

UPDATES TO THE CONFORMING AND CONSEQUENTIAL AMENDMENTS ARISING FROM PROPOSED ISA 500 (REVISED), *AUDIT EVIDENCE*

This Agenda Item includes the updates to the conforming and consequential amendments arising from proposed ISA 500 (Revised). Changes made since ED-500 are shown in track changes. In addition, since the publication of ED-500, the text of the conforming and consequential amendments was updated to reflect the paragraphs as published in the IAASB 2022 Handbook.

INTERNATIONAL STANDARD ON AUDITING (ISA) 200 – OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR AND THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH INTERNATIONAL STANDARDS ON AUDITING

Definitions

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~~13(b). Audit evidence—Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information. For purposes of the ISAs:~~

- ~~(i) Sufficiency of audit evidence is the measure of the quantity of audit evidence. 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.~~
- ~~(ii) Appropriateness of audit evidence is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based.~~

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Application and Other Explanatory Material

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Professional Skepticism (Ref: Para. 15)

A21. Professional skepticism includes being alert to, for example:

- Audit evidence that is inconsistent with ~~contradicts~~ other audit evidence obtained.
- Information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence.
- Conditions that may indicate possible fraud.
- Circumstances that suggest the need for audit procedures in addition to those required by the ISAs.

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- A23. Professional skepticism is necessary to the critical assessment of audit evidence. This includes questioning inconsistent ~~contradictory~~ audit evidence and the reliability of documents and responses to inquiries and other information obtained from management and those charged with governance. It also includes consideration of the sufficiency and appropriateness of audit evidence obtained in the light of the circumstances, for example, in the case where fraud risk factors exist and a single document, of a nature that is susceptible to fraud, is the sole supporting evidence for a material financial statement amount.
- A24. The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary. Nevertheless, the auditor is required to evaluate ~~consider~~ the reliability of information intended to be used as audit evidence.¹ In cases of doubt about the reliability of information or indications of possible fraud (for example, if conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document may have been falsified), the ISAs require that the auditor investigate further and determine what modifications or additions to audit procedures are necessary to resolve the matter.²
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Sufficient Appropriate Audit Evidence and Audit Risk (Ref: Para. 5 and 17)

Sufficiency and Appropriateness of Audit Evidence

- A31. Audit evidence is necessary to support the conclusions drawn that form the basis for the auditor's opinion and report. Audit evidence ~~It~~ is cumulative in nature and is primarily obtained from audit procedures performed during the course of the current audit. It may, however, also include information obtained from other sources such as previous audits audit evidence (provided that the auditor has evaluated that such information remains determined whether changes have occurred since the previous audit that may affect its relevance ~~relevant and reliable for~~ to the current audit³) or through the information obtained by the firm in the acceptance or continuance of the client relationship or engagement. In addition to other sources inside and outside the entity, the entity's accounting records are an important source of audit evidence. Also, information intended to ~~that may~~ be used as audit evidence may have been prepared by an expert employed or engaged by the entity. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. ~~In addition, in some cases, the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence.~~ Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence.
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- A33. The Appropriateness of audit evidence refers to is the measure of the quality of audit evidence. The quality of audit evidence depends on the; that is, its relevance and its reliability of the information intended to be used as audit evidence as well as the effectiveness of the design of the audit procedures and the auditor's application of those audit procedures.⁴ ~~in providing support for the~~

¹ ISA 500 (Revised), *Audit Evidence*, paragraphs 7-9

² ISA 240, paragraph 14; ISA 500 (Revised), paragraph 44; ISA 505, *External Confirmations*, paragraphs 10-11, and 16

³ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, paragraph 16

⁴ ISA 500 (Revised), paragraph A13

~~conclusions on which the auditor's opinion is based. The reliability of evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained. Nature, form and source of information are among the factors that affect the auditor's professional judgment regarding the attributes of relevance and reliability that are applicable in the circumstances.~~

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ISA 220 (REVISED) – QUALITY MANAGEMENT FOR AN AUDIT OF FINANCIAL STATEMENTS

Application and Other Explanatory Material

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Definitions

Engagement Team (Ref: Para. 12(d))

- A15. The engagement team may be organized in a variety of ways. For example, engagement team members may be located together or across different geographic locations and may be organized in groups by the activity they are performing. Regardless of how the engagement team is organized, any individual who performs audit procedures⁵ on the audit engagement is a member of the engagement team.
- A16. The definition of an engagement team focuses on individuals who perform audit procedures on the audit engagement. Audit evidence, which is necessary to support the auditor's opinion and report, is primarily obtained from audit procedures performed during the course of the current audit.⁶ Audit procedures ~~include~~ comprise risk assessment procedures,⁷ ~~and further audit procedures.⁸ and all~~ other audit procedures that are performed to comply with the ISAs. ~~As explained in ISA 500 (Revised) describes different types, of~~ audit procedures, which may include inspection, observation, confirmation, recalculation, reperformance, analytical procedures and inquiry, often performed in some combination.⁹ ~~Other ISAs may also include specific procedures to obtain audit evidence, for example, ISA 520.¹⁰~~

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⁵ ISA 500 (Revised), *Audit Evidence*, paragraph A14D210

⁶ ISA 200, paragraph A310

⁷ ISA 315 (Revised 2019) provides requirements related to risk assessment procedures.

⁸ ISA 330, *The Auditor's Responses to Assessed Risks*, provides requirements related to further audit procedures, including tests of controls and substantive procedures.

⁹ ISA 500 (Revised), paragraphs A1614–A25, Appendix 1

¹⁰ ISA 520, *Analytical Procedures*

Leadership Responsibilities for Managing and Achieving Quality on Audits (Ref: Para. 13–15)

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Professional Skepticism (Ref: Para. 7)

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A34. Impediments to the exercise of professional skepticism at the engagement level may include, but are not limited to:

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- Difficulties in obtaining access to records, facilities, certain employees, customers, vendors or others, which may cause the engagement team to bias the selection of sources of information intended to be used as audit evidence and seek information audit evidence from sources that are more easily accessible.

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A36. Possible actions that the engagement team may take to mitigate impediments to the exercise of professional skepticism at the engagement level may include:

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- Communicating with those charged with governance when management imposes undue pressure or the engagement team experiences difficulties in obtaining access to records, facilities, certain employees, customers, vendors or others from whom information intended to be used as audit evidence may be sought.

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ISA 240 – THE AUDITOR’S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS

[Section removed – see explanation in **Section II** of **Agenda Item 5**]

ISA 300 – PLANNING AN AUDIT OF FINANCIAL STATEMENTS

Application and Other Explanatory Material

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Appendix

(Ref: Para. 7–8, A9–A14)

Considerations in Establishing the Overall Audit Strategy

This appendix provides examples of matters the auditor may consider in managing quality at the engagement level. Many of these matters will influence the auditor’s overall audit strategy and detailed audit plan. The examples provided cover a broad range of matters applicable to many engagements. While some of the matters referred to below may be required by other ISAs, not all matters are relevant to every audit engagement and the list is not necessarily complete.

Characteristics of the Engagement

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- The effect of information technology on the audit procedures, including the availability of data and the expected use of automated tools and computer-assisted audit techniques.

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ISA 315 (REVISED 2019) – IDENTIFYING AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT

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Definitions

12. For purposes of the ISAs, the following terms have the meanings attributed below:

(a) Accounting records – The records of initial accounting entries and supporting records, such as payment records, including electronic fund transfers; invoices; contracts; the general and subsidiary ledgers, journal entries and other adjustments to the financial statements that are not reflected in journal entries; and records such as work sheets and spreadsheets supporting cost allocations, computations, reconciliations and disclosures.

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Requirements

Risk Assessment Procedures and Related Activities

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Evaluating the Audit Evidence Obtained from the Risk Assessment Procedures

35. The auditor shall evaluate whether the audit evidence obtained from the risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement. If not, the auditor shall perform additional risk assessment procedures until audit evidence has been obtained to provide such a basis. In identifying and assessing the risks of material misstatement, the auditor shall take into account all audit evidence obtained from the risk assessment procedures, including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborative or contradictory to the assertions made by management. (Ref: Para. A230–A232)

Application and Other Explanatory Material

Risk Assessment Procedures and Related Activities (Ref: Para. 13-18)

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Sources of Audit Evidence (Ref: Para. 13)

- A15. Designing and performing risk assessment procedures to obtain audit evidence in an unbiased manner may involve obtaining evidence from multiple sources within and outside the entity. However, the auditor is not required to perform an exhaustive search to identify all possible sources of audit

evidence. In addition to information from other sources,¹¹ sources of information for risk assessment procedures may include:

- Interactions with management, those charged with governance, and other key entity personnel, such as internal auditors.
- Certain external parties such as regulators, whether obtained directly or indirectly.
- Publicly available information about the entity, for example entity-issued press releases, materials for analysts or investor group meetings, analysts' reports or information about trading activity.

Regardless of the source of information, the auditor ~~is required to consider~~ evaluate the relevance and reliability of ~~the~~ information intended to be used as audit evidence in accordance with ISA 500 (Revised).¹²

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Types of Risk Assessment Procedures (Ref: Para. 14)

A19. ISA 500 (Revised)¹³ explains the types of audit procedures that may be performed in obtaining audit evidence from risk assessment procedures and further audit procedures. The nature, timing and extent of the audit procedures may be affected by the fact that some of the accounting data and other evidence may only be available in digital ~~electronic~~ form or only at certain points in time.¹⁴ The auditor may perform substantive procedures or tests of controls, in accordance with ISA 330, concurrently with risk assessment procedures, when it is efficient to do so. Audit evidence obtained that supports the identification and assessment of risks of material misstatement may also support the detection of misstatements at the assertion level or the evaluation of the operating effectiveness of controls.

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Identifying and Assessing the Risks of Material Misstatement (Ref: Para. 28-37)

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Evaluating the Audit Evidence Obtained from the Risk Assessment Procedures (Ref: Para. 35)

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The Evaluation of the Audit evidence

A231. Audit evidence from risk assessment procedures comprises both evidence that may ~~information that supports and corroborates~~ the management's assertions, made by management, or evidence and any information that may contradicts such assertions.¹⁵

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¹¹ See paragraphs A37 and A38.

¹² ISA 500 (Revised), paragraph 97

¹³ ISA 500 (Revised), paragraph A1614-A17 and Appendix 1 A21–A25

¹⁴ ISA 500 (Revised), paragraph A4212

¹⁵ ISA 500 (Revised), paragraph 8(a)A4

Documentation (Ref: Para. 38)

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A238. ISA 230 notes that, among other considerations, although there may be no single way in which the auditor's exercise of professional skepticism is documented, the audit documentation may nevertheless provide evidence of the auditor's exercise of professional skepticism.¹⁶ For example, when the audit evidence obtained from risk assessment procedures includes evidence that both corroborates and contradicts the assertions made by management's assertions, the documentation may include how the auditor evaluated that evidence, including the professional judgments made in evaluating whether the audit evidence provides an appropriate basis for the auditor's identification and assessment of the risks of material misstatement. Examples of other requirements in this ISA for which documentation may provide evidence of the exercise of professional skepticism by the auditor include:

- ...
- Paragraph 35, which requires the auditor to take into account all audit evidence obtained from the risk assessment procedures, whether including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate corroborative or contradictory to the assertions made by management, and to evaluate whether the audit evidence obtained from the risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement; and
- ...

ISA 330 – THE AUDITOR'S RESPONSES TO ASSESSED RISKS

Requirements

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Evaluating the Sufficiency and Appropriateness of Audit Evidence

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26. The auditor shall conclude whether sufficient appropriate audit evidence has been obtained. In forming an opinion, the auditor shall consider all ~~relevant~~ audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements. (Ref: Para. A64)

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Application and Other Explanatory Material

Overall Responses (Ref: Para. 5)

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- A2. The assessment of the risks of material misstatement at the financial statement level, and thereby the auditor's overall responses, is affected by the auditor's understanding of the control environment.

¹⁶ ISA 230, paragraph A7

An effective control environment may allow the auditor to have more confidence in internal control and the reliability of information intended to be used as audit evidence generated internally within the entity and thus, for example, allow the auditor to conduct some audit procedures at an interim date rather than at the period end. Deficiencies in the control environment, however, have the opposite effect; for example, the auditor may respond to an ineffective control environment by:

- Conducting more audit procedures as of the period end rather than at an interim date.
- Obtaining more extensive audit evidence from substantive procedures.
- Increasing the number of locations to be included in the audit scope.

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Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the Assertion Level

The Nature, Timing and Extent of Further Audit Procedures (Ref: Para. 6)

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Responding to the Assessed Risks at the Assertion Level (Ref: Para. 7(a))

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Extent

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A16. The use of automated tools and computer-assisted audit techniques (CAATs) may enable more extensive testing of digital electronic transactions and account files, which may be useful when the auditor decides to modify the extent of testing, for example, in responding to the risks of material misstatement due to fraud. Such techniques can be used to select sample transactions from key digital electronic files, to sort transactions with specific characteristics, or to test an entire population instead of a sample.

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Higher Assessments of Risk (Ref: Para 7(b))

A19. When obtaining more persuasive audit evidence because of a higher assessment of risk, the auditor may increase the quantity of the evidence, or obtain evidence that is more appropriate relevant or reliable, for example, by placing more emphasis on obtaining third party evidence or by obtaining corroborating audit evidence from a number of independent sources.

Tests of Controls

Designing and Performing Tests of Controls (Ref: Para. 8)

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Timing of Tests of Controls

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Controls that have not changed from previous audits (Ref: Para. 14(b))

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A40. When there are a number of controls for which the auditor intends to rely on audit evidence obtained in previous audits, testing some of those controls in each audit provides audit evidence ~~corroborating information~~ about the continuing effectiveness of the control environment. This contributes to the auditor's decision about whether it is appropriate to rely on audit evidence obtained in previous audits.

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Evaluating the Operating Effectiveness of Controls (Ref: Para. 16–17)

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Nature and Extent of Substantive Procedures

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A47. The assessment of the risk or the nature of the assertion is relevant to the design of tests of details. For example, tests of details related to the existence or occurrence assertion may involve selecting from items contained in a financial statement amount and obtaining ~~the relevant~~ audit evidence. On the other hand, tests of details related to the completeness assertion may involve selecting from items that are expected to be included in the relevant financial statement amount and investigating whether they are included.

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A50. External confirmation procedures frequently are relevant when addressing assertions associated with account balances and their elements, but need not be restricted to these items. For example, the auditor may request external confirmation of the terms of agreements, contracts, or transactions between an entity and other parties. External confirmation procedures also may be performed to obtain audit evidence about the absence of certain conditions. For example, a request may specifically seek confirmation that no “side agreement” exists that may be relevant to an entity's revenue cutoff assertion. Other situations where external confirmation procedures may provide ~~relevant~~ audit evidence in responding to assessed risks of material misstatement include:

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ISA 402 – AUDIT CONSIDERATIONS RELATING TO AN ENTITY USING A SERVICE ORGANIZATION

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Application and Other Explanatory Material

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Responding to the Assessed Risks of Material Misstatement

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Tests of Controls

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Using a Type 2 Report as Audit Evidence that Controls at the Service Organization Are Operating Effectively (Ref: Para. 17)

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A32. For certain assertions, the shorter the period covered by a specific test and the longer the time elapsed since the performance of the test, the less relevant audit evidence the test may provide. In comparing the period covered by the type 2 report to the user entity's financial reporting period, the user auditor may conclude that the type 2 report offers less relevant audit evidence if there is little overlap between the period covered by the type 2 report and the period for which the user auditor intends to rely on the report. When this is the case, a type 2 report covering a preceding or subsequent period may provide additional audit evidence. In other cases, the user auditor may determine it is necessary to perform, or use another auditor to perform, tests of controls at the service organization in order to obtain sufficient appropriate audit evidence about the operating effectiveness of those controls.

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ISA 501 – AUDIT EVIDENCE—SPECIFIC CONSIDERATIONS FOR SELECTED ITEMS

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Application and Other Explanatory Material

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Inventory Attendance at Physical Inventory Counting (Ref: Para. 4(a))

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Observe the Performance of Management's Count Procedures (Ref: Para. 4(a)(ii))

A5. Observing the performance of management's count procedures, for example, those relating to control over the movement of inventory before, during and after the count, assists the auditor in obtaining audit evidence that management's instructions and count procedures are adequately designed and implemented. The auditor may also use remote observation tools (e.g., use of live video, screensharing or video footage from a drone). In addition, the auditor may obtain copies of cutoff information, such as details of the movement of inventory, to assist the auditor in performing audit procedures over the accounting for such movements at a later date.

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Litigation and Claims

Completeness of Litigations and Claims (Ref: Para. 9)

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A18. In addition to the procedures identified in paragraph 9, other relevant procedures include, for

example, using audit evidence information obtained through risk assessment procedures carried out as part of obtaining an understanding of the entity and its environment to assist the auditor to become aware of litigation and claims involving the entity.

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ISA 505 – EXTERNAL CONFIRMATIONS

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's use of external confirmation procedures to obtain audit evidence in accordance with the requirements of ISA 330¹⁷ and ISA 500 (Revised).¹⁸ It does not address inquiries regarding litigation and claims, which are dealt with in ISA 501.¹⁹

External Confirmation Procedures to Obtain Audit Evidence

2. ISA 500 (Revised) indicates that the reliability-appropriateness of audit evidence refers to the quality of audit evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained.²⁰ The quality of audit evidence depends on the relevance and reliability of the information intended to be used as audit evidence as well as the effectiveness of the design of the audit procedures and the auditor's application of those audit procedures.²¹ Depending on the circumstances of the audit, audit evidence in the form of external confirmations received directly by the auditor from confirming parties may be more appropriate than evidence generated internally by the entity. That ISA also includes the following generalizations applicable to audit evidence:²²

- ~~Audit evidence is more reliable when it is obtained from independent sources outside the entity.~~
- ~~Audit evidence obtained directly by the auditor is more reliable than audit evidence obtained indirectly or by inference.~~
- ~~Audit evidence is more reliable when it exists in documentary form, whether paper, electronic or other medium.~~

~~Accordingly, depending on the circumstances of the audit, audit evidence in the form of external confirmations received directly by the auditor from confirming parties may be more reliable than evidence generated internally by the entity. This ISA is intended to assist the auditor in designing and performing external confirmation procedures to obtain relevant and reliable audit evidence.~~

3. Other ISAs recognize the importance of external confirmations as audit evidence, for example:

¹⁷ ISA 330, *The Auditor's Responses to Assessed Risks*

¹⁸ ISA 500 (Revised), *Audit Evidence*

¹⁹ ISA 501, *Audit Evidence—Specific Considerations for Selected Items*

²⁰ ISA 500, paragraph A9

²¹ ISA 500 (Revised), paragraph A13

²² ISA 500, paragraph A5

- ...
- ...
- ISA 240 indicates that the auditor may design confirmation requests to obtain audit evidence additional corroborative information as a response to address the assessed risks of material misstatement due to fraud at the assertion level.²³
- ISA 500 (Revised) indicates that corroborating information obtained from a source independent of the entity, such as through inspection or external confirmations, may increase the assurance the auditor obtains from evidence existing within the accounting records or from representations made by management provide more persuasive audit evidence than through inquiry.²⁴

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Requirements

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Evaluating the Results of the External Confirmation Procedures ~~Evidence Obtained~~

16. The auditor shall evaluate ~~whether~~ the results of the external confirmation procedures ~~provide relevant and reliable audit evidence, or~~ and determine whether further audit evidence is necessary. (Ref: Para A24–A25)

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Application and Other Explanatory Material

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Results of the External Confirmation Procedures

Reliability of Responses to Confirmation Requests (Ref: Para. 10)

- A11. ISA 500 (Revised) indicates that the source of information may affect the auditor's professional judgment regarding the significance of the attributes of relevance and reliability that are applicable in the circumstances to meet the purpose(s) of the audit procedures, and the nature and extent of the auditor's evaluation of the relevance and reliability of the information even when audit evidence is obtained from sources external to the entity, circumstances may exist that affect its reliability.²⁵ All responses carry some risk of interception, alteration or fraud. Such risk exists regardless of whether a response is obtained in paper form, or by electronic or other medium. Factors that may indicate doubts about the reliability of a response include that it:

- Was received by the auditor indirectly; or
- Appeared not to come from the originally intended confirming party.

²³ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph A38

²⁴ ISA 500 (Revised), paragraphs ~~A12–A13~~ A14C24A

²⁵ ISA 500 (Revised), paragraph ~~A5035~~ A5035

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A14. The auditor is required by ISA 500 (Revised) to determine ~~whether-what~~ to modify ~~modifications~~ or ~~additions to audit~~ procedures ~~are necessary~~ to resolve doubts ~~ever~~ about the ~~relevance or~~ reliability of information ~~intended~~ to be used as audit evidence.²⁶ The auditor may choose to verify the source and contents of a response to a confirmation request by contacting the confirming party. For example, when a confirming party responds by electronic mail, the auditor may telephone the confirming party to determine whether the confirming party did, in fact, send the response. When a response has been returned to the auditor indirectly (for example, because the confirming party incorrectly addressed it to the entity rather than to the auditor), the auditor may request the confirming party to respond in writing directly to the auditor.

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Evaluating the Results of Individual ~~the~~ External Confirmation Procedures ~~Evidence Obtained~~ (Ref: Para. 16)

A24. When evaluating the results of individual external confirmation requests, the auditor may categorize such results as follows:

- (a) A response by the appropriate confirming party indicating agreement with the information provided in the confirmation request, or providing requested information without exception;
- (b) A response deemed unreliable;
- (c) A non-response; or
- (d) A response indicating an exception.

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ISA 520 – ANALYTICAL PROCEDURES

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Application and Other Explanatory Material

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Substantive Analytical Procedures (Ref: Para. 5)

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The Reliability of the Data (Ref: Para. 5(b))

A12. The reliability of data is influenced by the auditor's consideration of its source and the significance of the attributes of reliability ~~that are applicable in to meet the intended purpose(s) of the audit procedures~~ ~~nature and is dependent on the circumstances under which it is obtained.~~²⁷ Accordingly, the following are relevant when determining whether data is reliable for purposes of designing

²⁶ ISA 500 (Revised), paragraph 12(b).¹⁴

²⁷ ISA 500 (Revised), *Audit Evidence*, paragraph A50

substantive analytical procedures:

- (a) Source of the information ~~available~~. For example, information may be less susceptible to management bias and more reliable when it is obtained from independent sources outside the entity;²⁸
- (b) Comparability of the information ~~available~~. For example, broad industry data may need to be supplemented to be comparable to that of an entity that produces and sells specialized products;
- (c) Nature and relevance of the information ~~available~~. For example, whether budgets have been established as results to be expected rather than as goals to be achieved; and
- (d) Controls over the preparation of the information that are designed to ensure its completeness, accuracy and validity. For example, controls over the preparation, review and maintenance of budgets.

A13. ISA 500 (Revised) establishes requirements and provides guidance for evaluating whether the information intended to be used as audit evidence is relevant and reliable.²⁹ The auditor may consider testing the operating effectiveness of controls, if any, over the entity's preparation of information used by the auditor in performing substantive analytical procedures in response to assessed risks. When such controls are effective, the auditor generally has greater confidence in the reliability of the information and, therefore, in the results of analytical procedures. The operating effectiveness of controls over non-financial information may often be tested in conjunction with other tests of controls. For example, in establishing controls over the processing of sales invoices, an entity may include controls over the recording of unit sales. In these circumstances, the auditor may test the operating effectiveness of controls over the recording of unit sales in conjunction with tests of the operating effectiveness of controls over the processing of sales invoices. Alternatively, the auditor may consider whether the information was subjected to other audit procedures testing. ~~ISA 500 establishes requirements and provides guidance in determining the audit procedures to be performed on the information to be used as audit evidence to be used for substantive analytical procedures.~~³⁰

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Evaluation Whether the Expectation Is Sufficiently Precise (Ref: Para. 5(c))

A15. Matters relevant to the auditor's evaluation of whether the expectation can be developed sufficiently precisely to identify a misstatement that, when aggregated with other misstatements, may cause the financial statements to be materially misstated, include:

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- The availability of ~~the~~ information, both financial and non-financial. For example, the auditor may consider whether financial information, such as budgets or forecasts, and non-financial information, such as the number of units produced or sold, is available to design substantive

²⁸—ISA 500, *Audit Evidence*, paragraph A35

²⁹—ISA 500 (Revised), paragraph 9

³⁰—ISA 500, paragraph 10

analytical procedures. If the information is available, the auditor is required to evaluate ~~may also consider~~ the reliability of the information as discussed in paragraphs A12–A13 above.

ISA 530 – AUDIT SAMPLING

Introduction

Scope of this ISA

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2. This ISA complements ISA 500 (Revised),³¹ which deals with the auditor's responsibility to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion, including evaluating the relevance and reliability of information intended to be used as audit evidence. ISA 500 (Revised) provides guidance on the means available to the auditor for selecting items for testing, of which audit sampling is one means.

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Application and Other Explanatory Material

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Sample Design, Size, and Selection of Items for Testing

Sample Design (Ref: Para. 6)

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- A5. When designing an audit sample, the auditor's consideration includes the specific purpose to be achieved and the combination of audit procedures that is likely to best achieve that purpose. Consideration of the nature of the audit evidence sought and possible deviation or misstatement conditions or other characteristics relating to that audit evidence will assist the auditor in defining what constitutes a deviation or misstatement and what population to use for sampling. In fulfilling the requirements of paragraphs 9 and 10 of ISA 500 (Revised), when performing audit sampling, the auditor performs audit procedures to obtain evidence that the population from which the audit sample is drawn is complete.

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Appendix 4

(Ref: Para. A13)

Sample Selection Methods

There are many methods of selecting samples. The principal methods are as follows:

³¹ ISA 500 (Revised), *Audit Evidence*

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(e) Block selection ...

The application of any one or a combination of the methods in paragraphs (a) to (e) may be appropriate depending on the circumstances. The auditor may also use automated tools and techniques to identify and select items for testing.

ISA 540 (REVISED) – AUDITING ACCOUNTING ESTIMATES AND RELATED DISCLOSURES

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to accounting estimates and related disclosures in an audit of financial statements. Specifically, it includes requirements and guidance that refer to, or expand on, how ISA 315 (Revised 2019),³² ISA 330,³³ ISA 450,³⁴ ISA 500 (Revised)³⁵ and other relevant ISAs are to be applied in relation to accounting estimates and related disclosures. It also includes requirements and guidance on the evaluation of misstatements of accounting estimates and related disclosures, and indicators of possible management bias.

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Requirements

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Responses to the Assessed Risks of Material Misstatement

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Other Considerations Relating to Audit Evidence

30. In obtaining audit evidence regarding the risks of material misstatement relating to accounting estimates, irrespective of the sources of information to be used as audit evidence, the auditor shall comply with the relevant requirements in ISA 500 (Revised).

When using the work of a management's expert, the requirements in paragraphs 21–29 of this ISA may assist the auditor in evaluating the appropriateness of the expert's work as audit evidence for a relevant assertion in accordance with paragraph 8(e) 11(d) of ISA 500 (Revised). In evaluating the work of the management's expert, the nature, timing and extent of the further audit procedures are affected by the auditor's evaluation of the expert's competence, capabilities and objectivity, the auditor's understanding of the nature of the work performed by the expert, and the auditor's familiarity

³² ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

³³ ISA 330, *The Auditor's Responses to Assessed Risks*

³⁴ ISA 450, *Evaluation of Misstatements Identified during the Audit*

³⁵ ISA 500 (Revised), *Audit Evidence*

with the expert's field of expertise. (Ref: Para. A126–A132)

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Overall Evaluation Based on Audit Procedures Performed

33. In applying ISA 330 to accounting estimates,³⁶ the auditor shall evaluate, based on the audit procedures performed and audit evidence obtained, whether: (Ref: Para A137–A138)
- (a) The assessments of the risks of material misstatement at the assertion level remain appropriate, including when indicators of possible management bias have been identified;
 - (b) Management's decisions relating to the recognition, measurement, presentation and disclosure of these accounting estimates in the financial statements are in accordance with the applicable financial reporting framework; and
 - (c) Sufficient appropriate audit evidence has been obtained.
34. In making the evaluation required by paragraph 33(c), the auditor shall take into account all ~~relevant~~ audit evidence obtained, ~~whether~~ including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate or contradict the assertions made by management in the financial statements.³⁷ If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall evaluate the implications for the audit or the auditor's opinion on the financial statements in accordance with ISA 705 (Revised).³⁸

...

Application and Other Explanatory Material

...

Responses to the Assessed Risks of Material Misstatement

The Auditor's Further Audit Procedures (Ref: Para. 18)

...

Obtaining Relevant Audit Evidence Whether Corroborative or Contradictory

- A82. Audit evidence comprises evidence both information that supports and corroborates management's assertions, and evidence any information that contradicts such assertions.³⁹ Obtaining audit evidence in an unbiased manner may involve obtaining evidence from multiple sources within and outside the entity. However, the auditor is not required to perform an exhaustive search to identify all possible sources of audit evidence.

...

³⁶ ISA 330, paragraphs 25–26

³⁷ ~~ISA 500 (Revised), paragraph 13~~¹¹

³⁸ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

³⁹ ISA 500 (Revised), paragraph A1~~2C~~⁵

Testing How Management Made the Accounting Estimate (Ref. Para. 22)

...

Significant Assumptions (Ref: Para. 24)

...

Relevance and reliability of the data (Ref: Para. 25(c))

A107. ~~When using information produced by the entity, ISA 500 (Revised) requires the auditor to evaluate the relevance and reliability of whether the information intended to be used as audit evidence is sufficiently relevant and reliable for the auditor's purposes, taking into consideration the source of the information and the significance of the attributes of relevance and reliability that are applicable in the circumstances to meet the intended purpose(s) of the audit procedures.~~ If the auditor considers that including as necessary in the circumstances, to obtain audit evidence about the accuracy and completeness attributes are applicable significant in the circumstances to meet the intended purpose(s) of the audit procedures, ISA 500 (Revised) also requires the auditor to ~~obtain audit evidence~~ perform audit procedures about the accuracy and completeness of the information and evaluating whether the information is sufficiently precise and detailed for the auditor's purposes.⁴⁰

...

Other Considerations Relating to Audit Evidence (Ref: Para. 30)

A126. Information intended to be used as audit evidence, regarding risks of material misstatement relating to accounting estimates, may have been produced by the entity, prepared using the work of a management's expert, or provided by an external information source.

External Information Sources

A127. As explained in ISA 500 (Revised),⁴¹ the source of the information intended to be used as audit evidence may affect the auditor's professional judgment regarding the significance of the attributes of relevance and reliability that are applicable in the circumstances to meet the intended purpose(s) of the audit procedures, and the nature and extent of the auditor's evaluation of the relevance and reliability of the information the reliability of information from an external information source is influenced by its source, its nature, and the circumstances under which it is obtained. Consequently, the nature and extent of the auditor's further audit procedures to consider the reliability of the information used in making an accounting estimate may vary depending on the nature of these factors. For example:

- ...
- When information obtained from an external information source has been developed by that source using its own model(s). Paragraph A43 of ISA 500 provides relevant guidance.

...

⁴⁰ ISA 500 (Revised), paragraphs 9-10

⁴¹ ISA 500 (Revised), Paragraph A5035

A129. When information intended to be used as audit evidence is from an external information source ~~is used as audit evidence~~, a relevant consideration for the auditor may be whether information can be obtained, or whether the information is sufficiently detailed, to understand the methods, assumptions and other data used by the external information source. This may be limited in some respects and consequently influence the auditor's consideration of the nature, timing and extent of procedures to perform. For example, pricing services often provide information about their methods and assumptions by asset class rather than individual securities. Brokers often provide only limited information about their inputs and assumptions when providing broker indicative quotes for individual securities. Paragraph A44A47A6 of ISA 500 (Revised) provides guidance ~~with respect to restrictions placed by the~~ for circumstances in which the auditor may not have a sufficient basis to evaluate the relevance and reliability of information from an external information source on the provision of supporting information.

Management's Expert

...

A131. If the work of a management's expert involves the use of methods or sources of data relating to accounting estimates, or developing or providing findings or conclusions relating to a point estimate or related disclosures for inclusion in the financial statements, the requirements in paragraphs 21–29 of this ISA may assist the auditor in applying paragraph 11(d)8(c) of ISA 500 (Revised).

...

Documentation (Ref: Para. 39)

...

A152. Paragraph A7 of ISA 230 notes that, although there may be no single way in which the auditor's exercise of professional skepticism is documented, the audit documentation may nevertheless provide evidence of the auditor's exercise of professional skepticism. For example, in relation to accounting estimates, when the audit evidence obtained includes evidence that both corroborates and contradicts management's assertions, the documentation may include how the auditor evaluated that evidence, including the professional judgments made in forming a conclusion as to whether sufficient the sufficiency and appropriateness of the audit evidence has been obtained. Examples of other requirements in this ISA for which documentation may provide evidence of the exercise of professional skepticism by the auditor include:

...

- Paragraph 18, which requires further audit procedures to be designed and performed to obtain sufficient appropriate evidence in a manner that is not biased toward obtaining audit evidence that may ~~be corroborative~~ corroborate, or towards excluding audit evidence that may ~~be contradictory~~ assertions made by management;

...

- Paragraph 34, which addresses the auditor's consideration of all ~~relevant~~ audit evidence obtained, whether including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborative or contradictory the assertions

made by management in the financial statements.

...

ISA 550 – RELATED PARTIES

Application and Other Explanatory Material

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Responses to the Risks of Material Misstatement Associated with Related Party Relationships and Transactions (Ref: Para. 20)

...

Identification of Previously Unidentified or Undisclosed Related Parties or Significant Related Party Transactions

...

Substantive Procedures Relating to Newly Identified Related Parties or Significant Related Party Transactions (Ref: Para. 22(c))

A36. Examples of substantive audit procedures that the auditor may perform relating to newly identified related parties or significant related party transactions include:

- Making inquiries regarding the nature of the entity's relationships with the newly identified related parties, including (where appropriate and not prohibited by law, regulation or ethical rules) inquiring of parties outside the entity who are presumed to have significant knowledge of the entity and its business, such as legal counsel, principal agents, major representatives, consultants, guarantors, or other close business partners.
- Conducting an analysis of accounting records for transactions with the newly identified related parties. Such an analysis may be facilitated using automated tools and computer-assisted audit techniques.
- Verifying the terms and conditions of the newly identified related party transactions, and evaluating whether the transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework.

...

Assertions That Related Party Transactions Were Conducted on Terms Equivalent to Those Prevailing in an Arm's Length Transaction (Ref: Para. 24)

...

A44. Evaluating management's support for this assertion may involve one or more of the following:

- Considering the appropriateness of management's process for supporting the assertion.
- Verifying the source of the internal or external data supporting the assertion, and evaluating the relevance and reliability of the data, including ~~obtaining audit evidence~~ performing audit procedures relating to about its testing the data to determine their accuracy, and completeness and relevance.

- Evaluating the reasonableness of any significant assumptions on which the assertion is based.

...

ISA 570 (REVISED) – GOING CONCERN

[Section removed – see explanation in **Section II** of **Agenda Item 5**]

ISA 580 – WRITTEN REPRESENTATIONS

Introduction

...

Written Representations as Audit Evidence

3. Audit evidence is the information, ~~after applying audit procedures to which audit procedures have been applied~~, that the auditor uses ~~used by the auditor in arriving at to draw the~~ conclusions that form the basis for ~~on which the auditor's opinion and report is based~~.⁴² Written representations are necessary information that the auditor requires in connection with the audit of the entity's financial statements. Accordingly, similar to responses to inquiries, written representations are audit evidence. (Ref: Para. A1)

...

ISA 610 (REVISED 2013) – USING THE WORK OF INTERNAL AUDITORS

Introduction

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Relationship between ISA 315 (Revised 2019) and ISA 610 (Revised 2013)

...

10. There may be individuals in an entity that perform procedures similar to those performed by an internal audit function. However, unless performed by an objective and competent function that applies a systematic and disciplined approach, including quality control, such procedures would be considered internal controls and obtaining audit evidence regarding the effectiveness of such controls would be part of the auditor's responses to assessed risks in accordance with ISA 330.⁴³

...

Requirements

...

⁴² ISA 500 (Revised), *Audit Evidence*, paragraph 7(b)5(e)

⁴³ ISA 330, *The Auditor's Responses to Assessed Risks*

Using Internal Auditors to Provide Direct Assistance

...

34. The external auditor shall direct, supervise and review the work performed by internal auditors on the engagement in accordance with ISA 220 (Revised).⁴⁴ In so doing:
- (a) The nature, timing and extent of direction, supervision, and review shall recognize that the internal auditors are not independent of the entity and be responsive to the outcome of the evaluation of the factors in paragraph 29 of this ISA; and
 - (b) The review procedures shall include the external auditor checking back to the underlying information ~~audit evidence~~ for some of the work performed by the internal auditors.

The direction, supervision and review by the external auditor of the work performed by the internal auditors shall be sufficient in order for the external auditor to determine that the internal auditors have obtained sufficient appropriate audit evidence to support the conclusions based on that work. (Ref: Para. A40–A41)

ISA 620 – USING THE WORK OF AN AUDITOR’S EXPERT

Introduction

Scope of this ISA

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2. This ISA does not deal with:
- (a) Situations where the engagement team includes a member, or consults an individual or organization, with expertise in a specialized area of accounting or auditing, which are dealt with in ISA 220 (Revised);⁴⁵ or
 - (b) The auditor’s use of the work of an individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements (a management’s expert), which is dealt with in ISA 500 (Revised).⁴⁶

...

Application and Other Explanatory Material

...

Determining the Need for an Auditor’s Expert (Ref: Para. 7)

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⁴⁴ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

⁴⁵ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*, paragraph A19

⁴⁶ ISA 500 (Revised), *Audit Evidence*, paragraphs A66–A78A45–A59

A8. In other cases, however, the auditor may determine that it is necessary, or may choose, to use an auditor's expert to assist in obtaining sufficient appropriate audit evidence. Considerations when deciding whether to use an auditor's expert may include:

- Whether management has used a management's expert in preparing the financial statements (see paragraph A9).
- The nature and significance of the matter, including its complexity.
- The risks of material misstatement in the matter.
- The expected nature of procedures to respond to identified risks, including: the auditor's knowledge of and experience with the work of experts in relation to such matters; and the availability of alternative sources of information intended to be used as audit evidence.

A9. When management has used a management's expert in preparing the financial statements, the auditor's decision on whether to use an auditor's expert may also be influenced by such factors as:

- The nature, scope and objectives of the management's expert's work.
- Whether the management's expert is employed by the entity, or is a party engaged by it to provide relevant services.
- The extent to which management can exercise control or influence over the work of the management's expert.
- The management's expert's competence and capabilities.
- Whether the management's expert is subject to technical performance standards or other professional or industry requirements
- Any controls within the entity over the management's expert's work.

ISA 500 (Revised)⁴⁷ includes requirements and guidance regarding the evaluation ~~effect~~ of the competence, capabilities and objectivity of a management's experts ~~on~~ as part of the auditor's evaluation of the relevance and reliability of information intended to be used as audit evidence.

...

ISA 701 – COMMUNICATING KEY AUDIT MATTERS IN THE INDEPENDENT AUDITOR'S REPORT

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Application and Other Explanatory Material

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Determining Key Audit Matters (Ref: Para. 9–10)

...

⁴⁷ ISA 500 (Revised), paragraph 118

Considerations in Determining Those Matters that Required Significant Auditor Attention (Ref: Para. 9)

- A16. The auditor may develop a preliminary view at the planning stage about matters that are likely to be areas of significant auditor attention in the audit and therefore may be key audit matters. The auditor may communicate this with those charged with governance when discussing the planned scope and timing of the audit in accordance with ISA 260 (Revised). However, the auditor's determination of key audit matters is based on the results of the audit procedures performed and ~~or~~ audit evidence obtained throughout the audit.

...

ISA 805 (REVISED)

SPECIAL CONSIDERATIONS—AUDITS OF SINGLE FINANCIAL STATEMENTS AND SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF A FINANCIAL STATEMENT

...

Application and Other Explanatory Material

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Considerations When Accepting the Engagement

Application of ISAs (Ref: Para. 7)

...

- A6. Compliance with the requirements of ISAs relevant to the audit of a single financial statement or of a specific element of a financial statement may not be practicable when the auditor is not also engaged to audit the entity's complete set of financial statements. In such cases, the auditor often does not have the same understanding of the entity and its environment, including its internal control, as an auditor who also audits the entity's complete set of financial statements. The auditor also does not have the audit evidence about the general quality of the accounting records or other accounting information that would be obtained ~~acquired~~ in an audit of the entity's complete set of financial statements. Accordingly, the auditor may need further to obtain audit evidence to supplement the information obtained ~~to corroborate audit evidence acquired~~ from the accounting records. In the case of an audit of a specific element of a financial statement, certain ISAs require audit work that may be disproportionate to the element being audited. For example, although the requirements of ISA 570 (Revised) are likely to be relevant in the circumstances of an audit of a schedule of accounts receivable, complying with those requirements may not be practicable because of the audit effort required. If the auditor concludes that an audit of a single financial statement or of a specific element of a financial statement in accordance with ISAs may not be practicable, the auditor may discuss with management whether another type of engagement might be more practicable.

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