant ISA 500 requires the auditor to, as necessary in the circumstances, obtain audit evidence about the accuracy and completeness of the information.<sup>5</sup> This requirement only applies to information produced by the entity. Furthermore, this requirement is conditional because it only applies “as necessary in the circumstances.”
22. Given the Board’s feedback in March 2021, the AETF explored whether auditors should be required to consider the accuracy and completeness of information to be used as audit evidence, bearing in mind this would then need to *either* apply to:
  - (a) All information to be used as audit evidence (whether internally generated or from an external source); or
  - (b) Specific circumstances that are specified in the requirement in the standard.
23. The AETF is of the view that the attributes that may be applicable in the circumstances are affected by factors such as what the information will be used for and the source of the information. The AETF is further of the view that there may be circumstances when attributes other than accuracy and completeness more directly affect the relevance and reliability of information to be used as audit evidence. Therefore, it may not be necessary to consider whether information intended to be used as audit evidence is accurate and complete in all circumstances, and for all audit procedures, including risk assessment procedures. The revised requirement explained in paragraph 14 focuses the auditor on whether the information “is sufficiently relevant and reliable for the auditor’s purposes,” i.e., the purpose of the procedure is an important lens through which the applicable attributes need to be viewed.

**For example, in relation to an entity’s provision for warranties:**

- When the auditor performs risk assessment procedures to understand the nature of the entity’s provision for warranties, the existence of a long listing of returned goods within the guarantee period may be sufficient for risk assessment purposes (i.e., the completeness of the listing may not be important for the auditor’s purpose to identify and assess the risks of material misstatement).
- When the auditor designs and performs further audit procedures that are responsive to the assessed risks of material misstatement of the provision for warranties, the accuracy and the completeness of the listing of returned goods within the guarantee period may be more important in addressing the relevant assertions.

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<sup>5</sup> Paragraph 9 of extant ISA 500 also requires the auditor to, as necessary in the circumstances, evaluate “whether the information is sufficiently precise and detailed for the auditor’s purposes.” This part of the requirement addresses the relevance of audit evidence and has been captured by the AETF within the attribute of “precision,” i.e.: “The exactness or level of detail of the information for the purpose of the audit procedure.” See paragraph A31 of Agenda Item 1-A. This was also presented to the Board in March 2021 – see paragraph C6 of [20210315 IAASB Agenda 2-A Audit Evidence Possible Application Material](#)

24. The AETF further explored whether, and if so how, the requirement in ISA 500 may be enhanced to focus on identifying the applicable attributes that should be considered, including completeness and accuracy. The following summarizes the various options explored by the AETF:

<p><b><u>Option 1:</u></b></p> <p>Emphasize that the auditor needs to identify the applicable attributes affecting the relevance and reliability of the information, i.e.:</p> <p>“The auditor shall evaluate whether the information intended to be used as audit evidence is sufficiently relevant and reliable for the auditor’s purposes, <u>taking into account the extent to which the information exhibits the applicable attributes of relevance and reliability.</u>”</p>	
<b>Advantages:</b>	<b>Disadvantages:</b>
The requirement drives the auditor to identify which attributes need to be evaluated in the circumstances.	The requirement may be interpreted that all attributes need to be evaluated, which may create an onerous work effort and drive a checklist approach.
<p><b><u>Option 2:</u></b></p> <p>Add an explicit reference to “accuracy and completeness,” using the same qualifier as paragraph 9 of extant ISA 500, i.e.:</p> <p>“The auditor shall evaluate whether the information intended to be used as audit evidence is sufficiently relevant and reliable for the auditor’s purposes, <u>including, as necessary in the circumstances, whether the information is sufficiently accurate and complete.</u>”</p>	
<b>Advantages:</b>	<b>Disadvantages:</b>
The requirement drives the auditor to identify whether accuracy and completeness are applicable in the circumstances and, if so, to evaluate accuracy and completeness. The requirement therefore retains the robustness of the extant requirement, but now also drives the auditor to address accuracy and completeness in relation to all information, as necessary in the circumstances (i.e., it is not limited to information produced by the entity).	<ul style="list-style-type: none"> <li>• The requirement may be interpreted that accuracy and completeness need to be evaluated in every circumstance, and as described in paragraph 23, they may not be relevant in all cases.</li> <li>• The wording “as necessary in the circumstances” is not purely conditional as it does not specify when the conditions apply.</li> <li>• It focuses on accuracy and completeness and may distract auditors away from attributes that may be more important in the circumstances, such as bias.</li> <li>• There may be circumstances when it is not practicable to evaluate accuracy and completeness, particularly when information is obtained from an external source and the</li> </ul>



	auditor does not have access to the source. In such cases, focusing on the credibility of the source may be more appropriate.
<p><b><u>Option 3:</u></b></p> <p>Describe the factors that affect which attributes may be applicable, i.e.:</p> <p>“The auditor shall evaluate whether the information intended to be used as audit evidence is sufficiently relevant and reliable for the auditor’s purposes, taking into account factors that may affect the relevance and reliability of the information, including:</p> <ul style="list-style-type: none"> <li>• <u>The nature and purpose of the audit procedure.</u></li> <li>• <u>The source, nature and form of the information intended to be used as audit evidence.</u></li> <li>• <u>The controls over the preparation and maintenance of the information intended to be used as audit evidence.</u></li> <li>• <u>...</u>”</li> </ul>	
Advantages:	Disadvantages:
The requirement drives the auditor to recognize the relevant factors that affect which attributes are applicable.	<ul style="list-style-type: none"> <li>• The requirement may suggest that all the factors should always be taken into account, which will create an onerous work effort (including documentation) and drive a checklist approach.</li> <li>• There may be other factors not listed in the requirement that affect which attributes are applicable.</li> </ul>

25. Based on its analysis of the different options, the AETF is of the view that on balance the disadvantages of each option outweigh the intended advantages. Accordingly, the AETF is of the view that it is appropriate, and robust, to have a principles-based requirement that focuses on “evaluate” as being the appropriate work effort, but does not specifically call out particular attributes, so that the auditor is able to focus on the applicable attributes in the circumstances.

The auditor shall evaluate whether the information intended to be used as audit evidence is sufficiently relevant and reliable for the auditor’s purposes.

26. The AETF proposes supporting this requirement with application material that explains the following (see paragraphs A35a–A35e of **Agenda Item 1-A**):
- The auditor exercises professional judgment in determining which attributes are applicable;
  - The factors that may affect the auditor’s consideration of which attributes are applicable; and
  - The importance of accuracy and completeness in certain circumstances, as explained further below.

27. Noting the Board's suggestions in March 2021 to retain an emphasis on accuracy and completeness, the AETF proposes enhancing the application material to emphasize the importance of accuracy and completeness in certain circumstances. Accordingly, the following enhancements have been made to the application material, as reflected in **Agenda Item 1-A**:
- (a) Paragraph A30 is the first paragraph of the application material that describes the importance of the relevance and reliability of information intended to be used as audit evidence. Given that this paragraph sets the tone when evaluating relevance and reliability, the paragraph was enhanced to highlight the importance of accuracy and completeness.
  - (b) To emphasize its importance and prominence, “accuracy” and “completeness” were elevated to the top of the list of the reliability attributes, as presented in paragraph A35 of the application material.
  - (c) Paragraphs A35b–A35d explain that the determination of the applicable attributes may vary because the degree to which the information needs to be relevant and reliable, and the applicable attributes that the information needs to exhibit, depends on various factors, in particular the purpose for which the information will be used. The application material also presents an example in paragraph A35b to demonstrate this principle in relation to accuracy and completeness.

*Obtaining Information from External Sources – A Specific Matter Raised in March 2021*

28. In March 2021, the PIOB Observer noted the importance and value of external information, if available and accessible to the auditor, and suggested a requirement to consider external information sources that are available to the auditor. In deliberating the suggestion, the AETF recognized the value of external information but noted concern with a proposal to require auditors to seek external information in all circumstances, because:
- (a) The persuasiveness of audit evidence needed is driven by a number of factors (e.g., the assessed risk of material misstatement); and
  - (b) External information is not always more reliable than internal information (e.g., information on social media may not be reliable).
29. However, the AETF recognizes that in order to avoid auditor biases when designing and performing audit procedures (e.g., confirmation bias, availability bias or anchoring bias), the auditor may need to obtain external information. For example, ISA 220 (Revised)<sup>6</sup> explains that availability bias may occur when the auditor places more weight on events or experiences that immediately come to mind or are readily available than on those that are not. **Section C**, Reinforcing the exercise of professional skepticism with respect to audit evidence, paragraphs 46–54, explain the AETF's proposals in addressing auditor biases in ISA 500.
30. Furthermore, the AETF noted that although paragraph 11 of extant ISA 500 addresses doubts over the reliability of information to be used as audit evidence, it does not direct the auditor to seek additional information in such circumstances, including information from other sources (i.e., other internal or external information). Accordingly, the AETF is proposing amending paragraph 11 of ISA

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<sup>6</sup> ISA 220 (Revised), *Quality Management at the Engagement Level*, paragraph A36

500 to require the auditor to seek additional information if the auditor has doubts about the relevance and reliability of the information. **Section C**, paragraphs 55–62, explain the AETF’s proposed amendments to the extant requirement. .

31. The AETF plans to further develop the application material dealing with the sources of information, based on the proposals presented to the Board in March 2021 and taking into account the Board’s feedback on those proposals. The application material will likely also address the availability, accessibility and understandability of information to be used as audit evidence.

**Matters for Board Consideration:**

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 (see paragraph 26), and emphasize the attributes of “accuracy” and “completeness” (see paragraph 27)?

## **Section C: Reinforcing the Exercise of Professional Skepticism with Respect to Audit Evidence**

### **Professional Skepticism as Part of the Audit Evidence Project**

32. Reinforcing the exercise of professional skepticism throughout the audit is one of the public interest issues identified in the [IAASB's Audit Evidence Project Proposal](#). The Project Proposal explains that ISA 500 could more robustly address the need for exercising professional skepticism when making judgments about information to be used as audit evidence and whether sufficient appropriate audit evidence has been obtained. The Project Proposal also suggests addressing the following items as part of the audit evidence project:
- (a) Elaborating what the phrase “a critical assessment of evidence” in the definition of professional skepticism entails (e.g., by seeking to enhance ISA 500);
  - (b) Exploring whether, and if so, how, the material in ISA 220 (Revised) may be drawn upon in relation to the impediments to the appropriate exercise of professional skepticism, including actions to mitigate those impediments; and
  - (c) Exploring how ISA 500 can reinforce the role of professional skepticism when making judgments about information to be used as audit evidence, irrespective of the auditor’s use of manual procedures or automated tools and techniques.

### **Background of Previous Board Discussions on Professional Skepticism, to the Extent it Relates to Audit Evidence**

33. The issues related to professional skepticism, and actions the IAASB can take to strengthen professional skepticism throughout an audit, were explored as part of the IAASB’s [Invitation to Comment, Enhancing Audit Quality in the Public Interest](#) (ITC), which was issued in December 2015. As summarized to the

Board in the September 2016 IAASB meeting,<sup>7</sup> respondents to the ITC had mixed views about clarifying the concept of professional skepticism, including whether the definition of professional skepticism should be amended, and the need for additional requirements or application material. Respondents noted the current confirmatory framework, i.e., obtaining evidence to support management's assertions, and suggested that more could be done to lead auditors to seek evidence both supporting and disconfirming management's assertions. In summary, the most prevalent calls for action included:

- (a) Changing the starting point to a doubting mindset (sometimes referred to as “presumptive doubt”);
  - (b) Requiring auditors to actively seek out contradictory evidence; and
  - (c) Introducing a continuum of professional skepticism that increases commensurate with the assessed risks of material misstatement.
34. The IAASB's Professional Skepticism Working Group (PSWG) considered the feedback and over the course of 2017 and 2018 discussed a number of proposals with the Board including:
- (a) Exploring whether there is a continuum, or varying levels of professional skepticism (presented to the Board at the June 2017 IAASB meeting).<sup>8</sup> In this regard, the Board concluded that there are not varying levels of professional skepticism, largely because it would conflict with other concepts in the ISAs, including how the ISAs address responding to risks of material misstatement.
  - (b) Considering whether the definition of professional skepticism should be amended to change the “mindset” concept from an attitude of a “questioning mind” to one involving a more “challenging mind(set)” or “presumptive doubt” (presented to the Board at the December 2017 IAASB meeting).<sup>9</sup> In this regard, the Board concluded that the current concept of a “questioning mind” remains appropriate.
  - (c) A discussion on contradictory evidence, and how this could be addressed as part of the concept of professional skepticism (presented to the Board at the March 2018 IAASB meeting).<sup>10</sup> In this meeting, the Board discussed the meaning of the terms “inconsistent” and “contradictory” (see paragraphs 35–39 that explain this discussion further). Other outcomes of this Board discussion included the following:
    - (i) The ISAs should not require an auditor to seek contradictory or inconsistent evidence in all circumstances.
    - (ii) The auditor should not be biased to obtaining audit evidence from only corroborative sources, and the Board therefore encouraged exploring the idea that further sources of evidence be accessed when more persuasive evidence is needed.

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<sup>7</sup> Refer to: [20160919-IAASB Agenda Item 8-A Professional Skepticism Issues Paper](#)

<sup>8</sup> Refer to: [20170619-IAASB Agenda Item 9-A Professional Skepticism Issues Paper](#)

<sup>9</sup> Refer to: [20171211-IAASB Agenda Item 8 Professional Skepticism Issues Paper](#)

<sup>10</sup> Refer to: [20180312-IAASB Agenda Item 9 Professional Skepticism Issues Paper](#)

- (iii) Recognizing the important role of professional judgment when making decisions about when to seek evidence from other sources. The IAASB also discussed the work effort that should be applied when seeking such evidence, and how to deal with contradictory evidence.

*Use of the Terms Inconsistent Evidence and Contradictory Evidence*

35. As outlined above, the use of the terms inconsistent evidence and contradictory evidence was explored with the Board in March 2018. Agenda Item 9<sup>11</sup> of that meeting provided an explanation of the meaning of the terms and the PSWG's proposals on how they should be used. The following summarizes the Board discussion:

- (a) The Board agreed that there are different meanings to the terms “contradict” and “inconsistent”:
  - (i) “Contradict” means to maintain or assert the opposite, and therefore contradictory matters represent a situation where one matter is true, and the other one (being the opposite) is false. “Contradictory” is used in many places in the ISAs.
  - (ii) “Inconsistent evidence” implies a broader range of variance between evidence (i.e., it does not only mean evidence that is completely opposite). “Inconsistent” is also used in various places in the ISAs.
- (b) The PSWG proposed that the term “inconsistent” is used across the ISAs, because it covers a broader range of variance than “contradictory.” However, the Board had mixed views on this proposal:
  - (i) Some Board members supported the proposal because the term inconsistent is broader, which would lead the auditor to capture more inconsistencies than just contradictory evidence, thereby reinforcing the exercise of professional skepticism.
  - (ii) Other Board members did not support the proposal. Some indicated that the appropriate term is dependent on the circumstances, and it is being used in the ISAs because in certain circumstances in the ISAs, the use of “inconsistent” is not appropriate (i.e., the appropriate term should be considered using a case-by-case approach). Based on the AETF's review of the transcripts, there were also views that referring to inconsistent evidence may inadvertently drive a disproportionate work effort if the auditor, in all circumstances, has to consider the broader range of variance implied by “inconsistent.”

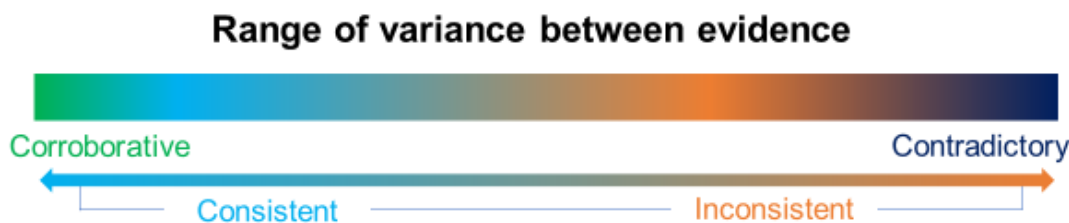
**Relevant extracts from the minutes of the March 2018 IAASB meeting:<sup>12</sup>**

The IAASB noted a variety of views on the use of the term “inconsistent evidence” rather than “contradictory evidence.” It was agreed that the auditor should not be biased to obtaining evidence from only corroborative sources. It was also noted that it may be useful to explore the idea that further sources of evidence be accessed when more persuasive evidence is needed.

<sup>11</sup> Refer to: [20180312-IAASB-Agenda Item 9 Professional Skepticism Issues Paper](#)

<sup>12</sup> [20180618 IAASB Approved Minutes March 2018](#)

36. The following depicts the Board's agreement on the meaning of the terms and the associated range of variance:



37. Although the Board agreed on the differences in meaning of the terms “contradictory” and “inconsistent” in March 2018, there was not a definitive approach agreed to in the use of the terms across the ISAs, and the circumstances when the respective terms should be used. It is noted that the terms “consistent” and “inconsistent” or “corroborative” and “contradictory” are currently used across the ISAs in a variable manner.
38. Between 2017 and 2019, requirements were added in ISA 540 (Revised)<sup>13</sup> and ISA 315 (Revised 2019)<sup>14</sup> that use the terms “corroborative” and “contradictory”:
- (a) The terms “corroborative” and “contradictory” are used in the following requirements of ISA 540 (Revised):
    - (i) Paragraph 18: The auditor shall design and perform further audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory.
    - (ii) Paragraph 34: In making the evaluation required by paragraph 33(c), the auditor shall take into account all relevant audit evidence obtained, whether corroborative or contradictory.<sup>15</sup>
  - (b) The terms “corroborative” and “contradictory” are used in the following requirements of ISA 315 (Revised 2019):
    - (i) Paragraph 13: The auditor shall design and perform risk assessment procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory.
    - (ii) Paragraph 35: ...In identifying and assessing the risks of material misstatement, the auditor shall take into account all audit evidence obtained from the risk assessment procedures, whether corroborative or contradictory to assertions made by management.

<sup>13</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, paragraph 13(d)

<sup>14</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

<sup>15</sup> Paragraph 33(c) of ISA 540 (Revised) states that in applying ISA 330 to accounting estimates, the auditor shall evaluate whether sufficient appropriate audit evidence has been obtained.

39. In addition, the AETF noted that the term “inconsistent” is used in paragraph 37 of ISA 315 (Revised 2019). Paragraph 37 of ISA 315 (Revised 2019) is based on paragraph 31 of extant ISA 315 (Revised), and was not significantly changed as part of the ISA 315 project:
- (a) Paragraph 37: If the auditor obtains new information which is inconsistent with the audit evidence on which the auditor originally based the identification or assessments of the risks of material misstatement, the auditor shall revise the identification or assessment.

### **AETF's Views**

#### *The Appropriate Term to Use in ISA 500 in the Context of Reinforcing the Exercise of Professional Skepticism Relating to Audit Evidence*

40. As explained in paragraphs 46–66 that follow, the AETF is proposing the following requirements in ISA 500 to reinforce the exercise of professional skepticism relating to audit evidence:
- (a) Designing and performing audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory (see paragraphs 46–54). This was a proposal from the Board in March 2021.
- (b) Responding when there are doubts over the reliability of information to be used as audit evidence (see paragraphs 55–58).
- (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) In concluding whether sufficient appropriate audit evidence has been obtained, considering 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 (see paragraphs 63–66).
41. In developing these requirements, the AETF performed an analysis of the use of the terms “corroborative,” “contradictory,” “consistent” and “inconsistent” across the suite of ISAs, and considered what approach should be taken in using these terms in the context of audit evidence-related matters. I.e., whether:
- (a) The same terms should be used in the context of audit evidence-related matters, i.e., only “contradictory and corroborative” is used or “inconsistent and consistent” is used; or
- (b) A case-by-case approach should be applied whereby the terms are considered in the context in which they are being used, and it is determined which terms appear most appropriate in that context.
42. The AETF is of the view that a precedent has been established in how the terms are used, as part of the projects on ISA 315 (Revised 2019) and ISA 540 (Revised). In particular:
- (a) ISA 315 (Revised 2019) used both sets of terms in the requirements on a case-by-case basis; and

- (b) ISA 540 (Revised) used the terms “contradictory and corroborative” in the requirements, and the requirements were discussed by the Board at the time the PSWG was exploring the use of the terms (i.e., March 2018).

The AETF therefore proposes that a case-by-case approach should be used when using these terms in the context of audit evidence-related matters. It is noted that the PSWG noted their support for a case-by-case approach in the AETF’s coordination activities with the PSWG.

- 43. As a result of proposing a case-by-case approach, the AETF suggests that clear guidelines are needed as to when it is appropriate to use the respective terms in ISA 500, and in the context of audit evidence-related matters. This will help clarify and reinforce that the terms have an intentional meaning. In view of how the terms have been explained previously in this paper, and in line with the current general usage of these terms across more recently revised ISAs, the AETF proposes the following:
  - (a) “Corroborative” and “contradictory” is used in relation to management assertions, and in the context of when the auditor is designing and performing audit procedures (i.e., as is the case in ISA 315 (Revised 2019) and ISA 540 (Revised)). This is because in these contexts, the auditor is planning their procedures, or is still seeking audit evidence, and it is not the intent that the auditor should be endlessly seeking to disprove management.(i.e., rather the auditor is responding to the assessed risks of material misstatement at the assertion level).
  - (b) “Inconsistent” and “consistent” is 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. This is because in these contexts, the auditor has already performed the audit procedures or obtained the information, and therefore the auditor is reflecting upon all audit evidence or information, irrespective of the degree of variance.
  - (c) When using these terms, they should be clear with what the matter is “contradictory and corroborative” or “inconsistent and consistent.” It is noted that the PSWG noted their support for this clarification in the AETF’s coordination activities with the PSWG.
- 44. The AETF recommends explaining in application material in ISA 500, or elsewhere as appropriate, what the different terms mean in their contexts. This is because in practice, auditors are unlikely to distinguish the nuanced difference between the terms. In addition, in some languages, the translation of the term “inconsistent” is synonymous with the translation of the term “contradictory.” The AETF is also aware that there are some languages where the translation of the term “consistent” has been interpreted to mean “identical” or “exactly the same,” while the term “contradictory” has been interpreted to mean a varying degree of difference. The AETF is of the view that the meaning of these terms, as explained in paragraph 35, should be incorporated as part of the CUSP Guidelines, when being updated, because the Board has previously agreed on their meaning. Doing so would promote their consistent use across the ISAs.
- 45. The sections that follow further explain the specific requirements the AETF is proposing to reinforce the exercise of professional skepticism relating to audit evidence.



*Designing and Performing Audit Procedures in a Manner That is Not Biased Towards Obtaining Audit Evidence that may be Corroborative or Towards Excluding Audit Evidence that may be Contradictory*

46. In March 2021, the Board suggested adding a requirement to design and perform audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. As indicated in paragraph 38, such requirement is included in both ISA 315 (Revised 2019) and ISA 540 (Revised). However, the AETF noted that the scope of these requirements is limited to risk assessment procedures in accordance with ISA 315 (Revised 2019) and audit procedures performed in relation to accounting estimates in accordance with ISA 540 (Revised). The requirement is not addressed elsewhere in the ISAs, in particular in ISA 330<sup>16</sup> in the context of further audit procedures.
47. Accordingly, the AETF supports the suggestion of the Board in March 2021 to add a requirement in ISA 500. In particular, including the proposed requirement in ISA 500 would have the effect of applying to all audit procedures across the suite of ISAs.
48. Given that this requirement relates to designing and performing audit procedures, the AETF proposes that the appropriate term to use in this context is “corroborative and contradictory” to the assertions in the financial statements (see the proposals in paragraph 43). In line with the proposed output-based definition of audit evidence, as discussed with the Board at the March 2021 IAASB meeting, the AETF proposes the following output based requirement (see paragraph 79–86 that discusses the location of this requirement in ISA 500):

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.

49. The AETF is of the view that the application material should clarify that there may be a degree of inconsistency between the audit evidence and the assertions in the financial statements that is acceptable in some circumstances. In such cases, although the matters are inconsistent, they are not contradictory because the degree of inconsistency is within an acceptable range, as determined by the auditor.
50. The AETF also proposes that to further reinforce the exercise of professional skepticism when designing and performing audit procedures, the application material should explain the intended behaviors of the auditor. For example, ISA 220 (Revised)<sup>17</sup> explains that there are various unconscious auditor biases that may impede the exercise of professional skepticism, and therefore the reasonableness of professional judgments made by the engagement team. The AETF is of the view that the application material in ISA 500 should explain the need for the auditor to avoid these biases in the context of designing and performing audit procedures:
- (a) Confirmation bias, i.e., the auditor avoids placing more weight on information that corroborates the assertions in the financial statements than information that contradicts or casts doubt on the assertions in the financial statements.

<sup>16</sup> ISA 330. The Auditor's Responses to Assessed Risks

<sup>17</sup> ISA 220 (Revised), paragraph A36

- (b) Anchoring bias, i.e., the auditor avoids using an initial piece of information as an anchor against which subsequent information is inadequately assessed.
- (c) Availability bias, i.e., the auditor avoids placing more weight on information that immediately comes to mind or using information from sources that are more readily available or accessible.
- (d) Automation bias, i.e., the auditor avoids favoring output from automated systems, even when human reasoning or contradictory information raises questions as to whether such output is reliable or fit for purpose.

It is noted that the proposal to address different types of auditor biases in application material was supported by the PSWG in the AETF's coordination activities with the PSWG.

- 51. Addressing the biases in ISA 500 is responsive to the Board's suggestion in March 2018 that the auditor should not be biased to obtaining evidence from only corroborative sources, and that further sources of evidence should be accessed when more persuasive evidence is needed. In particular, it reinforces the need to obtain information from external sources when appropriate (see the discussion in paragraphs 28–29). The application material supporting the requirements in ISA 315 (Revised 2019) and ISA 540 (Revised) addressing designing and performing audit procedures already address this as follows:
  - (a) Paragraph A15 of ISA 315 (Revised 2019): Designing and performing risk assessment procedures to obtain audit evidence in an unbiased manner may involve obtaining evidence from multiple sources within and outside the entity. However, the auditor is not required to perform an exhaustive search to identify all possible sources of audit evidence.
  - (b) Paragraph A82 of ISA 540 (Revised): Obtaining audit evidence in an unbiased manner may involve obtaining evidence from multiple sources within and outside the entity. However, the auditor is not required to perform an exhaustive search to identify all possible sources of audit evidence.
- 52. Application material similar to that described above for ISA 315 (Revised 2019) and ISA 540 (Revised) may be useful in ISA 500. The application material could also emphasize that the need to obtain information from multiple sources is driven by the need for more persuasive audit evidence.
- 53. The AETF is of the view that the proposed revisions to ISA 500 to address the relevance and reliability of information to be used as audit evidence also enhance the focus on auditor biases and obtaining information from appropriate sources, so that the appropriate level of persuasive audit evidence is obtained in the circumstances. This is because the revisions focus more on varying sources of information, and explain factors that influence the auditor's consideration of the relevance and reliability of information. Furthermore, as proposed to the Board in March 2021, additional material will be added in ISA 500 to explain the factors that influence whether audit evidence is sufficient appropriate audit evidence, which also focus on the source of the information and its persuasiveness.

#### Automation Bias

- 54. The AETF concurred with the Board's view in March 2021 that there may be a risk of auditor bias when information has been generated through technology. Accordingly, the AETF has proposed new application material on the concept of automation bias to explain that information generated by automated systems cannot be assumed to be relevant and reliable, and as such, evaluating whether

the information is sufficiently relevant and reliable for the auditor's purposes may assist the auditor in mitigating the risk of automation bias (see paragraph A35f of **Agenda Item 1-A**). The AETF has engaged with the IAASB's Technology Working Group (TWG) in determining whether the application material may be further enhanced, given the TWG's recent publication of non-authoritative guidance on the risk of overreliance on technology in March 2021.<sup>18</sup> The TWG provided some initial feedback, and the AETF will further consider this feedback from the TWG, and further engage with them, following the July 2021 Board discussion.

*Responding when Audit Evidence or Information is Inconsistent with Other Audit Evidence, or there are Doubts about the Reliability of Information*

55. Paragraph 11 of extant ISA 500 currently deals with circumstances when there is inconsistency in audit evidence, or doubts over the reliability of audit evidence. In considering the proposed revisions to paragraph 11 to reinforce professional skepticism the AETF noted that the requirement addresses two different matters:

- (a) Doubts over the reliability of information to be used as audit evidence.
- (b) Inconsistencies in audit evidence.

As a result, the AETF proposes separating paragraph 11 into two discrete requirements.

*Responding when there are Doubts over the Reliability of Information to be Used as Audit Evidence*

56. As explained in paragraph 30, the AETF is proposing amending paragraph 11 of extant ISA 500 to require the auditor to attempt to seek additional information if the auditor has doubts about the relevance and reliability of the information. The requirement would be as follows:

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. ~~the auditor has doubts over the reliability of information to be used as audit evidence,~~

57. The AETF is of the view that the proposed enhancements to the requirement in paragraph 11 of extant ISA 500 may encourage auditors to seek alternative sources of information in certain circumstances, in particular when there is doubt about the relevance and reliability of audit evidence or more persuasive audit evidence may be needed. In particular, as discussed in paragraph 29, there may be circumstances when alternative information sources (including external information sources) are considered necessary, due to, for example, the persuasiveness of the audit evidence needed.

<sup>18</sup> See: [Addressing The Risk of Overreliance on Technology–Use of Automated Tools and Techniques and Use of Information Produced by the Entity's Systems](#)

58. The AETF noted that the PSWG proposed a similar enhancement in its March 2018 paper.

**Relevant extracts from the March 2018 paper are as follows:**<sup>19</sup>

Overall, it appears that the requirements in ISA 330 and ISA 500 direct the auditor to what needs to be done in the first instance at an appropriate level of work effort with evidence obtained from other sources, including inconsistent evidence. However, the question arises whether more guidance could be given on how auditors ought to deal with evidence that is not sufficiently relevant or reliable and how the resolution of inconsistencies between evidence might be undertaken in practice. The question also arises whether more guidance could be given on other factors that an auditor might need to take into account when considering how to “weigh” inconsistent evidence, such as the relative persuasiveness of the evidence (which might in turn be based at least in part on their relative reliability and relevance). These are matters that may require further consideration as part of the future work program of the IAASB.

Responding when Audit Evidence or Information Intended to be Used as Audit Evidence is Inconsistent with Other Audit Evidence

59. The AETF considered whether paragraph 11 of extant ISA 500 should be adjusted to respond to circumstances when audit evidence or information intended to be used as audit evidence is inconsistent with other audit evidence.
60. The AETF discussed whether the term “inconsistent” should still be used. Given the AETF’s proposed drafting guidelines in paragraph 43, the AETF is of the view that the term “inconsistent” is appropriate and necessary in this context because it drives the auditor to respond when there is a varying degree of inconsistency in the audit evidence or information. Using the term “contradictory” in this instance may inappropriately narrow the work effort to instances only when the audit evidence or information is diametrically opposed.
61. The AETF considered whether the requirement should refer to both “audit evidence” and “information intended to be used as audit evidence” in describing inconsistencies:
- (a) The AETF noted that in some cases, information may not yet have been subject to audit procedures (i.e., it is therefore not audit evidence), yet the auditor is aware that the information is inconsistent with other audit evidence. In such circumstances, it is important that the auditor does not ignore such information and takes further action to respond to the inconsistency. Accordingly, the AETF is of the view that both “information intended to be used as audit evidence” and “audit evidence” should be used to describe inconsistencies with other audit evidence.
  - (b) The AETF also deliberated whether to require a response when one piece of “information intended to be used as audit evidence” is inconsistent with another piece of “information intended to be used as audit evidence.” The AETF concluded that such a requirement would

<sup>19</sup> Refer to paragraph 32 of [20180312-IAASB-Agenda Item 9 Professional Skepticism Issues Paper](#)

be superfluous, given the proposed requirement to evaluate whether *all* information intended to be used as audit evidence is sufficiently relevant and reliable for the auditor's purposes.

In summary, the AETF proposes the following enhancements to paragraph 11(a) of extant ISA 500:

If audit evidence or information intended to be used as audit evidence obtained from one source is inconsistent with other audit evidence that obtained from another, or the auditor shall:

- (i) Ddetermine what modifications or additions to audit procedures are necessary to resolve the matter; or
- (ii) ~~shall~~Consider the effect of the matter, if any, on other aspects of the audit.

62. The AETF proposes including application material to explain the interrelationship of information that is relevant and reliable, and inconsistencies between audit evidence or information intended to be used as audit evidence, and how this affects the auditor's work effort to resolve the inconsistencies. For example:

- (a) Information may be inconsistent with other audit evidence; however, the auditor may determine that the information is not reliable. Accordingly, the auditor's additional work effort regarding the inconsistency may not be extensive.
- (b) Two pieces of audit evidence may be deemed relevant and reliable, but if they are also inconsistent with one another, the auditor may need to undertake additional, and more detailed, work effort to resolve the inconsistency satisfactorily.
- (c) Two pieces of audit evidence may be inconsistent with one another; however, based on the auditor's additional work the auditor may conclude that both pieces of audit evidence still corroborate the assertions in the financial statements. I.e., the degree of inconsistency between the audit evidence may be acceptable relative to the assertions in the financial statements. However, ISA 540 (Revised)<sup>20</sup> explains that there may be circumstances when such inconsistencies may indicate possible bias by management.

**For example:**

There may be an indication of possible management bias when accounting estimates included in the financial statements are considered to be individually reasonable, but management's point estimates consistently trend toward one end of the auditor's range of reasonable outcomes that provide a more favorable financial reporting outcome for management.

*In Concluding Whether Sufficient Appropriate Audit Evidence has been Obtained, Consider All Relevant Audit Evidence Regardless of Whether it is Corroborative or Contradictory*

63. Paragraph 26 of ISA 330 requires the auditor to consider all relevant audit evidence when forming an opinion on the financial statements, regardless of whether it appears to corroborate or contradict the assertions in the financial statements. Given the scope of ISA 330 is focused on designing and

<sup>20</sup> ISA 540 (Revised), paragraph A133

implementing responses to the risks of material misstatement, the AETF is of the view that a similar requirement is needed that is more overarching across the ISAs to address all audit evidence obtained. In addition, as discussed, in paragraphs 87–91 in **Section D**, the AETF is of the view that such overarching requirement should be located in ISA 500.

64. The AETF noted that the requirement in paragraph 26 of ISA 330 first refers to considering all relevant audit evidence. The latter part of the requirement, which refers to audit evidence that “appears to corroborate or contradict the assertions in the financial statements,” emphasizes audit evidence that may be diametrically opposed to the assertions in the financial statements. The AETF is of the view that this focuses on the need to exercise professional skepticism in such circumstances. The AETF is aware that focusing on *contradictory* evidence is an important public interest issue for many stakeholders, such as audit regulatory and audit oversight bodies.
65. Although the requirement initially refers to all relevant audit evidence, the AETF is of the view that audit evidence that is *inconsistent* with other audit evidence may be inadvertently deemphasized because the requirement focuses on audit evidence that “*corroborates or contradicts* the assertions in the financial statements.” Although there may be circumstances when the degree of inconsistency between audit evidence is acceptable or appropriate (e.g., in the case of accounting estimates there may be variances in the range of an estimate), *inconsistent* audit evidence may be an indication that the auditor has not obtained sufficient appropriate audit evidence and needs to obtain further audit evidence in accordance with paragraph 27 of ISA 330.<sup>21</sup>
66. The AETF is therefore of the view that the requirement in ISA 500 should refer both to *inconsistent* audit evidence, and audit evidence that is *contradictory* with management’s assertions as follows (although this is a new requirement proposed in ISA 500, the marked changes are based on paragraph 26 of ISA 330):

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 regardless audit evidence that is consistent or inconsistent with other audit evidence, or audit evidence of whether it that appears to corroborate or to contradict the assertions in the financial statements.

#### *Other Matters Related to Professional Skepticism*

67. The following additional matters were identified as part of the PSWG’s discussions with the Board in 2017 and 2018, which are applicable to audit evidence. To the extent that such issues fall within the

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<sup>21</sup> ISA 330 paragraph 27: “If the auditor has not obtained sufficient appropriate audit evidence as to a material financial statement assertion, the auditor shall attempt to obtain further audit evidence. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall express a qualified opinion or disclaim an opinion on the financial statements.”

scope of the audit evidence project, the AETF plans to further explore these items in future discussions with the Board:

- (a) Elaborating what the phrase “a critical assessment of evidence” in the definition of professional skepticism entails, including specifying *what* about evidence is being critically assessed.
- (b) Explaining how professional skepticism impacts risk assessment, risk response, the audit evidence gathered and the evaluation of the sufficiency and appropriateness of audit evidence.

**Matters for Board Consideration:**

- 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.
- 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 55–58).
  - (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).

## Section D: The Purpose and Scope of ISA 500, and the Requirements that the Standard Should Address

### Previous Board Discussions

68. In December 2020, the Board discussed the purpose and scope of ISA 500, including whether ISA 500 is intended to be a standard that drives and requires the performance of audit procedures (i.e., a performance standard), or a standard that provides context for the requirements in other standards (i.e., a conceptual standard, similar to ISA 200<sup>22</sup>). The Board expressed mixed views about whether clarity is needed regarding the purpose and scope of ISA 500. Specifically, the Board questioned 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.
69. In March 2021, the Board considered a number of key issues related to ISA 500. Among the items discussed were the following:
- (a) Information intended to be used as audit evidence needs to be subject to audit procedures to become audit evidence.
  - (b) All audit procedures that are performed in accordance with the ISAs may provide audit evidence, although the persuasiveness of such evidence may vary. As a result, in addition to risk assessment procedures and further audit procedures, there are other procedures required under the ISAs that may also provide audit evidence (sometimes referred to as the “third category” of audit procedures in this section of the paper).

### AETF's Views

70. In deliberating the various matters related to ISA 500, the AETF continues to debate the purpose and scope of ISA 500. In considering the proposals in **Section C** regarding professional skepticism, the AETF noted that it is not clear where certain requirements that are overarching across the ISAs are most appropriately located, in particular whether ISA 500 is the right location.
71. As highlighted in the introduction, the updates to the IAASB's forward agenda have resulted in the IAASB not discussing the audit evidence project between July 2021 and March 2022. Accordingly, in order to progress ISA 500 in an effective and thoughtful manner over the next 8 months, the AETF is seeking the Board's direction on the requirements that should be placed in ISA 500 and which requirements should be placed elsewhere in the ISAs. Doing so will help the AETF determine the purpose and scope of the standard, which will be included in the full draft of proposed ISA 500 (Revised) to be presented to the Board in March 2022.
72. In order to determine the requirements that belong in ISA 500 and its purpose and scope, it is important to first understand the core requirements that need to exist across the suite of ISAs that address obtaining sufficient appropriate audit evidence. Once such core requirements are identified, it is important to determine the extent to which they are currently dealt with in the ISAs and if so, where they are currently located. This approach helps to clarify whether enhancements are needed to

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<sup>22</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*



improve the interrelationship of the requirements across the ISAs, for example, by relocating requirements or clarifying the applicability of the requirements.

73. Given the approach described, this section is organized as follows:
- (a) In order to obtain sufficient appropriate audit evidence, what are the core requirements that need to exist across the suite of ISAs that address audit evidence?
  - (b) To what extent do the ISAs, including extant ISA 500, currently deal with these core requirements and do they continue to be appropriately located?
  - (c) 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?

*In Order to Obtain Sufficient Appropriate Audit Evidence, What are the Core Requirements that Need to Exist Across the Suite of ISAs that Address Audit Evidence?*

74. The table in paragraph 77 summarizes the core requirements that need to exist within the suite of ISAs related to obtaining sufficient appropriate audit evidence (the diagram in **Supplement 2 to Agenda Item 1** also illustrates the core requirements and their interrelationships). Some of the core requirements relate to proposals already discussed in **Sections B and C** of this paper to address the relevance and reliability of information intended to be used as audit evidence, and professional skepticism.
75. The AETF noted the Board's feedback in March 2021 that all audit procedures performed across the ISAs provide some degree of audit evidence even if they are not necessarily designed and performed with the primary objective to obtain audit evidence (although the persuasiveness of such evidence may vary).

**For example:**

In complying with ISA 260 (Revised)<sup>23</sup> when communicating “matters to be communicated” to those charged with governance, the auditor may obtain audit evidence resulting from the communication procedures (e.g., management's disagreement about a matter), even though the primary objective of the audit procedures, as explained in paragraph 9 of ISA 260 (Revised), was not necessarily focused on obtaining sufficient appropriate audit evidence.

76. As a result, the AETF is of the view that the core requirements relating to obtaining sufficient appropriate audit evidence apply to *all* audit procedures performed across the ISAs, including the “third category” of audit procedures. However, in some cases the core requirements may not be relevant to *all* audit procedures.

**For example:**

If information is being used in performing the audit procedure, then the core requirement addressing the relevance and reliability of information is relevant to the audit procedure. However, in some cases, the auditor may not be using information in performing the audit procedure, such as when the auditor

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<sup>23</sup> ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraphs 14–17

is communicating to those charged with governance. In this case, the core requirement addressing the relevance and reliability of information is not relevant to the audit procedure.

*To what Extent do the ISAs, Including Extant ISA 500, Currently Deal with These Core Requirements and do they Continue to be Appropriately Located?*

77. The AETF performed an analysis of the ISAs to determine which ISAs, including extant ISA 500, currently deal with the core requirements. The details of the analysis are presented in **Supplement 1 to Agenda Item 1**. The following summarizes the AETF's analysis and views on whether the core requirements continue to be appropriately located in their current location in the ISAs.

#	Core Requirements	Summary of AETF's Analysis
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.	The requirement is included in ISA 200, paragraph 15. The AETF believes it is appropriately located in ISA 200, as this is overarching across the ISAs.
2.	The auditor shall exercise professional judgment in planning and performing an audit of financial statements.	The requirement is included in ISA 200, paragraph 16. The AETF believes it is appropriately located in ISA 200, as this is overarching across the ISAs.
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.	<p>The requirement is addressed as follows:</p> <ul style="list-style-type: none"> <li>ISA 200, paragraphs 17, 18, 21, A72 and A73;</li> <li>ISA 315 (Revised 2019), paragraph 13; and</li> <li>ISA 330, paragraphs 5, 6 and 8.</li> </ul> <p>The AETF is of the view that this core requirement is appropriately addressed and located in ISA 200, as this is overarching across the ISAs.</p>
4	<p>(a) The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.</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</p>	<p>Requirement 4(a) is addressed as follows:</p> <ul style="list-style-type: none"> <li>ISA 500 paragraph 6.</li> <li>ISA 315 (Revised 2019), paragraph 13; and</li> <li>ISA 330 paragraph 8.</li> </ul>

#	Core Requirements	Summary of AETF's Analysis
	or towards contradicting the assertions in the financial statements.	<p>Requirement 4(b) is addressed to <i>some degree</i> in:</p> <ul style="list-style-type: none"> <li>ISA 315 (Revised 2019), paragraph 13; and</li> <li>ISA 540 (Revised), paragraph 18.</li> </ul> <p>The AETF is of the view that requirement 4(a) is appropriately located in paragraph 6 of ISA 500. However, see the further considerations of the AETF about the location of paragraph 6 of ISA 500 in paragraph 79 that follows.</p> <p>With regards to requirement 4(b), the AETF has proposals in:</p> <ul style="list-style-type: none"> <li><b>Section C</b>, paragraphs 46–54, discuss the terminology used in the requirement and the location of the requirement in ISA 500.</li> <li>Paragraphs 79–85 that follow, which suggests adding requirement 4(b) on to paragraph 6 of ISA 500.</li> </ul>
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.	<p>There are a number of references in the ISAs that are related to this requirement, as indicated in <b>Supplement 1 to Agenda Item 1</b>.</p> <p>The AETF's proposals on this requirement are explained in <b>Section B</b>, paragraphs 14–27. The AETF is of the view that this requirement is appropriately located in ISA 500.</p>
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>This requirement is addressed to some degree in ISA 500, paragraph 11.</p> <p>The AETF's proposals to enhance this requirement are explained in <b>Section C</b>, paragraphs 56–58. The AETF is of the view that this requirement is appropriately located in ISA 500.</p>

#	Core Requirements	Summary of AETF's Analysis
	(b) Consider the effect of the matter, if any, on other aspects of the audit.	
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>	<p>This requirement is addressed to some degree in ISA 500, paragraph 11.</p> <p>The AETF's proposals to enhance this requirement are explained in <b>Section C</b>, paragraph 59–62. The AETF is of the view that this requirement is appropriately located in ISA 500.</p>
8.	<p>Concluding on sufficient appropriate audit evidence</p> <p>(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.</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>	<p>This requirement is addressed to some degree in:</p> <ul style="list-style-type: none"> <li>• ISA 200, paragraph 21;</li> <li>• ISA 220 (Revised), paragraph 32;</li> <li>• ISA 315 (Revised 2019), paragraph 35;</li> <li>• ISA 330, paragraphs 25, 26 and 27;</li> <li>• ISA 540 (Revised), paragraphs 33 and 34; and</li> <li>• ISA 700, paragraph 11.</li> </ul> <p>With respect to requirement 8(a), the AETF is of the view that an additional requirement should be located in ISA 500, that is more overarching across the ISAs, as explained in paragraphs 87–91 that follow.</p> <p><b>Section C</b>, paragraph 63–66, also explains the AETF's proposals on addressing the need to consider all relevant audit evidence regardless of whether it is corroborative or contradictory.</p>

78. As highlighted in the summary above, the AETF deliberated the following core requirements (in addition to the AETF's considerations outlined in **Section B** and **Section C**):
- (a) Core requirement 4; and
  - (b) Core requirement 8(a).

Core Requirement 4(a): The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence; and

Core Requirement 4(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.

79. The AETF explored whether the requirement in paragraph 6 of extant ISA 500 (core requirement 4(a)) is still needed in the ISAs, and where it is best located.
80. The AETF noted that ISA 315 (Revised 2019) and ISA 330 include clear and robust requirements to design and perform risk assessment procedures and further audit procedures, respectively, with the objective to obtain sufficient appropriate audit evidence. The requirement in paragraph 6 of extant ISA 500 overlaps with these requirements.
81. ISA 200<sup>24</sup> explains that an ISA dealing with specific aspects of the audit may expand on how the objectives and requirements of ISA 315 (Revised 2019) and ISA 330 are to be applied in relation to the subject of the ISA. As a result, there are various ISAs, such as ISA 540 (Revised) and ISA 550,<sup>25</sup> that explicitly link to ISA 315 (Revised 2019) and ISA 330. These ISAs generally explain that the requirements in such ISAs form part of the auditor's risk assessment procedures or further audit procedures.
82. However, there are ISAs where the auditor performs audit procedures that are not described as risk assessment procedures or further audit procedures in such ISAs (the "third category" of audit procedures). Since such ISAs do not fall under the umbrella of ISA 315 (Revised 2019) and ISA 330, the AETF performed a thorough analysis to determine whether these ISAs include requirements for the auditor to design and perform audit procedures for the purpose of obtaining sufficient appropriate audit evidence in relation to the specific topic they are addressing. The AETF noted that these ISAs *do not* consistently include such a requirement.
83. Accordingly, the AETF is of the view that an overarching requirement (as currently included in paragraph 6 of extant ISA 500) to design and perform audit procedures that are appropriate in the circumstances to obtain sufficient appropriate audit evidence is necessary, because the overarching concept applies in the context of designing and performing all audit procedures performed across the ISAs.
84. The AETF also considered whether paragraph 6 of ISA 500 would instead be better located in ISA 200. Although the AETF concluded that paragraph 6 of ISA 500 should remain in its current location, the following key matters were considered or noted when exploring the location of this requirement:

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<sup>24</sup> ISA 200, paragraph A71

<sup>25</sup> ISA 550, *Related Parties*

- (a) The concept of designing and performing audit procedures is closely related to paragraph 17 of ISA 200, which deals with the auditor's responsibility to obtain reasonable assurance through obtaining 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.
- (b) Paragraph 21 of ISA 200 requires the auditor to use the objectives of the ISAs in planning and performing the audit. The objective of extant ISA 500 echoes paragraph 17 of ISA 200 as follows:

*"The objective of the auditor is to design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion."*

By removing paragraph 6 of ISA 500, it could result in changes to the objective of ISA 500, meaning that there may no longer be an ISA with an objective to obtain sufficient appropriate audit evidence to draw reasonable conclusions on which to base the auditor's opinion. Such a change could weaken the linkages of ISA 500 with the other ISAs, in particular the important linkage between ISA 500 and paragraph 17 of ISA 200.

- (c) Relocating the requirement out of ISA 500 would mean that, instead of ISA 500 dealing with designing and performing audit procedures, it could instead focus *only* on the auditor's responsibilities related to information intended to be used as audit evidence. The AETF's further considerations in this regard included the following:
  - (i) Relocating paragraph 6 of ISA 500 out of the standard would bring significant emphasis to the auditor's responsibilities related to information intended to be used as audit evidence. However, the AETF noted that such a change would be extensive, given the extent of application material supporting paragraph 6 of ISA 500, without necessarily a correlated impact on auditor behavior.
  - (ii) In March 2021, the AETF proposed the input and output model regarding audit evidence. The proposal linked audit evidence to audit procedures, and suggested that information intended to be used as audit evidence (the input) needs to be subject to audit procedures to become audit evidence (the output). ISA 500 provides a reference framework for the auditor throughout the audit when making judgments in relation to audit evidence, including information intended to be used as audit evidence (the input) and the sufficiency and appropriateness of audit evidence (the output). Focusing ISA 500 only on the input (i.e., the information) would result in such framework not being clear and comprehensive.

85. In addition, as explained in paragraphs 46–48 in **Section C**, the AETF is proposing that an overarching requirement is needed across the ISAs for 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. Given this is related to the requirement in paragraph 6 of ISA 500 to design and perform audit procedures, the AETF is proposing that this requirement be added on to paragraph 6 of ISA 500 as follows:

The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. In doing so, 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.

86. Conforming amendments to the other ISAs may be appropriate to avoid duplication, i.e., adding a pervasive requirement in ISA 500 brings into question whether the requirements in paragraph 13 of ISA 315 (Revised 2019) and paragraph 18 of ISA 540 (Revised) are still needed.

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.

87. As explained in paragraph 84(c), the AETF is of the view that ISA 500 provides a reference framework for the auditor throughout the audit when making judgments in relation to audit evidence, including information intended to be used as audit evidence (the input) and the sufficiency and appropriateness of audit evidence (the output). This approach means that ISA 500 should deal with the input and the output.
88. As indicated in **Supplement 1 to Agenda Item 1**, there are a number of ISAs that deal with the auditor's conclusion whether sufficient appropriate audit evidence has been obtained and forming the opinion on the financial statements. Nevertheless, in order for ISA 500 to provide an appropriate reference framework for the auditor when making judgments in relation to audit evidence, the AETF is of the view that it is necessary to also deal with the output in ISA 500 (i.e., evaluating whether sufficient appropriate audit evidence has been obtained).
89. The AETF recognizes that the requirement would overlap with the other ISAs, however it does not conflict with the other ISAs and would result in a complete framework in relation to audit evidence. Nevertheless, conforming amendments to the other ISAs may be needed, for example:
- (a) Paragraph 11(a) of ISA 700 may need to refer to the new requirement in ISA 500 instead of ISA 330; and
  - (b) Adding a pervasive requirement in ISA 500 may bring into question whether the requirements in the other ISAs are still needed.
90. Paragraphs 63–66 explain the AETF's proposals that require the auditor to consider all relevant audit evidence when concluding on whether sufficient appropriate audit evidence has been obtained. The AETF is of the view that having this requirement in ISA 500 would add robustness to the auditor's evaluation of whether sufficient appropriate audit evidence has been obtained, and clarify that the audit evidence considered includes audit evidence gathered from other types of audit procedures (i.e., other than risk assessment procedures and further audit procedures).

91. The proposed requirement would be as follows:

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.

*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*

92. The location of the core requirements directly affects the objective of ISA 500, because the objective of a standard ordinarily reflects, or relates to, the elements within the standard. It may also affect whether an overarching objective is appropriate in ISA 500, or whether the objective should specifically address the various elements of the standard, such as:
- (a) Designing and performing audit procedures;
  - (b) Obtaining relevant and reliable information to be used as audit evidence; and
  - (c) Evaluating whether sufficient appropriate audit evidence has been obtained.
93. The location of the core requirements may also affect where the following requirements in ISA 500 are located:
- (a) Paragraph 8 of extant ISA 500, which deals with using information that has been prepared using the work of a management's expert; and
  - (b) Paragraph 10 of extant ISA 500, which deals with the means of selecting items for testing when designing tests of control and tests of detail.
94. The AETF is of the view that, based on the location of the core requirements proposed by the AETF, paragraph 8 of extant ISA 500 should remain in ISA 500. In particular, it could be further clarified that this requirement is dealing with the relevance and reliability of information intended to be used as audit evidence that has been prepared using the work of a management expert. It is noted that the AETF considered relocating this material to ISA 501,<sup>26</sup> however thought that this would have further implications for the title and scope of ISA 501.
95. With respect to paragraph 10 of extant ISA 500, the AETF is of the view that this material should be relocated to ISA 330, in particular since it is focused on further audit procedures.

**Matters for Board Consideration:**

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).

<sup>26</sup> ISA 501, Audit Evidence—Specific Considerations for Selected Items



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

## Section E: Addressing the Concept of Detection Risk in the Requirements of ISA 500

### Previous Board Discussion

96. At the March 2021 IAASB meeting, the AETF proposed three categories of factors that the auditor would think about when considering whether sufficient appropriate audit evidence has been obtained:
- (a) 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.
  - (b) Category 2: The information to be used as audit evidence.
  - (c) Category 3: The effectiveness of the audit procedures and whether the audit procedures have been appropriately applied.

The factors related to the effectiveness of audit procedures and whether they have been appropriately applied (Category 3), was based on the concept of detection risk in ISA 200,<sup>27</sup> i.e., it is an essential component in obtaining sufficient appropriate audit evidence to reduce detection risk to an acceptably low level.

97. The Board strongly supported the three proposed factors that may affect sufficient appropriate audit evidence (see also the minutes of the March 2021 IAASB meeting in **Appendix 2**).
98. In March 2021, the AETF also presented a proposal to add a new requirement in ISA 500 as follows:

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

99. This requirement was intended to drive the auditor to consider the effectiveness of audit procedures and whether they have been appropriately applied. The Board did not discuss this proposal in March 2021, given the limited time. Nonetheless, offline comments provided by the Board included:

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<sup>27</sup> ISA 200, paragraphs A44–A46

- (a) Clarifying whether the requirement is forward-looking in designing audit procedures or backward-looking after audit procedures have been performed.
- (b) Clarifying in the application material that the requirement addresses the effectiveness of the procedures performed, and therefore the outcome of this requirement may indicate that the auditor may need to perform additional work.
- (c) An observation that the requirement addresses quality management, which is already addressed in other ISAs.
- (d) Questions about whether the requirement would change auditor behavior.

#### **AETF's Views**

- 100. The AETF notes that when the proposal was made to the Board in March 2021, the AETF had also proposed deleting paragraph 6 of extant ISA 500. However, as proposed in paragraph 84, the AETF has since resolved that paragraph 6 of extant ISA 500 should be retained.
- 101. The AETF is of the view that if a requirement were added to address detection risk, as proposed in March 2021, it would bring into question how this requirement differs from, or relates to, paragraph 6 of ISA 500, and what is the further expectation of the auditor in addition to complying with paragraph 6 of ISA 500 (i.e., what is the behavior change). In particular, an inherent part of designing and performing an audit procedure that is appropriate in the circumstances, is considering the effectiveness of the audit procedure and whether it will serve the intended purpose.
- 102. The AETF also noted that an additional requirement in ISA 500 addressing the appropriateness of audit procedures may also cause confusion about how the requirement relates to requirements in other ISAs, for example:
  - (a) ISA 220 (Revised) deals with appropriately applying the audit procedures through, for example, creating an environment that promotes quality, assigning appropriate resources, and having appropriate direction, supervision and review.
  - (b) Paragraph 21 of ISA 200, paragraph 32 of ISA 220 (Revised) and paragraph 26 of ISA 330 deal with conclusions about whether sufficient appropriate audit evidence has been obtained. The AETF notes that, in order to conclude whether sufficient appropriate audit evidence has been obtained, implicitly the auditor would need to consider whether the audit procedures performed were responsive (effective) and appropriate.
  - (c) Paragraph 27 of ISA 330 requires the auditor to obtain further audit evidence if sufficient appropriate audit evidence has not been obtained, and paragraph A73 of ISA 200 also provides direction for the auditor if sufficient appropriate audit evidence has not been obtained. As a result, this requirement already directs the auditor to obtain more audit evidence if the audit procedures do not provide an appropriate basis for concluding on the sufficiency and appropriateness of audit evidence.
- 103. The AETF noted that paragraph 35 of ISA 315 (Revised 2019) contains a requirement similar to that proposed in March 2021, i.e., it 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. The AETF understands that this requirement is important in ISA 315 (Revised 2019) because, before pursuing the further audit procedures, the

auditor needs to stand-back and evaluate the results of the auditor's risk identification and assessment.

104. The AETF is therefore of the view that a requirement for the auditor to consider whether the audit procedures provide an appropriate basis for concluding on the sufficiency and appropriateness of audit evidence (i.e., the effectiveness of audit procedures and whether they have been appropriately applied) is not necessary. In particular, it would duplicate existing requirements and create confusion about the expectation of the auditor in fulfilling such a requirement, without a corresponding behavior change because other requirements throughout the ISAs already drive the behaviors. Furthermore, adding such a requirement could inadvertently imply that an audit is linear, instead of supporting an iterative approach whereby the auditor is continually aware throughout the audit of how information and audit evidence gathered affects the auditor's judgments, and whether the auditor needs to perform additional audit procedures in certain areas.

**Matters for Board Consideration:**

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?

**Section F – Proposed Approach in Presenting Examples to Support the Application of Principles and Concepts of the Requirements in ISA 500**

105. The AETF noted that the examples presented to the Board in the illustrative application material in March 2021 may need to be revisited, in terms of their granularity and location as well as to reflect the CUSP Guidelines, particularly since ISA 500 has relatively few requirements, with extensive application material.
106. The preliminary view of the AETF is to approach the examples in the application material as follows:
- (a) Examples that are essential to an understanding of a concept presented in ISA 500 would be included in the body of the application material, provided they are succinct and not prone to becoming easily redundant or outdated.
  - (b) An appendix to ISA 500 would be used for examples that are more succinct and not prone to being quickly outdated yet may be distracting or overwhelming in the body of the application material. For example, some of the examples presented in March 2021 that illustrate the factors to consider in relation to determining the applicable attributes, or the factors to consider in relation to sufficient appropriate audit evidence, may be suitably located in an appendix to ISA 500.
  - (c) Develop a non-authoritative publication in parallel with ISA 500 that includes examples when:
    - (i) There is a need to be more descriptive in the example, such as in circumstances when additional context is needed to avoid confusion and to mitigate the risk that high-level examples are misinterpreted.
    - (ii) The example may easily become redundant or out of date. This would most likely include examples that describe how ISA 500 applies in the context of technology, including the use of automated tools and techniques or when information has been generated in a

digital format. While ISA 500 will be modernized at a high level for technology, having examples in a separate publication will enable the IAASB to update the examples more easily and on a timely basis, for example, as technology evolves.

**Matters for Board Consideration:**

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

**Section G – Way Forward**

107. Following the July 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, including how the further developments of the CUSP Guidelines may influence the revisions to ISA 500. In addition, the AETF plans to explore the following areas that were not part of the July 2021 proposals:

- (a) The introductory material of ISA 500, specifically clarifying the relationship of ISA 500 with the other ISAs as also discussed in this paper.
- (b) Application material to support the requirements in relation to auditor bias and professional skepticism, as discussed in this paper, in conjunction with coordination efforts with the PSWG.
- (c) 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).<sup>28</sup>
- (d) Opportunities to develop and present more detailed examples or guidance to demonstrate how the principles of ISA 500 may apply when using technology, that will be coordinated with the TWG.
- (e) Developing the conforming and consequential amendments to the other ISAs as a result of the proposed revisions to ISA 500.
- (f) Further enhancements to respond to the Board's feedback on the application material that was presented at the March 2021 IAASB meeting, including areas that were not discussed during the plenary session (given limited time). For example, application material in support of:
  - (i) Sources of information, including the availability, accessibility and understandability of information.
  - (ii) Sufficient appropriate audit evidence, including the persuasiveness of audit evidence.
- (g) The requirements in paragraphs 8 and 10 of extant ISA 500 (the location has been discussed in this paper but further revisions, if any, have not yet been explored).

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<sup>28</sup> Proposed International Standard on Auditing (ISA) (UK) 240 (Updated January 2020), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

108. The AETF will also continue to liaise with the TWG, PSWG and the International Ethics Standards Board for Accountants (IESBA) to identify any ethics considerations or matters of relevance in terms of audit evidence.
109. The AETF plans to present a full draft of proposed ISA 500 (Revised) in March 2022.

## Appendix 1

### 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 March 2021 IAASB Meeting (Virtual by Videoconferencing)

2. The AETF held a series of nine virtual sessions during four meetings in March to June 2021.

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

3. Staff of the AETF and the TWG Group met to discuss the examples in ISA 500 to demonstrate the use of technology. Staff of the AETF also attended a TWG meeting to explore the use of examples in ISA 500 to address specific aspects of technology, such as automation bias. The AETF Chair is also a member of the TWG.
4. Staff of the AETF and the Fraud and Going Concern Working Groups met to further discuss the preliminary feedback to the IAASB's Fraud and Going Concern [Discussion Paper](#).
5. Staff of the AETF and the ISA 315 Task Force met to discuss the alignment of terminology, included in the proposed application material to revise ISA 500, as well as ISA 315 (Revised 2019).
6. Staff of the AETF and the CUSP Working Group met to discuss whether it may be helpful to include certain terminology, related to concept of “exercising professional skepticism” in the ISAs, in the proposed CUSP Guidelines. For example, the intended meaning and work-effort of terms such as “inconsistent” or “contradictory” information or audit evidence may be included in the CUSP Guidelines.
7. Staff and the respective Chairs of the AETF and the PSWG met to discuss the approach taken by the AETF on professional skepticism and addressing auditor biases. The proposals in this issues paper were also provided to the PSWG and they provided input to the AETF on the proposals.
8. A Staff member of the ISA 540 Task Force attended an AETF meeting to discuss conforming amendments to ISA 500 in relation to external information sources, resulting from the approval of ISA 540 (Revised) in 2018.
9. Staff of the AETF and the IESBA met to have preliminary discussions about identifying any ethical considerations or matters of relevance in terms of audit evidence.

#### Outreach Activities

10. In April 2021, Staff of the AETF and the AETF Chair met with Staff of the Audit Evidence Task Force of the PCAOB<sup>29</sup> to discuss insights about the audit evidence standard, including the technology Task Force, of the PCAOB.

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<sup>29</sup> The United States Public Company Accounting Oversight Board

## Appendix 2

### Extracts from the Approved March 2021 IAASB Meeting Minutes

#### ISA 500, *Audit Evidence*

Ms. Almond introduced the topic by providing an overview of the key issues to be discussed by the Board as outlined in **Agenda Item 2**.

THE MEANING OF AUDIT PROCEDURES AND THE DEFINITION OF AUDIT EVIDENCE, INCLUDING THE SCOPE OF ISA 500<sup>30</sup>

The Board supported the Audit Evidence Task Force's (AE Task Force) conclusions about the input and output of information in the context of ISA 500, i.e., that "information intended to be used as audit evidence" needs to be subject to audit procedures to become audit evidence.

#### *THE MEANING OF AUDIT PROCEDURES*

The Board, on balance, supported clarifying the meaning of audit procedures. However, the Board questioned how, or whether, this clarification may impact auditor behavior. The Board also disagreed with the proposal that:

- There are audit 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; and
- Such audit procedures are excluded from the scope of ISA 500.

#### CHANGES TO THE DEFINITION OF AUDIT EVIDENCE

The Board broadly supported the proposed revisions to the first sentence of the extant definition of audit evidence, provided that audit procedures, as used in the definition, means all audit procedures performed in accordance with the ISAs.

The Board expressed mixed views about the proposed deletion of the second sentence of the extant definition of audit evidence, which deals with the possible sources of audit evidence. However, on balance, the Board supported explaining the sources of audit evidence in the application material.

#### OTHER MATTERS RELATED TO THE DEFINITION OF AUDIT EVIDENCE

The Board emphasized the importance of addressing information that corroborates or contradicts assertions in the financial statements through application material or a requirement to design and perform audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory (i.e., similar to the requirements that were introduced in ISA 315 (Revised 2019)<sup>31</sup> and ISA 540 (Revised)<sup>32</sup>).

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<sup>30</sup> International Standards on Auditing (ISA) 500, *Audit Evidence*

<sup>31</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

<sup>32</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

#### INFORMATION INTENDED TO BE USED AS AUDIT EVIDENCE – RELEVANCE AND RELIABILITY

The Board broadly supported the direction of the AE Task Force's proposals in developing a principles-based requirement when considering the relevance and reliability of information intended to be used as audit evidence. However, the Board had mixed views about the clarity and robustness of the proposed requirement, which included the following suggestions:

- Retaining the requirement about obtaining audit evidence about the accuracy and completeness of information intended to be used as audit evidence, which could be a conditional requirement.
- Clarifying or explaining the auditor's required work effort; and
- Simplifying the proposed requirement, as the current drafting suggests a two-step process.

The Board encouraged the AE Task Force to:

- Further emphasize that the attributes that may be considered by the auditor relating to the relevance and reliability of information intended to be used as audit evidence are not meant to be used as a checklist;
- Address the risk of auditor bias when considering the attributes, particularly when the information has been generated through technology; and
- Include more examples to demonstrate that, in some cases, the consideration of the relevance and reliability of information intended to be used as audit evidence may be performed concurrently with other audit procedures to obtain sufficient appropriate audit evidence.

#### SOURCES OF INFORMATION INTENDED TO BE USED AS AUDIT EVIDENCE

The Board acknowledged the AE Task Force's challenges in reconciling the definition of an external information source with other sources external to the entity more broadly. The Board asked the AE Task Force to further consider whether:

- There would be a different work effort in considering information from an external information source and other sources external to the entity.
- The categories may be simplified, given that that information is either internal or external to the entity.
- The definition of an external information source needs to be revised.

The Board also encouraged the AE Task Force to consider various types of information the auditor may use in an audit, and which category the information would fall in to. The Board continued to note uncertainty about whether "auditor generated information" is a separate source of information.

#### AVAILABILITY, ACCESSIBILITY AND UNDERSTANDABILITY OF INFORMATION INTENDED TO BE USED AS AUDIT EVIDENCE

The Board expressed mixed views about the proposal to develop guidance to explain that restrictions about information that is not available or understandable are not a justification for the auditor to be satisfied with less than persuasive audit evidence. The Board also asked the AE Task Force to further consider:

- Developing guidance to explain that in some cases the costs to obtain audit evidence may outweigh the benefit. For example, it may be the only or best audit evidence available.



- Whether it is appropriate to exclude information from the scope of ISA 500 if it is not understandable, noting that it may be the best information in relation to relevance and reliability.

#### SUFFICIENT APPROPRIATE AUDIT EVIDENCE AND PERSUASIVENESS OF AUDIT EVIDENCE

The Board strongly supported the three proposed categories of factors that may affect sufficient appropriate audit evidence. Further recommendations of the Board included:

- In relation to the effectiveness of audit procedures and whether the audit procedures have been effectively applied, instead referring to the “responsiveness” of audit procedures, as it may be more scalable.
- Further exploring “appropriately applied” given that it is a quality management concept that applies throughout the ISAs.

The Board expressed mixed views about the proposed changes to the definitions of sufficiency and appropriateness of audit evidence. While some supported the proposed changes to the definitions, other members suggested that the current definitions should be retained, noting that:

- The current definitions use plain language, and that translation issues could arise with the new proposed terms.
- The proposed changes in the definitions may not drive any changes in the auditor’s behavior or work effort.
- Instead of changing definitions, guidance should be developed to support the auditor’s considerations regarding sufficient appropriate audit evidence.

In relation to the definition of “sufficiency of appropriate audit evidence” and the concept of persuasiveness, further specific comments included:

- Re-embedding the concept of risk of material misstatement in the definition.
- Exploring the reference to “appropriate” in the title of the definition, and the further implications throughout the ISAs as a result of changing this term, given that the ISAs refer to “sufficient appropriate audit evidence,” rather than “sufficient *and* appropriate audit evidence.”
- Exploring the concept of “acceptably low level” in the context of discussing persuasiveness in ISA 500.

#### OTHER COMMENTS

In relation to the modernization of the standard, the Board asked the AE Task Force to consider the use of other and more conventional types of examples, noting that some of the proposed examples focus on specific technology, such as blockchain, that may inadvertently date the standard.

#### IAASB CAG CHAIR REMARKS

Mr. Dalkin noted that the IAASB CAG is broadly supportive of the direction of the project. Mr. Dalkin also highlighted the recent approval of the revised AU-C Section 500 by the AICPA's ASB,<sup>33</sup> and noted that the Representatives encouraged the AE Task Force to consider the changes implemented by the AICPA as a reference point.

#### PIOB OBSERVER REMARKS

Prof. van Hulle noted that he is not opposed to a principles-based approach in considering the relevance and reliability of information intended to be used as audit evidence, provided that the requirements are clear and robust. Given the increased use of, and developments in, technology, Prof. van Hulle noted that a principles-based approach may be more appropriate in the circumstances. Notwithstanding his support of a principles-based approach, Prof. van Hulle noted the importance and value of external information, if available and accessible to the auditor. For example, attempts to mitigate recent corporate failures may have been identified or initiated earlier if the auditor used available information sources external to the entity. He therefore questioned whether ISA 500 should include a requirement to consider external information sources that are available to the auditor.

#### WAY FORWARD

The AE Task Force will make changes to ISA 500 based on Board members' feedback. The AE Task Force will bring further matters for discussion to the July 2021 IAASB meeting.

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<sup>33</sup> In July 2020, The American Institute of Certified Public Accountants' (AICPA) Auditing Standards Board (ASB) 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.