

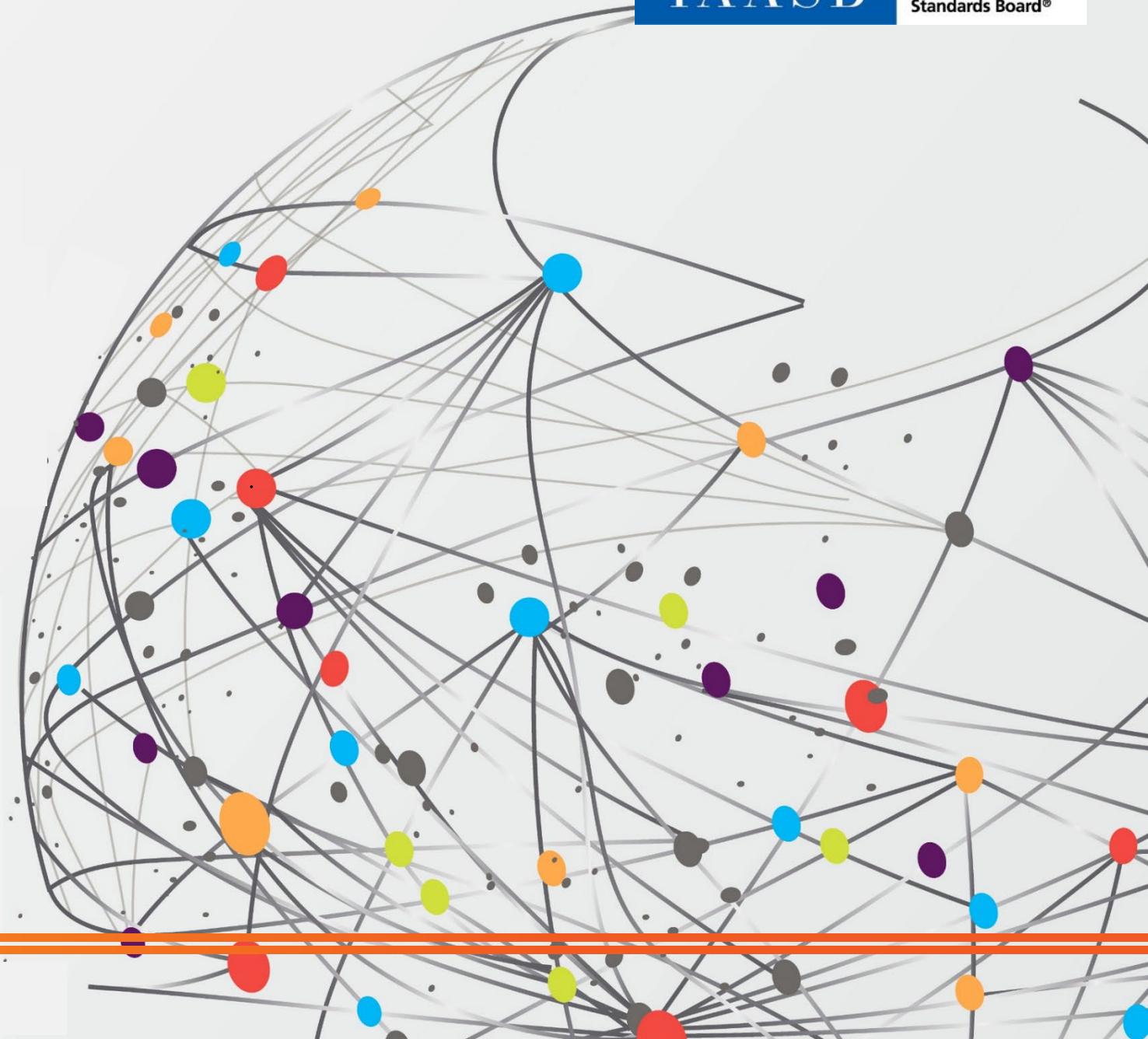
Audit Evidence

Agenda Item 5

Presented by Sue Almond (Task Force Chair)

IAASB Meeting

March 17, 2021



Key Board Decisions of the December 2020 and March 2021 IAASB Meetings

- Support to introduce the concept of persuasiveness of audit evidence but questioned whether a definition would be practicable
- Broad support for the attributes of relevance and reliability, subject to recommendations to simplify or streamline such attributes
- All audit procedures that are performed in accordance with the ISAs may provide audit evidence, although the persuasiveness of such evidence may vary based on the nature or purpose of the procedure
- Support for the proposed definition of audit evidence
- Strong support for the three proposed categories of factors that may affect sufficient appropriate audit evidence (SAAE)

Highlights of July 2021 Board Discussion

- Relevance and reliability of information intended to be used as audit evidence
- Reinforcing the exercise of professional skepticism
- The purpose and scope of ISA 500 and the requirements that the standard should address
- Addressing the concept of detection risk in ISA 500
- Proposed approach in presenting examples to support the application of principles and concepts of the requirements in ISA 500

March 2022 Discussion (cont.)

- Introductory comments
 - What are the significant proposed changes compared to extant ISA 500?
 - Clarifying the purpose and scope of ISA 500, including the relationship of ISA 500 with the other ISAs
 - New proposed principles-based requirement to evaluate relevance and reliability of information intended to be used as audit evidence, irrespective of the source of information
 - New requirements to reinforce the exercise of professional skepticism related to audit evidence

The proposed changes to extant ISA 500 are conceptually driven by the Audit Evidence project proposal, which was informed by the AETF's information-gathering activities in 2019

March 2022 Discussion (cont.)

- How will the proposed changes impact auditor behavior in practice?
 - A collection of proposed changes that together positively impact auditor behavior
 - Requirement to evaluate relevance and reliability of information, irrespective of the source of the information
 - Focus on considering which attributes of relevance and reliability are applicable in the circumstances
 - Linkage between audit evidence and quality management at the engagement level
 - Consideration of auditor bias and potential barriers to exercise of professional skepticism
 - Audit evidence derives from any ISA audit procedure for purposes of obtaining SAAE
 - Clarifying that Information has to be subject to an audit procedure before it becomes audit evidence
 - Focusing on the outcome of an audit procedure when evaluating SAAE as opposed to the type of audit procedure
 - Further probing in relation to the work of management expert
 - Introducing a new “stand-back” requirement about whether the audit evidence obtained meets the auditor’s purposes.
 - Modernization of standard to assist auditors with changes in technology

Feedback from Advisory Groups

- Consultative Advisory Group
 - Strong support for a principles-based approach
 - Broadly supportive of the proposals to reinforce the auditor's exercise of PS
 - Recognition and support for principles-based technology proposals that can stand the test of time
- IFAC SMP Advisory Group
 - Overall support and agreement that clarifications are likely to be helpful to auditors
 - Specific support expressed for the Task Force's considerations about
 - The relevance and reliability of information intended to be used as audit evidence
 - Information prepared by management's expert
 - Doubts about relevance and reliability of information intended to be used as audit evidence
 - Inconsistencies in audit evidence
- Coordination with other IAASB Task Forces or Working Groups and the IESBA

Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence

Relevant Paragraphs in Agenda Item 5-A

Requirements	Application Material	Definitions	Other
8	A1–A28	7(a) and 7(d)	Appendix

- What did we focus on since July 2021?
 - Redrafted paragraph 8 to clarify the relationship of proposed ISA 500 (Revised) with other ISAs
 - Reinforced professional skepticism by aligning paragraph 8(a) with ISA 315 (Revised 2019) and ISA 540 (Revised)
 - Addressed the concept of detection risk
 - Subsumed the selection of items for testing (paragraph 10 of extant ISA 500) into paragraph 8(b) as part of designing and performing audit procedures that are appropriate in the circumstances

Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence (cont.)

Question 1:

The Board is asked for its views on the **requirement** in paragraph 8 of **Agenda Item 5–A**. The Board is asked specifically to provide input on the following

- a) Whether the proposals adequately address the concept of detection risk, as summarized in paragraph 25 of **Agenda Item 5**
- b) The proposal to subsume paragraph 10 of extant ISA 500 within paragraph 8(b) of proposed ISA 500 (Revised), as discussed in paragraphs 26–28 of **Agenda Item 5**

Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence (cont.)

- Definitions related to proposed paragraph 8 of **Agenda Item 5–A**

Appropriateness (of audit evidence) – marked to extant ISA 500

The measure of the quality of audit evidence; ~~that is, the relevance and its reliability in providing support for the conclusions that form the basis for on which the auditor's opinion and report is based~~

- What did we focus on since July 2021?
 - Substantially retained the terminology in extant ISA 500 (based on Board direction)
 - Quality of the audit evidence is affected by
 - Relevance and reliability of audit evidence
 - Effectiveness of the audit procedures applied to the information

Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence (cont.)

- Definitions related to proposed paragraph 8 of **Agenda Item 5–A**

Sufficiency (of audit evidence) – marked to extant ISA 500

The measure of the quantity of appropriate audit evidence in providing support for the conclusions that form the basis for the auditor's opinion and report. ~~The quantity of the audit evidence needed is affected by the auditor's assessment of the risks of material misstatement and also by the quality of such audit evidence.~~

- Explained the interrelationship of sufficiency and appropriateness, and persuasiveness, of audit evidence in the application material
- Emphasized that sufficiency is the measure of the quantity of **appropriate** audit evidence to clarify the important linkage between sufficiency and appropriateness

Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence (cont.)

Application Material			
Requirements	Application Material	Definitions	Other
8	A1–A28	7(a) and 7(d)	Appendix

- What did we focus on since July 2021
 - Emphasized relationship between audit procedures and audit evidence – supports notion of ISA 500 (Revised) containing overarching requirements
 - Introduced application material on auditor bias to reinforce the exercise of professional skepticism
 - Relocated application material on types of audit procedures to the Appendix

Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence (cont.)

Question 2:

The Board is asked for its views on:

- The definitions of appropriateness (of audit evidence) and sufficiency (of audit evidence) in paragraphs 7(a) and 7(d) of **Agenda Item 5–A**, including the related application material in paragraphs A1–A15 of **Agenda Item 5–A**; and
- The other application material related to paragraph 8 in **Agenda Item 5–A**

In providing views on the above, the Board is asked specifically to provide input on the following

- a) Whether the Board agrees with relocating descriptions and explanations about the types of audit procedures to the Appendix, as discussed in paragraphs 33–36 of **Agenda Item 5**
- b) The proposed application material to address automation bias, as discussed in paragraphs 41–42 of **Agenda Item 5**

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

- Proposed paragraph 9 of **Agenda Item 5–A**

Relevant Paragraphs in Agenda Item 5-A			
Requirement	Application Material	Definitions	Other
9	A29–A61	N/A	N/A

- What did we focus on since July 2021?
 - Emphasized scalability of the work effort regarding the evaluation of the attributes of relevance and reliability (i.e., not to be used as a checklist)
 - Introduced source as a specific attribute – public interest issue

Relevance and Reliability of Information Intended to be Used as Audit Evidence (cont.)

- What did we focus on since July 2021 (cont.)
 - Enhanced guidance on the availability, accessibility and understandability of information
 - Introduced guidance on sources of information to support a principles-based requirement
 - External Information Source (EIS) as introduced as a conforming amendment of ISA 540 (Revised)
 - Explained the relationship between the attributes of information and the integrity of information during information processing activities
 - Enhanced guidance to describe the factors that affect the auditor's professional judgment in evaluating information – scalability of work effort
 - Audit procedures to evaluate relevance and reliability

Relevance and Reliability of Information Intended to be Used as Audit Evidence (cont.)

Question 3:

The Board is asked for its views on

- The requirement in paragraph 9 of **Agenda Item 5–A**; and
- The related application material in paragraphs A29–A61 of **Agenda Item 5–A**

In providing views on the above, the Board is asked specifically to provide input on replacing the definition of EIS with a description in the application material (see paragraphs 58–62 of **Agenda Item 5**)

Information Prepared by a Management's Expert

- Proposed paragraph 10 of **Agenda Item 5–A**

Relevant Paragraphs in Agenda Item 5-A

Requirement	Application Material	Definitions	Other
10	A62–A74	7(c)	N/A

- AETF's views
 - Retained the extant requirement to evaluate competence, capabilities and objectivity
 - Expanded and clarified the requirement in paragraph 8(b) of extant ISA 500 to obtain an understanding of the work of the management's expert
 - Did not retain paragraph 8(c) of extant ISA 500 as the evaluation of the appropriateness of the work of a management's expert is integral to the evaluation in paragraph 9 of whether the information being used is relevant and reliable for the auditor's purposes
 - Streamlined the application material

Information Prepared by a Management's Expert (cont.)

Question 4:

The Board is asked for its views on

- The requirement in paragraph 10 of **Agenda Item 5–A**; and
- The related application material in paragraphs A62–A74 of **Agenda Item 5–A**

In providing views on the above, the Board is asked specifically to provide input on the following

- a) Whether it is clear that paragraph 10 builds on, and is therefore incremental to, the overarching requirements of paragraph 9
- b) Retaining in paragraph 10(a) the reference to the evaluating the competence, capabilities and objectivity of the management's expert, and the description in paragraph A65 of **Agenda Item 5-A** regarding the link to the attributes of credibility and bias

Doubts About the Relevance and Reliability of Information Intended to be Used as Audit Evidence

- Proposed paragraph 11 of **Agenda Item 5–A**

Relevant Paragraphs in Agenda Item 5–A		
Application Material	Definitions	Other
A75–A77	N/A	N/A

- What did we focus on since July 2021
 - Brought back the concept of “doubt” as included in extant ISA 500
 - Retained the concept of doubt over the “relevance” of information as introduced in July 2021
 - Explored whether paragraphs 11 and 12 may be combined
 - Enhanced application material to assist in reinforcing professional skepticism, including emphasizing the value of information sources external to the entity

Doubts About the Relevance and Reliability of Information Intended to be Used as Audit Evidence (cont.)

Question 5:

The Board is asked for its views on

- The requirement in paragraph 11 of **Agenda Item 5–A**; and
- The related application material in paragraphs A75–A77 of **Agenda Item 5–A**.

Inconsistencies in Audit Evidence

- Proposed paragraph 12 of **Agenda Item 5–A**

Relevant Paragraphs in Agenda Item 5-A			
Requirement	Application Material	Definitions	Other
12	A78–A82	N/A	N/A

- What did we focus on since July 2021
 - Considered the robustness of the requirement compared to extant ISA 500
 - Enhanced the application material, including introducing guidance when the auditor identifies items that are inconsistent with the auditor’s expectations based on draft non-authoritative guidance of the IAASB’s Technology Consultation Group

Inconsistencies in Audit Evidence (cont.)

Question 6:

The Board is asked for its views on

- The requirement in paragraph 12 of **Agenda Item 5–A**; and
- The related application material in paragraphs A78–A82 of **Agenda Item 5–A**.

In providing views on the above, the Board is asked specifically to provide input on whether the distinction between the requirements in paragraphs 11 and 12 of **Agenda Item 5–A** is clear

Evaluating Whether Audit Evidence Obtained Meets the Auditor's Purposes

- Proposed paragraph 13 of **Agenda Item 5–A**

Relevant Paragraphs in Agenda Item 5–A			
Requirement	Application Material	Definitions	Other
13	A83–A85	N/A	N/A

- What did we focus on since July 2021
 - Introduced a new stand-back requirement to evaluate whether the audit evidence obtained meets the auditor's purposes
 - Inform the auditor's conclusion in ISA 330
 - Added application material, including to explain linkage with detection risk

Evaluating Whether Audit Evidence Obtained Meets the Auditor's Purposes (cont.)

Question 7:

The Board is asked for its views on

- The requirement in paragraph 13 of **Agenda Item 5–A**; and
- The related application material in paragraphs A83–A85 of **Agenda Item 5–A**

In providing views on the above, the Board is asked specifically to provide input on whether the “stand back” in paragraph 13 of **Agenda Item 5-A** provides an appropriate link to ISA 330 by informing the auditor's overall conclusion about whether sufficient appropriate audit evidence has been obtained

Definition of Audit Evidence and Description of Accounting Records

- What did we focus on since July 2021
 - Relocated to the application material (CUSP Guidelines), and modernized, the definition of accounting records

Question 8:

The Board is asked for its views on:

- a) The proposal not to revise or change the definition of audit evidence, as presented in paragraph 7(b) of **Agenda Item 5–A**, given the Board’s support for the definition in March 2021; and
- b) Moving the definition of “accounting records” to the application material (see paragraph A41 of **Agenda Item 5–A**).

Introductory Paragraphs and Objective

CUSP Guidelines

- Introductory paragraphs – paragraphs 1–4
 - Reflects that ISA 500 contains overarching requirements throughout the audit
 - Explains the relationship between ISA 500 and the other ISAs
 - Emphasizes the importance of exercising professional skepticism
- Objective – paragraph 6
 - Focuses on evaluation of information intended to be used as audit evidence (as opposed to the design and performance of audit procedures)
 - Outcome based, i.e., to provide a basis for concluding whether SAAE has been obtained

Question 9:

The Board is asked for its views on the introduction in paragraphs 1–4 and the objective in paragraph 6 of **Agenda Item 5–A**

How Technology has been Addressed in ISA 500

- Principles-based requirements that are not prescriptive with respect to technology
- Application material builds on principles-based requirements to explain how principles may apply when using technology – in coordination with the Technology Consultation Group
- Development of non-authoritative guidance to address technology

Question 10:

The Board is asked for its views on the manner in which technology has been addressed in proposed ISA 500 (Revised) i.e., how the principles of ISA 500 may apply when using technology

Professional Skepticism – Critical Assessment of Audit Evidence

Question 11:

The Board is asked for its views about whether the requirements and application material in Agenda Item 5–A reinforce the exercise of professional skepticism and, specifically, a critical assessment of audit evidence, as described in paragraph 107 of **Agenda Item 5**

Fraud

Question 12:

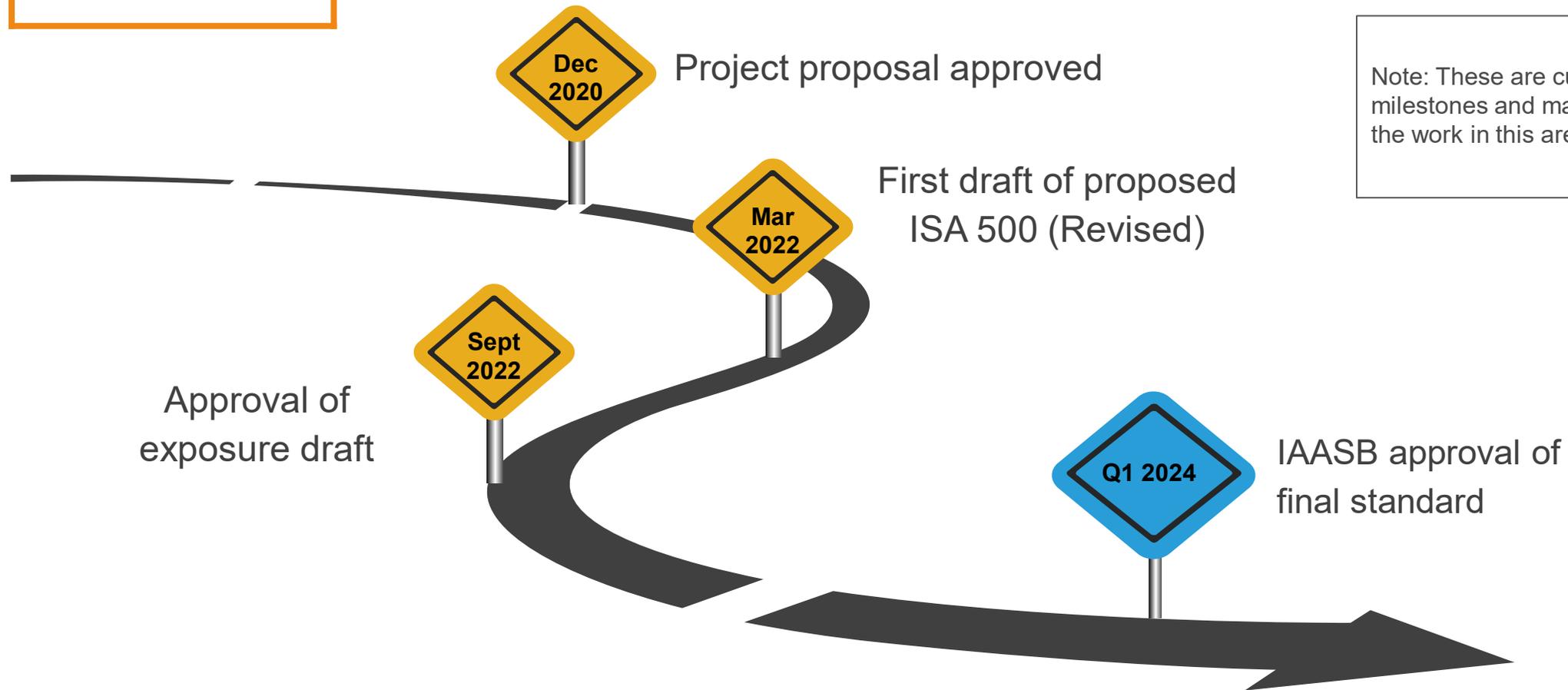
The Board is asked for their views on the proposed approach to addressing fraud in proposed ISA 500 (Revised). In particular, the Board is asked for its views on adding application material in proposed ISA 500 (Revised) to explain the concepts in paragraph A23 of ISA 200 (see paragraph 113 in **Agenda Item 5**)

Approach to Conforming and Consequential Amendments

Question 13:

The Board is asked for their views on the proposed approach to the conforming and consequential amendments arising from proposed ISA 500 (Revised), as described in paragraphs 118-124 of the issues paper

Timeline for Audit Evidence





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