

### Audit Evidence – Issues

#### Objective:

The objective of the IAASB discussion in December 2023 is to obtain the Board’s input on the Audit Evidence Task Force’s (AETF) proposals for addressing key themes from the responses to the Exposure Draft (ED-500): [Proposed International Standard on Auditing \(ISA\) 500 \(Revised\), Audit Evidence, and Proposed Conforming and Consequential Amendments to Other ISAs](#). In addition, the Board will be presented with an overview of additional information-gathering and analysis performed to date to inform the AETF proposed revisions in relation to technology-focused modernization of proposed ISA 500 (Revised), and for other aspects relevant to the interdependencies between the ‘reference framework’ aspects of ED-500 and the ‘performance’ aspects of other ISAs.

#### *Approach to the Board Discussion:*

The AETF Chair will go through the questions in the order they are set out in this Agenda Item and where applicable, will refer to the preliminary drafting for proposed ISA 500 (Revised), *Audit Evidence*, presented in **Agenda Item 8-A**.

## Introduction

### Background

1. At the September 2023 IAASB meeting, the AETF presented to the Board an analysis of respondents’ comments to ED-500 and a proposed approach to address certain themes identified from the responses.<sup>1</sup> The Board provided directional input to the AETF for the topics discussed to be considered further in the development of proposed ISA 500 (Revised).
2. In addition, as part of the Strategy and Work Plan Consultation,<sup>2</sup> when discussing the possible programming decisions, the Board broadly supported exploring an expanded and integrated approach to audit evidence and risk response, including a focus on technology. The Board also provided comments and suggestions for further consideration in pursuing such approach.
3. The draft September 2023 IAASB meeting minutes are available in [Agenda Item 1](#) on the *IAASB Quarterly Board Meeting - December 11-14, 2023* webpage.

### Materials Presented

4. This paper sets out the following:
  - **Part A:** further information-gathering and analysis undertaken to date to inform the AETF’s and the IAASB’s consideration of technology and the interdependencies between the ‘reference framework’ aspects of ED-500 and the ‘performance’ aspects of other ISAs (e.g., ISA 330<sup>3</sup> and

<sup>1</sup> The themes discussed in further depth during the September 2023 IAASB meeting included: (i) technology, (ii) the definition of audit evidence and objectives, (iii) the interrelationship of sufficiency, appropriateness and persuasiveness of audit evidence, (iv) evaluating the relevance and reliability of information intended to be used as audit evidence, (v) the conditional requirement for accuracy and completeness and (vi) the “stand-back” requirement.

<sup>2</sup> See the [Consultation Paper](#) on the IAASB Strategy and Work Plan 2024–2027.

<sup>3</sup> ISA 330, *The Auditor’s Responses to Assessed Risks*

- certain ISAs of the 500-series<sup>4</sup>).
- **Part B:** the AETF proposals to address key themes identified from the responses to ED-500, in the following Sections:

Section	Description
I	Technology
II	Definitions
III	Evaluating the Relevance and Reliability of Information
IV	Conditional Requirement for Accuracy and Completeness
V	Professional Skepticism
VI	Other matters

- **Part C:** the way forward.

5. This Agenda Item includes the following appendices and other agenda items:

<b>Appendix 1</b>	AETF members and activities since the September 2023 IAASB meeting
<b>Agenda Item 8-A</b>	Preliminary drafting for proposed ISA 500 (Revised) (in mark-up from ED-500)
<b>Agenda Item 8-B (Supplemental)</b>	Deeper analysis of relevant feedback from ED-500 and the Strategy and Work Plan Consultation
<b>Agenda Item 8-C (Supplemental)</b>	Review of literature and non-authoritative guidance relevant to technology and the use automated tools and techniques (ATT) in audits of financial statements

### Coordination Activities

#### *International Ethics Standards Board for Accountants (IESBA)*

6. Based on the IESBA’s feedback provided in May 2023, the AETF has aligned the application material in paragraphs A72–A73 of **Agenda Item 8-A** addressing threats to the management expert’s objectivity with the IESBA Code<sup>5</sup> position on what qualifies as a safeguard.<sup>6</sup> The AETF intends to engage in further coordination activities with the IESBA post December 2023, including seeking views on the proposed changes to ED-500.

#### *IAASB Task Forces and Consultation Groups*

7. In October and November 2023, coordination meetings took place between the members of the AETF, the Chair of the fraud project, and IAASB Staff. At the meetings, topics of mutual relevance were

<sup>4</sup> ISA 501, *Audit Evidence—Specific Considerations for Selected Items*; ISA 505, *External Confirmations*; ISA 520, *Analytical Procedures*; and ISA 530, *Audit Sampling*

<sup>5</sup> The International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)*

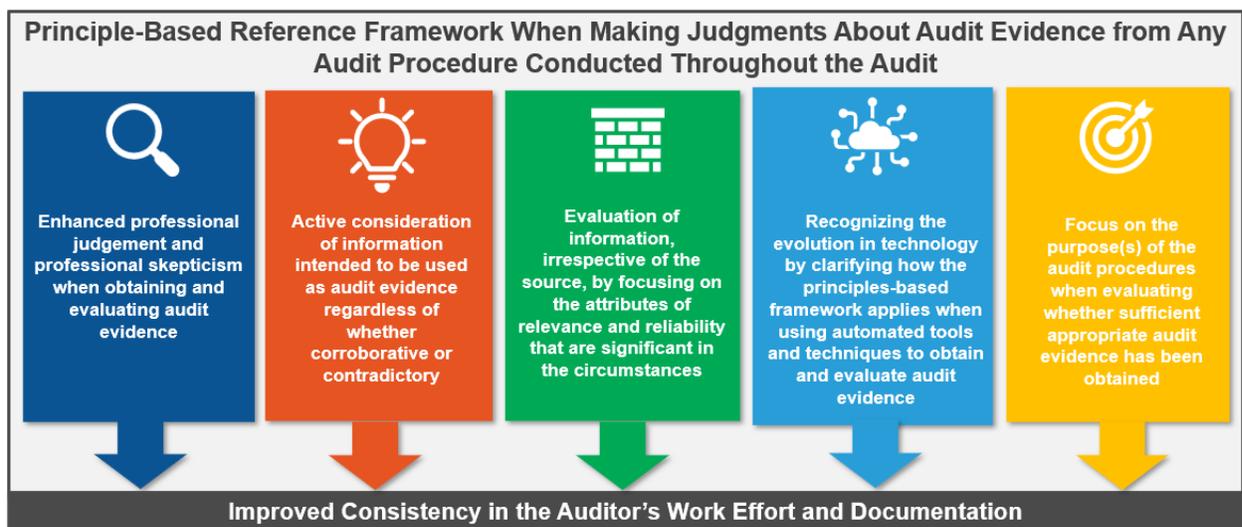
<sup>6</sup> See paragraphs 40-49 of IESBA’s [Basis for Conclusions: Revisions Pertaining to Safeguards in the Code](#).

discussed (e.g., with respect to authenticity of information) and views were exchanged on other matters with the intent for the proposals for the revised audit evidence and fraud standards to remain aligned.

8. The Chair of the AETF attended the Planning Committee discussion on the proposed Strategy and Work Plan 2024–2027 in October 2023, and provided an update on the additional information-gathering and analysis discussed in **Part A** of this Agenda Item, including the AETF views on the interdependencies between the ‘reference framework’ aspects of ED-500 and the ‘performance’ aspects of other ISAs.
9. In November 2023, the AETF sought views and inputs from the Technology Consultation Group (TCG) on the issues and drafting paragraphs related to technology discussed in **Part B, Section I** of this Agenda Item. While certain technology related examples as suggested by members of the TCG have been incorporated in **Agenda Item 8-A**, the AETF intends to deliberate and consider the feedback provided in further depth post December 2023 (e.g., together with the feedback provided by the Board), including the TCG drafting suggestions for the description, requirement, and application material when the auditor uses ATT. In addition, the AETF sought the TCG observations in relation to the key insights from the additional information-gathering and analysis discussed in **Part A** of this Agenda Item (see paragraph 34).

### Key Aspects of Proposed ISA 500 (Revised) that Aim to Promote Consistent Practice and Change Auditor Behavior

10. There were overarching messages from respondents to ED-500 that encouraged the IAASB to more clearly articulate how the revisions to proposed ISA 500 (Revised) are expected to improve audit quality. The AETF reflected on stakeholder feedback and developed a roadmap, demonstrated in the diagram below, that summarizes the key outcomes for proposed ISA 500 (Revised) that would most significantly contribute to enhancing consistency in practice and modifying auditor behavior. In doing so, the AETF referred to stakeholder feedback to ED-500,<sup>7</sup> and believes that on the basis of the responses received, there remains support for the relevance of the project to revise ISA 500, including for its timely completion in the public interest.



<sup>7</sup> See [Agenda Item 4](#) discussed with the IAASB at its September 2023 quarterly meeting.

11. The AETF has remained mindful of these key outcomes when formulating its views and proposals discussed in **Part B** of this Agenda Item, and when reflecting the changes to proposed ISA 500 (Revised) included in **Agenda Item 8-A**.
12. A high-level description of the AETF deliberations of these outcomes is presented below:
  - (a) Given the role and nature of proposed ISA 500 (Revised) as an overarching standard that deals with the auditor’s responsibilities relating to audit evidence, the AETF is of the view that it is appropriate to retain the principle-based reference framework approach for the standard to support the auditor’s judgments about audit evidence from all audit procedures undertaken in planning and performing an audit in accordance with the ISAs.
  - (b) The AETF notes the broad support from respondents for the enhancements made in relation to professional skepticism in ED-500 and, in response to the feedback, has further strengthened the linkages of the standard with ISA 240<sup>8</sup> (e.g., for the attributes of authenticity and bias). However, the AETF believes that providing further clarity and specificity to certain requirements in proposed ISA 500 (Revised) is necessary and responsive to stakeholder concerns as it would support enhanced professional judgments when obtaining and evaluating audit evidence. As a result, several changes have been proposed in **Agenda Item 8-A** to clarify key areas for the expected auditor’s work effort (e.g., providing clarity for the threshold when an attribute is “*significant* in the circumstances”).
  - (c) The AETF believes that the principles of the “input-output model” continue to provide an appropriate foundation for the auditor to actively consider all information intended to be used as audit evidence and how such information adds value to the audit. However, the AETF acknowledge that further clarity is needed to the definition of audit evidence to avoid a mechanical approach when applying the model, as well as to support its practical application. In addition, the AETF is of the view that the robustness of the definition and how it interacts with the other requirements in the standard should clearly support the notion that the auditor cannot ignore information relevant to the audit that comes to the auditor’s attention, including information that calls into question the reliability of other information. In response, the AETF has enhanced the introduction section of the standard to emphasize the importance of this notion and facilitate setting the appropriate mindset for the auditor when applying ED-500.
  - (d) The AETF is of the view that the focus on all information irrespective of its source and on the attributes of relevance and reliability are important new features introduced for proposed ISA 500 (Revised) that should be retained and enhanced. They enable a strengthened evaluation (instead of consideration) of the relevance and reliability of information intended to be used as audit evidence. With respect to the conditional requirement for accuracy and completeness, the AETF considered regulatory feedback and enhanced the requirement to clarify that for information from internal sources, accuracy and completeness are ordinarily significant attributes. In addition, the robustness of the requirement has been strengthened by requiring audit procedures to be performed relating to each of the attributes of reliability that are considered to be significant in the circumstances.
  - (e) Given the strong messages from the feedback that more robust actions are needed in ED-500 in response to the project objective for technology-focused modernization, the AETF has explored an approach that provides further specificity to clarify how the principles-based

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<sup>8</sup> ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

framework applies when using ATT to obtain and evaluate audit evidence. The AETF believes that in doing so, this will help build consistent practice in this area, and is an effective response that involves a specific action to strengthen the requirements of ED-500, in addition to providing application material and non-authoritative guidance to support proper implementation and application.

- (f) ED-500 clarifies that the auditor's procedures to obtain sufficient appropriate audit evidence include all audit procedures designed and performed when planning and performing an audit engagement in accordance with the ISAs, and in doing so recognizes that the auditor may concurrently perform an audit procedure that achieves more than one purpose(s). It also clarifies the relationship with other ISAs thereby assisting the auditor when evaluating whether sufficient appropriate audit evidence has been obtained.
- (g) Clarity for work effort and related documentation expectations were cross-cutting areas where enhancements were requested across all stakeholder constituencies. The AETF has focused on providing further clarity to the principle-based requirements to support the auditor when making professional judgments about these areas and will continue to explore these matters as the revisions for ED-500 progress.

### Qualitative Standard-Setting Characteristics

13. Because the Public Interest Framework (PIF)<sup>9</sup> was not yet implemented when the audit evidence project was approved, the [project proposal](#) to revise ISA 500 did not include consideration of the qualitative standard-setting characteristics of the PIF. However, given the importance of these qualitative standard-setting characteristics as criteria to assess the public interest responsiveness of the standard, the AETF explored the following characteristics which have relevance to the revisions in proposed ISA 500 (Revised):

- *Comprehensiveness*, through limiting the extent to which there are exceptions to the principle-based reference framework.
- *Clarity and conciseness*, to enhance understandability and minimize the likelihood of differing interpretations of the principles set out.
- *Scalability*, to address both less and more complex circumstances, commensurate to the varying circumstances that may occur.
- *Coherence*, with the overall body of standards.
- *Timeliness*, focusing on timely standard-setting action to address identified needs without sacrificing quality.
- *Relevance*, through recognizing and responding to emerging issues, changes in business and technology.
- *Implementability*, and ability of being *consistently applied and globally operable* across entities of all sizes and regions, respectively, as well as considerations of the different conditions prevalent in different jurisdictions.
- *Enforceability*, through clearly stated responsibilities that make it possible to ascertain the

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<sup>9</sup> See the Monitoring Group report [Strengthening the International Audit and Ethics Standard-Setting System](#).

extent to which an auditor has complied with the standard.

14. The AETF acknowledges that the interrelationship among the qualitative standard-setting characteristics discussed in paragraph 13 needs further consideration, particularly *timeliness*, when refining the list in the light of the integrated approach to audit evidence and risk response, and intends to do so post December 2023 while determining those characteristics that are of most importance to the revisions for proposed ISA 500 (Revised).

## **Part A: Overview of Additional Information-Gathering Activities and Analysis**

### **Background**

15. In September 2023, the AETF presented to the Board an initial analysis of technology related topics from the written responses to ED-500, and an indication of where and how those topics may be addressed (within and outside of ED-500).<sup>10</sup> In addition, there was consistency in the messages from the responses to ED-500 and the Strategy and Work Plan Consultation, including messages that more robust actions are necessary both in ED-500 and more broadly across the ISAs, including through non-authoritative guidance, to address matters relevant to modernization of the standards for technological development.<sup>11</sup>
16. Also, as discussed in paragraph 2, as part of the Strategy and Work Plan Consultation discussion, the Board deliberated a way forward in relation to undertaking an integrated approach to audit evidence and risk response, including a focus on technology. **Agenda Item 4-A** provides further information with respect to the proposed project “Integrated Approach to Audit Evidence and Risk Response, Including Focus on Technology and Internal Control” as part of the planned new projects in the IAASB work plan for 2024–2027.
17. Given the stage of development of the audit evidence project (i.e., the project has already been informed by respondents’ feedback and the AETF has advanced its thinking how aspects of the reference framework can be strengthened, including for technology), it was recognized that the risk response workstream of the integrated project would benefit from the ongoing work being undertaken, by:
  - Exploring how the use of ATT in the audit could be more comprehensively addressed (also see **Part B, Section I** of this Agenda Item).
  - Undertaking further analysis to understand the interdependencies between the ‘reference framework’ aspects of ISA 500 and the ‘performance’ aspects in ISA 330 and certain other standards in the 500-series.
18. Cognizant of the IAASB’s Strategy and Work Plan Consultation ongoing discussions, the AETF also reflected more broadly when formulating its views and proposals in response to the feedback, and in doing so, was not restricted by the current scope approved for the project to revise ISA 500 which specifically excluded certain actions (e.g., possible enhancements to other ISAs, such as ISA 330 and certain standards in the 500-series).

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<sup>10</sup> See paragraphs 76-78 and Appendix 4 of [Agenda Item 4](#) presented to the Board in September 2023.

<sup>11</sup> See [Agenda Item 4](#) and [Agenda Item 5](#) presented to the Board in September 2023.

## Scope of the Information-Gathering and Analysis

19. The AETF undertook further research and analysis of available information, which included performing:
- (a) A deeper analysis of (see **Agenda Item 8-B**):
    - (i) Responses to question 4 of ED-500 that sought feedback from stakeholders if they agreed that ED-500 is appropriately balanced with respect to technology by reinforcing a principles-based approach that is not prescriptive but accommodates the use of technology by the entity and the auditor, including for the use of ATT.
    - (ii) Responses to question 4 of the Strategy and Work Plan Consultation that sought views from respondents if they supported the identified possible new standard-setting projects, focusing on possible revisions to ISA 330 and various ISAs of the 500-series or undertaking a technology targeted or omnibus project(s).<sup>12</sup>
  - (b) A review of available literature, guidance and non-authoritative material published by regulators and oversight bodies, jurisdictional / national auditing standard setters (NSS), audit firms, and professional accountancy organizations addressing a broad range of topics relevant to the use of ATT in the audit. In cataloging the topics addressed, the AETF also considered the Frequently Asked Questions (FAQs) developed by the TCG and the IAASB digital technology market scans (see **Agenda Item 8-C**).

## Objectives of the Information-Gathering and Analysis

20. The objectives of the additional information-gathering and analysis included to:
- (a) Gain an understanding of stakeholders' perceptions as to what may be an effective response to address technology related matters (see paragraphs 21-25 below).
  - (b) Obtain a deeper understanding of the issues raised by respondents relevant to the project objective for technology-focused modernization of ISA 500 (Revised) (see paragraphs 26-28 below).
  - (c) Identify areas of overlap and interdependencies from the feedback to ED-500 and the Strategy and Work Plan Consultation (e.g., matters that are relevant to proposed ISA 500 (Revised), to other ISAs, or to both). This also included an exercise to understand the interdependencies between the 'reference framework' aspects of ISA 500 and the 'performance' aspects in ISA 330 and certain other standards in the 500-series (see paragraphs 29-30 below).
  - (d) Gain insights of available literature, guidance and non-authoritative material published by relevant sources to understand the common challenges being encountered by jurisdictional stakeholders when deploying technology tools in audits that would necessitate further guidance. In addition, the AETF aimed to identify further examples and material that could be leveraged when developing revisions to proposed ISA 500 (Revised) in response to the feedback for technology-focused modernization of ED-500 (see paragraphs 31-33 below).

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<sup>12</sup> The strategy and Work Plan Consultation indicated that a technology targeted, or omnibus project(s) may include undertaking a targeted or a broad-spectrum update of the ISAs for the impact of technology, which may primarily relate, or could be scoped to specifically address the audit evidence standards in the 500-series of ISAs and selected other ISAs.

### Key Insights from the Information-Gathering and Analysis

21. The paragraphs below summarize the AETF key insights from the information-gathering and analysis of available information. These insights have informed the AETF actions discussed in **Part B, Section I** of this Agenda Item, and it is envisioned that they would also inform the IAASB's consideration for the risk response workstream of the integrated project. Also, the information-gathering and analysis was shared with the TCG (see paragraph 34) given it may also be useful to inform their work plan and prioritization of activities.

### Objective A – Stakeholder Perceptions About What is an Effective Approach to Address Technology Issues?

22. There was broad support for a principle-based approach in ED-500, given its nature and role as a foundational standard addressing the auditor's responsibilities when obtaining and evaluating audit evidence including that the linkages and relationships with other ISAs remain appropriate and relevant. However, stakeholders do not necessarily perceive that providing further specificity for technology and the use of ATT within ED-500 to be in conflict with the principle-based approach of the standard, as long as the use of ATT is not mandated on audits.
23. Respondents acknowledged the relevance and usefulness of the guidance developed by the TCG and NSS, however views included that the non-authoritative nature of such material impacts its effectiveness. In addition, views included that more is needed to communicate this material more effectively to reach front line auditors. From the feedback, there is also demand for more authoritative material on technology to promote global consistency in practice, by leveraging some of the guidance previously developed by the TCG and NSS.
24. At the same time, there is recognition that further non-authoritative material is necessary, given that not all matters related to technology and the use of ATT can or should be addressed within ED-500 or the ISAs more broadly. For example, to provide more detailed guidance for specialized or emerging topics, convey more complex matters and provide comprehensive and detailed examples on 'how' a procedure can be undertaken when using ATT. Also, implementation support materials are identified as important to enable effective adoption of proposed ISA 500 (Revised).
25. As discussed in September 2023, the AETF noted the advantages of providing guidance, for example, a more appropriate mechanism to provide specific technology-related examples and insights, and to address how the principles in ED-500 may apply when using technology.

### Objective B – What are the Specific Technology Issues from the Feedback to ED-500?

26. The table below summarizes specific aspects where respondents suggested enhancements to ED-500 for technology and the use of ATT (also see **Agenda Item 8-B**).
27. In the table below, the AETF has included references to the relevant paragraphs in **Agenda Item 8-A** and provided explanations of how the matters have been further considered in the context of the revisions to proposed ISA 500 (Revised). The AETF has also highlighted instances where the issue raised may need broader actions in other ISAs, non-authoritative guidance, or can only be partially addressed within the scope of ED-500, given the role and nature of proposed ISA 500 (Revised) as a foundational standard addressing audit evidence within the suite of the ISAs.

Topics from the Feedback	Ref. Agenda Item 8-A
<i>Defining or describing ATT</i>	<p>Paragraph A2A – Provides a description for ATT.</p> <p>Paragraphs 1 and A4 – Explicit recognition is included in the scope paragraph that proposed ISA 500 (Revised) also establishes responsibilities for the auditor when using ATT.</p>
<i>Requirement when the auditor uses ATT</i>	<p>Paragraph 10A – A conditional requirement is included that specifically addresses the auditor’s overarching responsibilities when using ATT that extends to matters relevant to the inputs and operation of the ATT, and its outputs.</p>
<i>Enhancements to the application material discussing automation bias, including a more neutral discussion</i>	<p>Paragraphs A65K–A65M – The material for automation bias has been relocated to the section discussing the use of ATT. By repositioning this material to follow the discussion on the benefits of using ATT, the AETF is of the view that it now presents a more balanced discussion in the context of the application material.</p> <p>In addition, other enhancements to the paragraphs are proposed in response to the feedback, including providing an example when vulnerability to automation bias can be greater.</p>
<i>Emphasis needed on the engagement partner’s responsibility for the appropriate use of technological resources</i>	<p>Paragraph A65B – Discusses the engagement partner’s responsibility to determine that sufficient and appropriate resources are available to perform the audit engagement, including when using ATT.</p> <p>Paragraphs A65F–A65G – Enhance the links with ISQM 1<sup>13</sup> and ISA 220 (Revised)<sup>14</sup> with respect to technological resources and provide guidance whether the use of an ATT that is not approved by the firm is appropriate in the context of the audit engagement.</p>
<i>Clarity for the different categories of digital information and guidance for the different auditor considerations to evaluate their reliability</i>	<p>Paragraph A41 – The explanation for digital information has been expanded to emphasize different subcategories (i.e., documents in digital form and data generated digitally).</p> <p>Paragraph A65D – Emphasis is provided for the importance of controls when evaluating the reliability of information that may include a large volume of transactions, that particularly may apply to digital information.</p> <p>Paragraph A56G – Includes guidance for the attribute of authenticity of information. The guidance emphasizes that this attribute may be significant in the circumstances when information is initiated,</p>

<sup>13</sup> ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

<sup>14</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

Topics from the Feedback	Ref. Agenda Item 8-A
	<p>recorded, processed, or reported only in digital form, and appropriate controls are not operating effectively. It also provides a focus that for certain digital documents, such as an electronic confirmation, it may be more difficult to establish proof of origin and authority of the source. The examples, however, recognize that certain digital information may embed electronic credibility features, such as digital signatures.</p>
<p><i>Explicit recognition for audit data analytics as a type of audit procedure</i></p>	<p>Appendix 1, Paragraph 1B – Audit data analytics is recognized as an example. However, audit data analytics is not recognized as a new type of audit procedure given that audit data analytics are techniques that the auditor may use to perform procedures.</p> <p>Appendix 1, Paragraph 1C – An explanation is provided that the use of ATT can blend types of audit procedures together.</p> <p>However, respondents have greater expectations for revisions to the ‘performance’ aspects in other ISAs (see paragraph 29(c)) and for non-authoritative guidance (see paragraph 24) in this regard.</p>
<p><i>Enhancing the Appendix of ED-500 to explicitly recognize how new technologies can be used in the performance of various types of audit procedures</i></p>	<p>Appendix 1, Paragraph 1B – Recognizes and provides examples of artificial intelligence and robotic process automation.</p> <p>However, from the feedback respondents have greater expectations for further revisions to the ISAs and for non-authoritative guidance in this regard.</p>
<p><i>Selecting items for further testing</i></p>	<p>Appendix 2 – The material discussing items for testing has been moved to a separate appendix of the standard and the AETF intends to consider further enhancements for the guidance post December 2023.</p>
<p><i>Addressing exceptions/outliers identified when using ATT</i></p>	<p>Paragraphs A65H–A65J – New application guidance and examples based on the TCG non-authoritative guidance are included to investigate the output generated by ATT that is inconsistent with the auditor’s expectations or that exhibit characteristics that are unusual for the population.</p>
<p><i>Clarity needed for when an audit procedure is a test of detail versus a substantive analytical procedure</i></p>	<p>The AETF believes that this matter is out of scope for ED-500 and would require further consideration in both ISA 330 and ISA 520 given these standards include definitions, requirements and guidance for the affected ‘performance’ aspects cited by respondents (e.g., substantive procedures and analytical procedures are defined terms in ISA 330 and ISA 520, respectively). In addition, respondents indicated further expectations for non-authoritative guidance to address the challenges in this regard.</p>

Topics from the Feedback	Ref. Agenda Item 8-A
<i>Performance of risk assessment procedures and further audit procedures concurrently</i>	<p>Several paragraphs in <b>Agenda Item 8-A</b> highlight the concurrent performance of audit procedures and provide examples (e.g., paragraphs A18, A65E, 1C of Appendix 1).</p> <p>However, from the feedback respondents have greater expectations for further revisions to the ‘performance’ ISAs (e.g., ISA 330) and for non-authoritative guidance on how procedures for different purposes may be conducted concurrently.</p>
<i>Clarity for documentation when using ATT</i>	<p>Paragraphs 44–45 below discuss the AETF proposals to provide application material for considerations for documentation when using ATT.</p>

28. Based on the deep-dive analysis of the technology related responses, the AETF believes that a number of the responses can and have been addressed in **Agenda Item 8-A**, through providing further specificity to the requirements when using ATT and by providing related application guidance. However, the AETF retains its view presented to the Board in September 2023, that broader actions are necessary outside of ED-500 for technology-focused modernization to the ‘performance’ aspects in the standards, as well as through providing non-authoritative guidance to fully meet stakeholder expectations.

### Objective C – What are the Interdependences and Overlaps Identified from the Feedback Relevant to ED-500 and Other ISAs?

29. The AETF has categorized the issues raised by respondents from the feedback to ED-500 and the Strategy and Work Plan Consultation, and in doing so has provided its views on the interdependencies and overlaps between the ‘reference framework’ aspects in proposed ISA 500 (Revised) and the ‘performance’ aspects in other ISAs:

(a) *Revisions to support technology-focused and other modernizations of ISA 330 as a result of the revisions to ISA 315 (Revised 2019).*<sup>15</sup>

- Based on the current analysis, the AETF believes that these matters may not directly impact the ‘reference framework’ aspects addressed by proposed ISA 500 (Revised). If so, revisions proposed for the ‘performance’ aspects in ISA 330 may only result in limited conforming and consequential amendments to ISA 500 (Revised) (like in all other standard-setting projects).
- In addition, subject to the IAASB views in December 2023, the AETF believes that the approach proposed to address the use of ATT discussed in **Part B, Section I** of this Agenda Item can be leveraged when undertaking further technology-focused modernization for the ‘performance’ aspects in other ISAs, including ISA 330.

<sup>15</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

- (b) *Revisions to support technology-focused modernization of certain ISAs of the 500-series of standards.*
- These revisions were often seen by respondents as narrowly focused to address or modernize a specific performance requirement or to provide guidance. Suggestions included that such matters could be addressed as a consequential amendment arising from proposed ISA 500 (Revised) (e.g., to recognize modern inventory counting methods and technologies versus the requirement in extant ISA 501 to physically attend the inventory count) or as a narrow scope revision to a particular aspect of a standard (e.g., to modernize ISA 505 to recognize new methods for using technology-enabled confirmation tools such as open banking platforms).
  - The AETF intends to explore further updates to the conforming and consequential amendments to other ISAs as a result of the revisions to proposed ISA 500 (Revised) post December 2023, and in doing so will consider whether certain matters as discussed above can be addressed.
- (c) *Areas where more fundamental revisions are requested to provide clarity on how certain concepts embedded in the ISAs apply when using ATT.*
- These questions include, for example:
    - Is audit data analytics a new type of audit procedure that should be recognized in the Appendix of ED-500 and elsewhere in the ‘performance’ aspects of other ISAs?
    - Is audit data analytics a test of detail or a substantive analytical procedure and when do the requirements of ISA 330 or ISA 520 apply to such audit procedures?
    - Views that the auditor’s response to an assessed risk of material misstatement should be agnostic as to the category of audit procedure and that there may be a need to move away from categorizing procedures in the ISAs.
    - How do multipurpose audit procedures performed by using ATT fit in the structure of the ISAs that clearly distinguish between certain audit procedures by their purpose (i.e., risk assessment versus further audit procedures)?
  - The AETF discussed that similar questions have been considered by the PCAOB<sup>16</sup> proposed amendments in relation to technology-assisted analysis.<sup>17</sup> In the proposal, the PCAOB clarified the difference between tests of details and analytical procedures and specified that if an auditor uses audit evidence from an audit procedure for more than one purpose, then the procedure needs to be designed and performed to achieve each of the relevant objectives. However, the PCAOB had not defined “data analytics” as a new type of audit procedure given its view that this could create confusion and unnecessarily constrain the potential use of technology-assisted analysis in the audit.
  - Based on the current analysis, the AETF believes that future actions to address these

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<sup>16</sup> Public Company Accounting Oversight Board

<sup>17</sup> See the PCAOB’s [Proposed Amendments Related to Aspects of Designing and Performing Audit Procedures that Involve Technology-Assisted Analysis of Information in Electronic Form](#). Public comment was sought from stakeholders by August 28, 2023.

questions may not directly impact the ‘reference framework’ aspects in proposed ISA 500 (Revised) as they are specifically focused on the ‘performance’ aspects when obtaining sufficient appropriate audit evidence. For example, the actions in this area may necessitate further consideration for substantive procedures and analytical procedures which are defined terms for the purpose of ISA 330 and ISA 520, respectively. Therefore, revisions proposed for the definitions and to the ‘performance’ aspects in other standards (e.g., ISA 330 or ISA 520), may only result in conforming and consequential amendments to ISA 500 (Revised) (like in all other standard-setting projects).

- (d) *Areas of overlap between the requirements in ED-500 and ISA 330.*
- Respondents noted overlaps that could be indicative of duplications in ISA 330 and ED-500, such as for the objectives and the “stand-back” requirement in paragraph 13 of ED-500 versus paragraph 26 of ISA 330. However, respondents did not identify gaps that need to be addressed in this respect, but instead questioned the interactions between the various “stand-backs” across the ISAs, with the unintended consequence of causing confusion and duplicated work effort. In addition, respondents were concerned with the proliferation of various “stand-back” requirements across the ISAs that may diminish their effectiveness.
  - In September 2023, the AETF presented to the Board an analysis of the various “stand-backs” across the ISAs, including those proposed in ED-500 and ED-570<sup>18</sup> and has discussed the feedback in these areas in further detail. The AETF retains its view that it did not identify any gaps that should be addressed in this regard. The AETF intends to provide further suggestions for the IAASB’s consideration for addressing the overlaps and duplications of the objective and “stand-back” post December 2023 that may also be leveraged when considering the risk response workstream of the integrated project.
30. In addition, it is envisaged that post December 2023, further information-gathering will be undertaken including an analysis to understand the issues relevant to the ‘performance’ aspects in ISA 330 (and potentially ISA 520) and the AETF intends to consider this information, as it becomes available, when formulating further revisions to proposed ISA 500 (Revised).

#### **Objective D – What are the Key Topical Areas from the Literature Review?**

31. The compiled list of relevant literature is provided in **Agenda Item 8-C** and is broad but non-exhaustive. The list is intended to be supplemented as additional information becomes available.
32. In compiling the relevant literature list, the AETF scoped out certain literature that related to specialized and novel areas (e.g., guidance related to auditing digital assets such as cryptocurrencies). In addition to guidance, three standard-setting initiatives were identified, one standard-setting research project, one academic study, and several audit inspection reports that provide specific findings and success factors observed when inspecting audit files, specifically including observations where ATT has been used. The AETF also reviewed extracts from audit firm methodologies made available that provide guidance on documentation of the work performed when using technology solutions as part of an audit.

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<sup>18</sup> See [Exposure Draft of Proposed ISA 570 \(Revised 202X\), Going Concern and Conforming and Proposed Consequential Amendments to other ISAs](#).

33. The table below summarizes the common challenges and insights identified by the AETF from the literature review. It also includes a reference to the relevant paragraphs in **Agenda Item 8-A** where the AETF has leveraged the literature to propose enhancements to the application material in proposed ISA 500 (Revised).

Challenges and Insights	Ref. Agenda Item 8-A
<i>Quality Issues with the Inputs to ATT</i> <sup>(*)</sup> – Availability of data in a usable form and with sufficient quality is often a key barrier to effective use of ATT in audits.	Paragraph A42 – Emphasizes that the ability to use an ATT depends on the ability to extract information stored in the entity’s information system in a usable form and provides examples.
<i>Challenges with Access to Information</i> – There may be unique challenges when accessing data sets to be used for performing ATT, such as restrictions imposed by data privacy regulations or reluctance of the entity to provide access to data because of security concerns.	Paragraph A45 – Provides an example to recognize that restrictions imposed on the entity by data privacy laws and regulations may cause access issues to an entire population of items.
<i>Insufficient Data Extraction and Preparation</i> – Attention is necessary to ensure that the integrity of the input is preserved through collecting, extracting, storing, transferring, and transforming the input to the ATT.	Paragraph A65C – Draws attention to these challenges and provides examples of procedures that may be important to ensure that the integrity of the input is maintained.
<i>Importance of General IT Controls when Information is in Digital Form</i> – When the information is available in digital form including when there is large complexity or volume, the reliability depends on the effectiveness of the controls applied during the processing of information in the entity’s information system that directly address risks to the integrity of information (i.e., the completeness, accuracy and validity of transactions and other information), including the general IT controls that support the continued effective functioning of information processing controls.	Paragraph A65D – Discusses the importance of information processing and general IT controls for the reliability of information and highlights circumstances when testing the operating effectiveness of controls may be important, which also applies to information in digital form.
<i>Insufficient Reliability Testing of the Inputs to ATT</i> – Use of ATT to perform audit procedures provide greater opportunity for the auditor to blend certain types of audit procedures together. However, there may be insufficient reliability testing for the inputs of an ATT in such circumstances. The auditor needs to evaluate whether the inputs are sufficiently reliable given the intended purpose(s)	Paragraph A65E – Emphasizes that the relevance and reliability of the inputs may depend on the intended purpose(s) of the audit procedures for which the inputs will be used, and provides examples in this regard.

Challenges and Insights	Ref. Agenda Item 8-A
<p>of one or more audit procedures for which the inputs will be used. For example:</p> <ul style="list-style-type: none"> <li>• When the input of an ATT is used to perform both a risk assessment and further audit procedure concurrently.</li> <li>• When the same input is used in an audit procedure to respond to an assessed risk of material misstatement for balance X and also for balance Y for which the risk of material misstatement is assessed as a significant risk.</li> </ul>	
<p><i>Insufficient Evaluation of the Outputs Generated by ATT <sup>(*)</sup></i> – Given that the output of an ATT may identify a large number of exceptions / outliers, the extent of the auditor testing for such items may be inadequate. Challenges may include, for example:</p> <ul style="list-style-type: none"> <li>• Lack of understanding of the functionality of the ATT and results of the analysis.</li> <li>• Inadequate assessment of exceptions.</li> <li>• Insufficient testing of outliers.</li> </ul>	<p>Paragraphs A65H–A65J – Include guidance for the extent of the auditor’s procedures to investigate the output generated by ATT that is inconsistent with the auditor’s expectations or that exhibit characteristics that are unusual for the population.</p>
<p><i>Documentation Considerations When Using ATT <sup>(*)</sup></i> – The documentation considerations when using ATT may present specific challenges, such as documenting the logic applied by the tool to generate the results, or documenting the appropriateness of the use of an ATT that has not been approved by the firm.</p>	<p>Paragraphs A65F–A65G – Link to the requirements in ISQM 1 and ISA 220 (Revised) for technological resources. They also provide considerations when the firm’s policies or procedures do not specifically address the use of certain ATT.</p> <p>Also, paragraphs 44–45 below discuss the AETF proposals to provide application material for considerations for documentation when using ATT.</p>

<sup>(\*)</sup> The topic has also been considered by the TCG in their FAQs.

### TCG General Observations on the Information-Gathering and Analysis

34. As discussed in paragraph 9, general observations were sought from members of the TCG on the additional information-gathering and analysis undertaken to date. This included providing the following views:
- (a) Members of the TCG noted their broad support for the information-gathering and analysis performed and commented that the topic of generative artificial intelligence has also begun to impact the audit process (e.g., either through use by the entity or by auditors). Views included that in the short term, non-authoritative guidance may be an appropriate response in this

- regard, however that the IAASB should also remain open to making targeted revisions to relevant standards (when necessary) to address the considerations for generative artificial intelligence.
- (b) There was broad support by members of the TCG for the scope of the work undertaken, including the analysis of the interdependencies identified from the feedback and the AETF views how these interdependencies may impact the ‘reference framework’ aspects in proposed ISA 500 (Revised). There was also support for undertaking a further review of the ‘performance’ aspects in other ISAs (e.g., ISA 330 and the ISAs of the 500-series) to determine whether there are any other matters that could impact, or necessitate changes to, the ‘reference framework’ aspects of ED-500.
  - (c) Given the ongoing evolution in technology as well as the need for the standards to remain principles based, members of the TCG emphasized that providing ongoing non-authoritative guidance is important in response to the feedback, given it allows flexibility to provide more comprehensive and detailed examples. In addition, the TCG highlighted opportunities to coordinate with the IESBA’s Technology Working Group and its work plan in this area.

**Matters for IAASB Consideration:**

1. The IAASB is asked for its views on the key insights from the additional information-gathering and analysis discussed in paragraphs 22-33 above. In particular:
  - (a) Has the AETF effectively responded in **Agenda Item 8-A** to the technology-related feedback received, considering the nature and role of proposed ISA 500 (Revised) as an overarching standard addressing the auditor’s responsibilities in relation to audit evidence?

*Note for the IAASB: The AETF’s proposals to update ED-500 relating to the topic of Technology includes most of the items addressed in the tables in paragraphs 27 and 33 above and as further discussed in **Part B, Section I** (see paragraphs 38-45), where the AETF elaborates on how it has progressed the work in this area since the September 2023 IAASB meeting. In the plenary session in December 2023, the AETF Chair will first take the Board’s high-level input on the approach under question 1(a) and then feedback on the specific proposals and drafting as discussed in paragraphs 38-45 of this Issues Paper under question 2.*
  - (b) Has the AETF appropriately identified the interdependencies and overlaps based on the work done between the ‘reference framework’ aspects in proposed ISA 500 (Revised) and the ‘performance’ aspects in other ISAs?
  - (c) Are there any other matters from the analysis that should be considered?

## Part B: Proposals to Address Key Themes from the Responses to ED-500

### Section I – Technology

Relevant Paragraphs in **Agenda Item 8-A**:

**Paras. 1, 10A, A2A–A4, A65A–A65M, Appendix 1**

#### Previous IAASB Discussion

35. In September 2023, the Board supported providing a description for ATT in proposed ISA 500 (Revised), rather than defining the term. In addition, the Board supported exploring a conditional requirement, with related application material, when the auditor uses ATT. In doing so, the Board directed the AETF to:
- Keep the application material principle-based and specific to those matters relevant to the appropriateness of the inputs and outputs when the auditor uses any ATT, including whether the inputs are relevant and reliable.
  - Enhance the linkages between the proposed requirement with paragraph 9 of ED-500.
  - Remain mindful not to duplicate requirements and application material addressed elsewhere in the standard.
36. Suggestions included leveraging educational material developed by the TCG and NSS when developing further guidance and examples, and engaging with stakeholders to communicate the proposals and to obtain feedback whether stakeholder expectations for modernization with respect to technology are being met.

#### IAASB CAG Feedback

37. In September 2023, there was broad support for the AETF initial views and recommendations for technology. Representatives emphasized the:
- Value of the proposals to provide more specificity when the auditor uses ATT, as this would help build consistency in practice for this area. In doing so, Representatives supported retaining a principle-based approach in ED-500.
  - Importance of providing guidance and examples, and cautioned that careful consideration is required as to what is included in proposed ISA 500 (Revised) versus non-authoritative guidance so as not to date the standard given the ongoing evolution in technology.

#### AETF Discussion and Proposals

##### *Description for ATT*

38. The AETF have included a description of ATT in paragraph A2A of **Agenda Item 8-A**. The text remains aligned with that presented to the Board in September 2023, except that the AETF included a clarification to recognize that ATT are a subset of a technological resource addressed in ISQM 1 and ISA 220 (Revised).
39. In addition, the AETF proposes to clarify the scope of proposed ISA 500 (Revised) to recognize that the standard also addresses the auditor's responsibilities relating to audit evidence when using ATT to design and perform audit procedures (see paragraphs 1 and A4 of **Agenda Item 8-A**).

*Conditional Requirement When the Auditor Uses ATT*

40. For the conditional requirement when the auditor uses ATT (see paragraph 10A of **Agenda Item 8-A**), the AETF considered:
- (a) The placement for the requirement. The AETF propose to include the new requirement in the section for information intended to be used as audit evidence given it achieves better integration with the requirements for evaluating relevance and reliability.
  - (b) The lead-in of the conditional requirement. The AETF have aligned the lead-in with text used in paragraph 11 of **Agenda Item 8-A**, given they are both conditional requirements and set out specific matters to be addressed when evaluating the relevance and reliability of information intended to be used as audit evidence in the particular circumstances.
  - (c) Distinguishing the specific elements addressed by subparagraphs (a)–(c) of the requirement when using ATT, given all elements collectively result in audit evidence (i.e., the “output”). In doing so, the AETF considered the “input-output model” as a base for the specific elements addressed in the requirement. In this respect, the AETF believes that relevant and reliable *inputs* together with relevant and reliable *operation of an ATT* will result in relevant and reliable *outputs* (i.e., audit evidence).

*Application Material When the Auditor Uses ATT*

41. The AETF have included new and enhanced application material in paragraphs A65A–A65J of **Agenda Item 8-A** to support the auditor’s consideration when using ATT, focusing on the inputs, the operation of the ATT and the outputs of an ATT. In developing the application material, the AETF:
- (a) Kept the examples principle based to enable the guidance to remain fit-for-purpose and not refer to specific technology that may easily become redundant or out of date.
  - (b) Focused on matters that are not specific for a particular tool or technology and apply to a broad range of ATT (i.e., from less to more sophisticated ATT).
  - (c) Focused on specific matters raised by respondents in their feedback as to how ED-500 should be enhanced to respond to the objective for technology-focused modernization (also see paragraph 27 above).
  - (d) Leveraged guidance that has been developed by the TCG and NSS (also see paragraph 33 above).
42. In addition, the material discussing automation bias has been relocated to the section addressing the use of ATT (see paragraphs A65K–A65M of **Agenda Item 8-A**). The AETF is of the view that presenting this material along with the other guidance when the auditor uses ATT, including providing an emphasis on the benefits of using ATT in an audit, achieves a more balanced discussion for automation bias.
43. Appendix 1 of **Agenda Item 8-A** has also been updated to include examples of how specific ATT can be used when performing risk assessment procedures, tests of controls and substantive procedures (e.g., data analytics, artificial intelligence, and robotic process automation). Placing these examples in the Appendix may allow for their easier update, as may be necessary for evolution in technology (e.g., a narrow scope project that could focus on update of appendices without reevaluating the principles of the standard).

*Documentation Considerations When Using ATT*

44. In September 2023, the AETF noted its intent to explore whether documentation matters when using ATT warrant further clarification. The AETF also noted that the TCG has previously explored and issued non-authoritative guidance related to audit documentation when using ATT, given that these situations may include different documentation considerations.<sup>19</sup> In addition, the AETF noted through its analysis of available information, that audit firms have also developed specific guidance on documentation of the work performed when using technology solutions as part of an audit.

45. The AETF acknowledges that ISA 230<sup>20</sup> does not differentiate documentation considerations between the use of ATT or manual tools and techniques given that the overarching documentation requirements in paragraphs 8-11 of ISA 230 address broad principles for sufficient audit documentation in all instances. However, the initial thinking of the AETF is that it is useful to develop application material to support the application of the requirements in paragraphs 8-11 of ISA 230 by addressing specific considerations when using ATT. For example, the guidance may address the following topics, grouped under the specific matters addressed in the proposed requirement in paragraph 10A(a)–(c) of **Agenda Item 8-A**:

(a) Inputs:

- The data used in the ATT and activities performed to obtain, transform, customize and load the data used in the ATT, including related judgments (e.g., description of the original file, extraction criteria or filters applied, who undertook the extraction and whether specialized skills or use of an expert was necessary).

(b) Operation of ATT:

- The ATT used and what procedures were applied to determine the reliability of the ATT.
- The appropriateness of the design of the procedure or the logic applied to meet the audit objective and generate the results.
- Judgments applied as part of the operation of the ATT, such as any filters applied to identify specific characteristics or exclude certain transactions.

(c) Outputs:

- The results of the procedures and analysis of findings (e.g., outliers identified and any grouping into subpopulations, exceptions and investigation of differences).
- Guidance on documentation retained when performing iterative analysis with use of an ATT.

**Matter for IAASB Consideration:**

2. The Board is asked for its views on the AETF proposals for technology discussed in **Section I** above and as reflected in the relevant paragraphs included in **Agenda Item 8-A**.

<sup>19</sup> See [Non-Authoritative Support Material: Audit Documentation When Using Automated Tools And Techniques](#).

<sup>20</sup> ISA 230, *Audit Documentation*

## Section II – Definitions

Relevant Paragraphs in **Agenda Item 8-A**:

**Paras. 4A, 7(b), A12A–A14C, A88A–A88B**

### Previous IAASB Discussion

46. In September 2023, the Board supported to provide application material to the definition of audit evidence to aid its practical application, and to clarify scalability aspects for the auditor's work effort to use information as audit evidence.
47. In addition, the Board agreed not to pursue a definition for persuasiveness of audit evidence, given that the description in the application material sufficiently describes persuasiveness in the context of its interrelationship with sufficiency and appropriateness of audit evidence. The Board also noted that defining persuasiveness may inadvertently imply a threshold for 'enough evidence' which would not be appropriate, since this is a matter of the auditor's professional judgment in the circumstances of the particular engagement.

### IAASB CAG Feedback

48. In September 2023, CAG Representatives commented that the definition of audit evidence should include the concept of information that corroborates and contradicts the assertions in the financial statements and that the concept of contradictory information is the right point at which the auditor should "stand back" when evaluating audit evidence.

### AETF Discussion and Proposals

#### *Interaction of the Definition of Audit Evidence with Inconsistencies in Audit Evidence*

49. In September 2023, the AETF noted its intent to further deliberate whether the notion that the auditor cannot ignore information relevant to the audit that comes to the auditor's attention, including information that calls into question the reliability of other information, is adequately addressed in ED-500. This was in response to respondents' concerns that as presently drafted, the definition of audit evidence may have the unintended consequence of permitting the auditor to ignore relevant information simply because the auditor has not applied audit procedures to that information. Concerns included that this may result in the requirement in paragraph 14 of ED-500 to be inappropriately viewed as not relevant when addressing inconsistencies in audit evidence.
50. The AETF discussed the interaction between the requirements in paragraph 14 of ED-500, paragraph 11 of ISA 230 and paragraph 37 of ISA 315 (Revised 2019):
  - (a) Paragraph 14 of ED-500 requires that, if audit evidence is inconsistent with other audit evidence, the auditor takes actions to understand, address and consider the effect, if any, on other aspects of the audit as a result of the inconsistency.
  - (b) Paragraph 11 of ISA 230 requires that, if the auditor identifies information that is inconsistent with the auditor's final conclusion regarding a significant matter, for the auditor to document how the inconsistency was addressed. In addition, paragraph A8 of ISA 230 provides examples

- of significant matters.<sup>21</sup>
- (c) Paragraph 37 of ISA 315 (Revised 2019) requires that the auditor revises the identification or assessment of the risks of material misstatement if the auditor obtains new information which is inconsistent with the audit evidence on which the auditor originally based such identification or assessment.
51. The AETF observations for these paragraphs and their intersection with the “input-output model” embedded in the definition of audit evidence, include:
- (a) The entry point for the requirement in paragraph 14 of ED-500 includes audit evidence, i.e., information that has already been evaluated for its relevance and reliability. On the other hand, the entry point for the requirement in paragraph 11 of ISA 230 and paragraph 37 of ISA 315 (Revised 2019) is any identified or new information, that is subject to evaluation for relevance and reliability in accordance with paragraph 9 of ED-500.
  - (b) The conditionality for the requirement in paragraph 14 of ED-500 is triggered when there are inconsistencies in one piece of audit evidence with another piece of audit evidence, both of which are already evaluated for relevance and reliability. Such audit evidence may be supporting the auditor’s conclusion for a significant matter (or any other matter) or an auditor’s original identification and assessment of the risks of material misstatement.
52. The AETF views include that paragraph 14 of ED-500, together with paragraph 11 of ISA 230 and paragraph 37 of ISA 315 (Revised 2019), collectively support the notion that the auditor cannot ignore information relevant to the audit, while establishing a reasonable filter for the auditor to evaluate whether such information is relevant and reliable information to become audit evidence. In addition, the requirement in paragraph 12 of ED-500 also supports this notion given it is required to be performed at the level of the inputs to the model embedded in the definition of audit evidence (i.e., resolving doubts about relevance and reliability of the *information* intended to be used as audit evidence).
53. The guidance in paragraphs A92–A93 of ED-500 already discuss the interaction with paragraph 11 of ISA 230 and paragraph 37 of ISA 315 (Revised 2019). In **Agenda Item 8-A**, the AETF has:
- (a) Emphasized in the introductory section of the standard the notion that the auditor may not ignore information that is relevant to the audit, including information that calls into question the reliability of other information. In doing so, the AETF is of the view that this provides clarity for the auditor’s obligations under the ISAs and sets the appropriate mindset for the auditor when applying ED-500 (see paragraph 4A in **Agenda Item 8-A**).
  - (b) Included a new paragraph to recognize the role of the auditor’s application of professional skepticism to remain alert for new information in the course of the audit or for audit evidence that is inconsistent with other audit evidence (see paragraph A88A in **Agenda Item 8-A**).
  - (c) Integrated the guidance recognizing that other ISAs include requirements and guidance (e.g., ISA 230 and ISA 315 (Revised 2019)) when there are inconsistencies in information that may be relevant to the requirement in paragraph 14 in ED-500 (see paragraph A88B in **Agenda**

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<sup>21</sup> These may include matters giving rise to significant risks, results of audit procedures that indicate a material misstatement or a need to revise a previous risk assessment, circumstances that cause significant difficulty in applying audit procedures, and findings that could result in a modification of the audit opinion or providing an Emphasis of Matter paragraph.

**Item 8-A).**

54. The AETF also notes that paragraph 4 of **Agenda Item 8-A** includes an explicit recognition that the standard promotes the exercise of professional skepticism when considering all audit evidence obtained (whether consistent or inconsistent and regardless of whether it is corroborative or contradictory). As discussed in paragraph 29(d), this paragraph will be further considered when addressing the “stand-back” requirement. In doing so, the AETF also intends to further consider the connectivity with the newly proposed introductory material in paragraph 4A of **Agenda Item 8-A**.

*Clarifying the Definition of Audit Evidence*

55. For the definition of audit evidence in paragraph 7(b) of **Agenda Item 8-A**, the AETF propose to replace the phrase “to which audit procedures are applied” with the phrase “after applying audit procedures.” This was in response to feedback that the phrase implied circularity and a mechanical approach to the definition. In addition, the AETF have included a clarification in the definition that the audit procedures include evaluating the relevance and reliability of the information.
56. Also, the AETF proposes application material to the definition of audit evidence in paragraphs A12A–A12C of **Agenda Item 8-A**. In doing so, the AETF:
- (a) Repurposed paragraph A34 of ED-500 as paragraph A12A of **Agenda Item 8-A**. The AETF believes that by moving the paragraph earlier in the standard this enhances the understanding that the information intended to be used as audit evidence (i.e., the “input”) can become audit evidence (i.e., the “output”) only after audit procedures are applied to it, *including* evaluating its relevance and reliability.
  - (b) Provided guidance in paragraph A12B of **Agenda Item 8-A** to emphasize that the auditor’s procedures applied to the information may vary from simple to more extensive procedures, and that the auditor’s evaluation of the relevance and reliability of the information may be applied concurrently with such audit procedures. Similar to the approach in AICPA SAS 142,<sup>22</sup> examples were included to enhance understanding of how the “input-output model” applies in certain circumstances (e.g., how the absence of certain conditions fit within the “input-output model”, and that the audit procedures performed may focus on certain aspects of the information such as comparing it to its original source).
  - (c) Leveraged paragraph A1 of ED-500 to add an explanation in paragraph A12C of **Agenda Item 8-A** that audit evidence comprises evidence that supports and corroborates management’s assertions and evidence that contradicts such assertions.

*Interrelationship of Sufficiency, Appropriateness and Persuasiveness of Audit Evidence*

57. In response to respondents’ feedback to ED-500, the application material in paragraphs A6–A9 of ED-500 has been streamlined and moved to paragraphs A14A–A14C of **Agenda Item 8-A** to improve the linking with the definitions of appropriateness and sufficiency of audit evidence.

**Matter for IAASB Consideration:**

3. The Board is asked for its views on the AETF proposals for the definitions discussed in **Section II** above and as reflected in the relevant paragraphs included in **Agenda Item 8-A**.

<sup>22</sup> See the American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards [SAS 142, Audit Evidence](#), paragraphs A6–A7.

## Section III – Evaluating the Relevance and Reliability of Information

Relevant Paragraphs in Agenda Item 8-A:

Paras. 9, 11–12A, A35–A56L, A78A–A78B

### Previous IAASB Discussion

58. In September 2023, the Board asked the AETF to further reflect whether the proposed threshold “significant” for the auditor’s consideration of the attributes of relevance and reliability supports appropriate professional judgments when evaluating information intended to be used as audit evidence. Directionally, the Board supported retaining the robustness of ED-500 regarding the auditor’s work effort with respect to relevance and reliability of information to remain as an “evaluation” rather than a “consideration.”
59. The Board also suggested to further consider whether it is necessary to bifurcate the requirement in paragraph 12 of ED-500 as it may overcomplicate the auditor’s procedures when there are doubts about relevance or reliability of information.

### IAASB CAG Feedback

60. In September 2023, CAG Representatives supported the use of the work effort verb “evaluate” rather than “consider” when evaluating the relevance and reliability of information intended to be used as audit evidence. In addition, suggestions were provided to consider the threshold “degree to which” the attributes of relevance and reliability are applicable, instead of using the threshold “significant” given views that it may present a too high of a bar when auditors are making judgments about the attributes of relevance and reliability of information.

### AETF Discussion and Proposals

#### *Attributes of Relevance and Reliability of Information*

61. The AETF reflected further on the threshold to be used to support the auditor’s consideration of the attributes of relevance and reliability of the information intended to be used as audit evidence, and retained the view that “*significant* in the circumstances” is an appropriate alternative to be used. As noted in September 2023, the term “significance” is a commonly used term across the ISAs in various contexts and its understandability is supported by a description in the IAASB’s Glossary of Terms that can be leveraged and tailored to provide supporting guidance and explanation in support of the auditor’s evaluation of relevance and reliability.
62. In considering the alternatives the AETF discussed that the threshold “*degree to which* an attribute is applicable in the circumstances” would not provide sufficient clarity in response to stakeholder concerns that *all* of the attributes of relevance and reliability are applicable in some way to the information being evaluated. Also using a threshold that includes “*appropriate* in the circumstances” may be confusing in the context of sufficiency and appropriateness of audit evidence. The AETF also considered whether an additional term could be included to clarify the threshold, such as “*most significant*,” however, on balance decided against pursuing such an option as it adds further complexity for the threshold and its supporting explanation in the application material.
63. To support the auditor’s consideration for the attributes of relevance and reliability that are “*significant* in the circumstances,” the AETF has included new application material in:

- (a) Paragraph A53A of **Agenda Item 8-A** to explain “significance” as a threshold used when making judgments about the relative importance of the attributes of relevance and reliability. In addition, the factors (previously in paragraphs A59–A60 of ED-500) have been moved earlier in the application material and are integrated into the guidance to support the auditor’s understanding when an attribute may be significant.
- (b) Paragraph A56A of **Agenda Item 8-A** clarifies that a combination of attributes may be significant in the circumstances, including the interrelationship between them when evaluating whether the information is reliable. Consequently, it is not necessary for the auditor to consider whether each attribute is individually significant, which might lead to a checklist approach.
- (c) Paragraph A56B of **Agenda Item 8-A** to provide context that the auditor may also evaluate the information as reliable by considering an individual attribute when such attribute is significant in the circumstances to meet the intended purpose(s) of the audit procedure.
- (d) Paragraphs A56C–A56L of **Agenda Item 8-A** to present a discussion and further guidance for each of the attributes of reliability (i.e., for accuracy and completeness, authenticity, bias, and credibility of information).

*Clarity for Documentation Expectations When Evaluating Relevance and Reliability of Information*

64. The AETF is of the view that the proposals to replace the threshold “*applicable in the circumstances*” with “*significant in the circumstances*” and the proposal to require the auditor to perform audit procedures in support of a significant attribute(s) (see **Section IV** below) enhance the clarity for the work effort required from the auditor to evaluate the relevance and reliability of information. The AETF have also provided a further explanation in paragraph A40 of **Agenda Item 8-A** to explain that paragraphs 8-11 of ISA 230 apply to the form, content, and extent of the evaluation of the relevance and reliability of information and the audit documentation with respect of the audit procedures performed for the attribute(s) that are significant in the circumstances.

*Evaluating Information Prepared by a Management’s Expert*

65. In September 2023, the AETF noted its views that the robustness of ED-500 is not weakened as compared to extant ISA 500 when evaluating information prepared by a management’s expert. As noted in the Explanatory Memorandum accompanying ED-500, this is because the requirement in paragraph 8(c) of extant ISA 500 to evaluate the appropriateness of the management’s expert work as audit evidence for the relevant assertion was not needed since paragraph 8(b) of ED-500 already requires the auditor to design and perform audit procedures that are appropriate in the circumstances to provide audit evidence to meet the intended purpose of the procedures (e.g., to respond to an assessed risk for a relevant assertion). In addition, the auditor is required to evaluate the relevance and reliability of information intended to be used as audit evidence in accordance with paragraph 9 of ED-500, which would include the management’s expert work used by management in preparing the financial statements.
66. However, the AETF deliberated that reinstating paragraph 8(c) of extant ISA 500 into **Agenda Item 8-A** would not have an additional impact to the work effort required by the auditor. The AETF also deliberated that this would help address comments provided by a Monitoring Group member that the linkages between the requirements in paragraph 30 of ISA 540 (Revised)<sup>23</sup> and paragraph 11 of ED-500 should be

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<sup>23</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

strengthened. Given these considerations, the AETF proposes to reinstate the requirement to evaluate the appropriateness of the management's expert work as audit evidence for the relevant assertion in subparagraph 11(d) of **Agenda Item 8-A**.

67. Subject to the Board's views in December 2023, the AETF intends to further consider whether subparagraph 11(c) of **Agenda Item 8-A** could be incorporated within subparagraph 11(d). In addition, the AETF will consider further enhancements to the related application material and alignment changes needed to the conforming and consequential amendments proposed to paragraph 30 of ISA 540 (Revised).

#### *Doubs About Relevance or Reliability*

68. The AETF have bifurcated the requirement in paragraph 12 of **Agenda Item 8-A** to separately address the auditor's further actions when there are doubts about relevance or reliability, given that when information is not relevant it may not be possible to modify or perform additions to audit procedures. In addition, subparagraph 12(b) of ED-500 has been moved into a new paragraph (i.e., paragraph 12A of **Agenda Item 8-A**) to improve clarity and flow for the requirements in this section.
69. The AETF have also moved certain application material in paragraphs A78A–A78B of **Agenda Item 8-A** to emphasize earlier in the application material that when there are doubts about relevance of the information intended to be used as audit evidence, the auditor may need to seek alternative or other information that can be used as audit evidence. In addition, subject to the Board's views in December 2023, the AETF intends to consider further enhancements to the application material in response to the feedback, including for professional skepticism as discussed in paragraph 79 below.

#### **Matter for IAASB Consideration:**

4. The Board is asked for its views on the AETF proposals for evaluating the relevance and reliability of the information discussed in **Section III** above and as reflected in the relevant paragraphs in **Agenda Item 8-A**.

## **Section IV – Conditional Requirement for Accuracy and Completeness**

*Relevant Paragraphs in Agenda Item 8-A:*

*Paras. 9(b), 10, A56C–A56F*

### **Previous IAASB Discussion**

70. In September 2023, the Board requested the AETF to continue exploring the proposals for Option 1,<sup>24</sup> or to explore how to retain the requirement in paragraph 10 of ED-500 but enhance the application material to clarify the conditionality used in the requirement for accuracy and completeness. In doing so, the Board cautioned the AETF that accuracy and completeness are important attributes regardless of source and may equally apply when evaluating the reliability of information from external sources.

<sup>24</sup> Option 1 included providing essential material to paragraph 9(b) of ED-500 explaining that accuracy and completeness are ordinarily significant attributes for information from sources internal to the entity.

## IAASB CAG Feedback

71. There was majority support for Option 2<sup>25</sup> among CAG Representatives in September 2023. Views included that this option presents a more robust approach, is more directly worded and understandable, and the drafting is not open to interpretation.

## AETF Discussion and Proposals

72. The AETF has retained the proposed essential material in paragraph 9(b) of **Agenda Item 8-A**. In doing so, the AETF retains its views from September 2023 that this presents a more robust requirement while remaining aligned with the principle-based approach of the standard. In addition, the AETF believes this is responsive to regulatory views to provide a stronger requirement (rather than application material) that accuracy and completeness are usually significant attributes for information from sources internal to the entity.
73. For the requirement in paragraph 10 of **Agenda Item 8-A** the AETF proposes to:
- (a) Elevate all attributes that are significant in the circumstances given the intended purpose(s) of the audit procedures to the requirement.
  - (b) Replace the phrase “*obtain audit evidence*” with “*perform audit procedures*.”
74. The AETF views include that this would:
- (a) Strengthen ED-500 as it requires the auditor to perform audit procedures for those attributes of reliability that the auditor considers significant in the circumstances (which could be one or more of accuracy, completeness, authenticity, bias or credibility).
  - (b) Align with the principle-based approach as the same level of requirement would apply to all of the attributes of reliability when such attributes are significant in the circumstances.
  - (c) Be responsive to stakeholder concerns about addressing the circularity and iterations between paragraphs 9 and 10 of ED-500.
75. In addition, the AETF have enhanced the application material for accuracy and completeness included in paragraphs A56C–A56F of **Agenda Item 8-A** and have presented such material in an integrated manner along with the other attributes of reliability (i.e., authenticity, bias, and credibility) to achieve a more balanced presentation for all of the attributes of reliability.

### Matter for IAASB Consideration:

5. The Board is asked for its views on the AETF proposals for the conditional requirement for accuracy and completeness discussed in **Section IV** above and as reflected in the relevant paragraphs included in **Agenda Item 8-A**.

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<sup>25</sup> Option 2 included replacing paragraph 10 of ED-500 with a new requirement to obtain audit evidence about accuracy and completeness for information from sources internal to the entity, supported by essential material.

## Section V – Professional Scepticism

Relevant Paragraphs in **Agenda Item 8-A**:

**Paras. A44, A56G–A56H, A56J, A65A, A88A**

### AETF Discussion and Proposals

#### *Enhancements to the Application Material for Professional Skepticism*

76. In response to respondents' feedback to ED-500, the AETF supplemented the application material in several places to enhance the:
- (a) Linkages with ISA 240 for the attributes of authenticity and bias (see paragraphs A56G–A56H, A56J of **Agenda Item 8-A**).
  - (b) Guidance and examples to support the application of professional skepticism when applying proposed ISA 500 (Revised) (see paragraphs A44, A65A and A88A of **Agenda Item 8-A**).
77. In addition, as discussed in:
- (a) Paragraph 42, a more balanced discussion is provided for automation bias in the context of the application material addressing the auditor's use of ATT.
  - (b) Paragraph 53, the introductory material of the standard for professional judgment and professional skepticism has been enhanced with a new paragraph aiming to set the appropriate mindset for the auditor when applying proposed ISA 500 (Revised).

#### *Other Matters*

78. Some respondents, including a Monitoring Group member, suggested that the ISAs should reflect some of the changes made to the IESBA Code that promote the role and mindset expected of professional accountants (e.g., a focus on the auditor's integrity, strength of character to act appropriately, and the need for auditors to have an inquiring mind).<sup>26</sup> In September 2022, IESBA Staff confirmed that the AETF had satisfactorily addressed these matters.<sup>27</sup> As discussed in paragraph 6, the AETF intends to engage in further coordination activities with IESBA post December 2023, and in doing so, intends to also seek further feedback from IESBA, including on this matter.
79. The AETF also intends to deliberate about the following matters post December 2023:
- (a) Respondents' comments to expand the list of biases in paragraph A19 of **Agenda Item 8-A**, and whether doing so may cause misalignment with the conscious and unconscious biases discussed in ISA 220 (Revised).
  - (b) Further enhancements to the examples and guidance in relation to professional skepticism when the auditor has doubts about relevance or reliability of the information intended to be used as audit evidence and when there are inconsistencies with other audit evidence. For example, respondents commented that the linkages to other standards, such as with ISA 600 (Revised)<sup>28</sup> with respect to inconsistencies in audit evidence across a group, and with ISA 580<sup>29</sup> and ISA 700

<sup>26</sup> See the Final Pronouncement: [Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants](#).

<sup>27</sup> See paragraphs 7-8 of [Agenda Item 2](#) presented to the Board in September 2022.

<sup>28</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

<sup>29</sup> ISA 580, *Written Representations*

(Revised),<sup>30</sup> for matters where the auditor may have doubts about the relevance and reliability of audit evidence may be more robustly addressed.

**Matter for IAASB Consideration:**

6. The Board is asked for its views on the AETF proposals for professional skepticism discussed in **Section V** above and as reflected in the relevant paragraphs included in **Agenda Item 8-A**.

## VI – Other Matters

### Streamlining the Application Material

80. **Agenda Item 8-A** reflects changes to streamline the application material for the introductory section (i.e., presenting this material in a more integrated manner with other application material of the standard where the same key concepts are discussed) and certain paragraph redrafts to improve readability (e.g., reducing cross referencing, repetitions and providing more concise examples).
81. In addition, the AETF propose to reallocate the material discussing the selection of items for testing when designing and performing audit procedures in paragraphs A27–A33 of ED-500 to **Appendix 2** of **Agenda Item 8-A**. The AETF is of the view that doing so is responsive to stakeholders concerns about the length of the application material. Also, by presenting the material in a separate appendix, the AETF believes that this may provide more flexibility to include further examples when using ATT to select items for testing. Subject to the Board’s views, the AETF intends to enhance this material post December 2023.
82. The AETF continues to remain mindful about the length of the overall standard. While certain streamlining has already been proposed as discussed in paragraphs 80-81 above, the AETF intends to undertake a further exercise in this area post December 2023, including identifying other opportunities to condense certain paragraphs and examples and to determine whether certain material would be better placed in first time implementation support materials.

### Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence

83. Respondents provided mixed suggestions with respect to the requirement in paragraph 8 of ED-500. Some respondents, including a Monitoring Group member, believed that the paragraph should be more clearly linked to the requirements in ISA 330 related to designing and performing audit procedures to obtain sufficient appropriate audit evidence. Other respondents commented that the relationship with ISA 315 (Revised 2019) should be enhanced, or that it is not clear what beyond matters already addressed by ISA 315 (Revised 2019) and ISA 330 it requires.
84. In light of these perspectives, the AETF has proposed new application material in paragraph A14D of **Agenda Item 8-A** to emphasize the Board’s view that *all* audit procedures performed in planning and performing an audit in accordance with the ISAs are for the purpose of obtaining sufficient appropriate audit evidence.

### Phrase “Intended Purpose of the Audit Procedures”

85. Respondents commented that the focus in ED-500 on the classification of an audit procedure by its nature (i.e., purpose and type) should be deemphasized and instead more prominence be given to whether the intended outcome of an audit procedure is achieved. In addition, comments included that because the

<sup>30</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

phrase “*intended purpose of an audit procedure*” is used in its singular form, it cannot be easily understood from the requirements in paragraphs 8(b), 9(b) and 13(a) of ED-500 that an audit procedure could have more than one purpose.

86. In response, the AETF has:
- (a) Included the plural form of the phrase in paragraphs 8(b), 9(b) and 13(a) of **Agenda Item 8-A**, and in other instances where it is used.
  - (b) Deemphasized the prominence of the introductory application material in paragraph A2 of ED-500 by reallocating the discussion explaining the risk assessment, further audit procedures and other audit procedures to comply with the ISAs to paragraph 1A in Appendix 1 of **Agenda Item 8-A**.
  - (c) Included application material and examples to emphasize and support the notion that an audit procedure can satisfy more than one objective and have more than one intended purpose (e.g., in paragraphs A18, A65E and 1C of Appendix 1 in **Agenda Item 8-A**). The guidance also recognizes that the increased occurrence of multipurpose and concurrent audit procedures is being facilitated by the use of ATT in audits when designing and performing audit procedures.

**Matter for IAASB Consideration:**

7. The Board is asked for its views on the AETF proposals for the other matters discussed in **Section VI** above and as reflected in the relevant paragraphs included in **Agenda Item 8-A**.

**Part C: Way Forward**

87. At the IAASB meeting in March 2024, and based on the Board’s feedback, the AETF intends to continue to update the drafting for proposed ISA 500 (Revised) to address the significant comments received on exposure. In March 2024, the AETF will also present any further updates to the conforming and consequential amendments to other ISAs as a result of the revisions to proposed ISA 500 (Revised).
88. The AETF will continue to engage in coordination activities with IESBA, and with other IAASB Task Forces and Consultation Groups, and engage in outreach, as appropriate.
89. The proposed Strategy and Work Plan for 2024-2027 (**Agenda Item 4-A**) includes the project “Integrated Approach to Audit Evidence and Risk Response, Including Focus on Technology and Internal Control”. This integrated project comprises two parallel workstreams, the audit evidence workstream and the risk response workstream. Under the audit evidence workstream, work on proposed ISA 500 (Revised) will continue, as indicated above, including engaging with stakeholders on the appropriateness of proposed changes and providing input to the information-gathering activities of the risk response workstream.

## AETF Members and Activities

### AETF Members

1. The AETF consists of the following members:
  - Sue Almond (Chair)
  - Edo Kienhuis
  - Greg Schollum
  - Eric Turner
2. Information about the project can be found [here](#).

### AETF Meetings

3. Since September 2023, the AETF held 1 physical meeting over 2 days and 1 virtual meeting.

### Coordination Activities

#### *IESBA*

4. Initial inputs have been received from IESBA Staff regarding the application material discussing applying safeguards to reduce threats to the management's expert's objectivity to an acceptable level.

#### *IAASB Task Forces and Consultation Groups*

5. The AETF has sought inputs and views from the TCG and engaged in coordination discussions with the fraud project.
6. The AETF Chair attended the Planning Committee discussion on the Strategy and Work Plan 2014–2017 in October 2023, and provided an update on the key insights from the additional information-gathering and analysis performed to date.

### Outreach

7. Audit Evidence was addressed in meetings and events with various stakeholders as part of the general outreach program, including:
  - Presentation and meeting with the Committee of European Auditing Oversight Bodies (CEAOB), Standards and Inspections Sub-Groups – Brussels, Belgium.
  - Presentation and meeting with the International Organization of Securities Commissions (IOSCO) Committee 1 – Paris, France.
  - Presentation of IAASB Update to the Forum of Firms – London, United Kingdom.
  - Presentation and meeting with the Monitoring Group (joint meeting involving the IAASB and the IESBA) – Basel, Switzerland.