

### DRAFT OF PROPOSED INTERNATIONAL STANDARD ON AUDITING 500 (REVISED), AUDIT EVIDENCE

This Agenda Item includes the draft of proposed ISA 500 (Revised), marked from [Agenda Item 8-A](#) discussed by the Board at the December 2023 IAASB meeting. As explained in **Agenda Item 5, Section I**, certain paragraphs that address the project objective for technology-focused modernization of proposed ISA 500 (Revised) have been **grayed out** (i.e., the proposed conditional requirement for the use of automated tools and techniques (ATT) (paragraph 10A), including related introductory and application material, and the description of ATT (paragraph A2A)). In providing its feedback for the draft of proposed ISA 500 (Revised), the Board is asked not to consider the paragraphs highlighted in gray.

## Introduction

### Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities relating to audit evidence when designing and performing audit procedures, including when the auditor uses automated tools and techniques. Such responsibilities include procedures to evaluating-evaluate the relevance and reliability of information intended to be used as audit evidence, ~~-and-evaluating-the audit-evidence-obtained~~. (Ref: Para. A2A-A4)
2. ISA 200<sup>1</sup> deals with the overall responsibilities of the auditor in conducting an audit of the financial statements. ISA 200 requires the auditor to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.<sup>2</sup>
3. This ISA is applicable to all audit evidence obtained during the audit. Other ISAs address the audit evidence to be obtained for specific matters, which complement the requirements of this ISA (see Appendix 1). For example, ISA 315 (Revised 2019)<sup>3</sup> deals with audit evidence related to risk assessment procedures. In addition, ISA 330<sup>4</sup> deals with, among other matters, the auditor's overall responsibility to obtain sufficient appropriate audit evidence and to conclude whether sufficient appropriate audit evidence has been obtained.

### *Professional Judgment and Professional Skepticism*

4. As explained in ISA 200, the ISAs require that the auditor exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit.<sup>5</sup> This ISA further emphasizes maintaining professional skepticism in planning and performing the audit, and in

<sup>1</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

<sup>2</sup> ISA 200, paragraph 17

<sup>3</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

<sup>4</sup> ISA 330, *The Auditor's Responses to Assesses Risks*

<sup>5</sup> ISA 200, paragraphs 15-16

critically assessing audit evidence, by, for example: ~~designing and performing audit procedures in a manner that is not biased~~ and ~~E~~evaluating the relevance and reliability of information intended to be used as audit evidence. (Ref: Para. A4A)

- ~~Considering all audit evidence obtained, whether consistent or inconsistent with other audit evidence and regardless of whether it appears to corroborate or contradict the assertions in the financial statements, as a basis for concluding whether sufficient appropriate audit evidence has been obtained.~~

- 4A. As explained in ISA 200,<sup>6</sup> Maintaining professional skepticism includes ~~remaining being~~ alert ~~to~~for audit evidence that ~~may is inconsistent with~~ ~~contradict~~ other audit evidence obtained and for new information that ~~may brings into question the reliability of documents and responses to inquiries to be used as~~ ~~be inconsistent with other~~ audit evidence ~~obtained~~. Accordingly, maintaining professional skepticism includes not ignoring information the auditor may not ignore ~~information relevant to the audit that comes to the auditor's attention, including information~~ that calls into question the reliability of other information intended to be used as audit evidence.

### Effective Date

5. This ISA is effective for audits of financial statements for periods beginning on or after **December 15, 20XX.**

### Objectives

6. The objectives of the auditor ~~are is~~ to ~~:(a) D~~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. ~~and~~
- ~~(b) Evaluate information intended to be used as audit evidence, and the audit evidence obtained, to provide a basis for the auditor to conclude whether sufficient appropriate audit evidence has been obtained.~~

### Definitions

7. For purposes of the ISAs, the following terms have the meanings attributed below:
- (a) Appropriateness (of audit evidence) – The measure of the quality of audit evidence in providing support for the conclusions that form the basis for the auditor's opinion. (Ref: Para. A13, A14A–A14C)
  - (b) Audit evidence – Information, after applying audit procedures, that the auditor uses to draw conclusions that form the basis for the auditor's opinion and report. Audit procedures include evaluating the relevance and reliability of the information. (Ref: Para. A12A–A12C)
  - (c) Management's expert – 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.

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<sup>6</sup> ISA 200, paragraph A21

- (d) Sufficiency (of audit evidence) – The measure of the quantity of audit evidence in providing support for the conclusions that form the basis for the auditor’s opinion. (Ref: Para. A14–A14C)

## Requirements

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

- 8. For the purpose of obtaining sufficient appropriate audit evidence, the auditor shall design and perform audit procedures: (Ref: Para. A14D–A18)
  - (a) In a manner that is not biased towards obtaining audit evidence that may be corroborative, or towards excluding audit evidence that may be contradictory; and (Ref: Para: A19–A21A)
  - (b) The nature, timing and extent of which are appropriate in the circumstances to provide audit evidence to meet the intended purpose(s) of those audit procedures. (Ref: Para: A25–A26A)

### Information Intended to Be Used as Audit Evidence

- 9. The auditor shall evaluate the relevance and reliability of information intended to be used as audit evidence. In making this evaluation, the auditor shall consider: (Ref: Para: A35–A47~~BC~~)
  - (a) The source of the information; and (Ref: Para. A48–A52)
  - (b) The significance of the attributes of relevance and reliability ~~that are significant in the circumstances, given to meet~~ the intended purpose(s) of the audit procedures. ~~When information is from sources internal to the entity, accuracy and completeness are ordinarily considered significant attributes.~~ (Ref: Para. A53–A56L~~5~~)
- 10. If the auditor considers that an attribute of reliability is significant ~~in the circumstances, given the to meet the~~ intended purpose(s) of the audit procedures ~~in accordance with paragraph 9(b)~~, the auditor shall perform audit procedures relating to ~~these~~ attributes. When information is from sources internal to the entity, the attributes of accuracy and completeness ordinarily are significant attributes to meet the intended purpose(s) of the audit procedures. (Ref: Para. A40, A56–A56L)

### *Use of Automated Tools and Techniques*

- 10A. If the auditor uses automated tools and techniques to design and perform audit procedures, as part of the auditor’s evaluation in accordance with paragraph 9, the auditor shall: (Ref: Para. A65A–A65B, A65K–A65M)
  - (a) Consider the appropriateness of the inputs to the automated tools and techniques; (Ref: Para. A65C–A65E)
  - (b) Determine whether the automated tools and techniques operate as designed (Ref: Para. A65F–A65G); and
  - (c) Determine whether the output(s) of the automated tools and techniques meet the purpose for which it is intended. (Ref: Para. A65H–A65J)

*Information Intended to be Used as Audit Evidence Prepared by a Management's Expert*

11. If information intended to be used as audit evidence has been prepared by a management's expert, as part of the auditor's evaluation in accordance with paragraph 9, the auditor shall: (Ref: Para. A66–A67~~8~~)
- (a) Evaluate the competence, capabilities and objectivity of that expert; (Ref: Para. A69–A73)
  - (b) Obtain an understanding of the work performed by that expert; and (Ref: Para. A74–A75)
  - (c) Obtain an understanding of how the information prepared by that expert has been used by management in the preparation of the financial statements, including: (Ref: Para. A76–A78)
    - (i) How management has considered the appropriateness of the information prepared by that expert; and
    - (ii) Modifications made by management to the information prepared by that expert, and the reasons for such modifications.
  - (d) Evaluate the appropriateness of the work of the management's expert as audit evidence for the relevant assertion. (Ref: Para. A78A)

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

12. If the auditor has doubts about the relevance or reliability of information intended to be used as audit evidence, the auditor shall: (Ref: Para. A78~~BA~~–A80)
- (a) Determine whether modifications or additions to audit procedures can be made ~~are possible~~ to resolve the doubts about the relevance of the information; or
  - (b) Determine what modifications or additions to audit procedures are necessary to resolve the doubts about the reliability of the information.
- 12A. If the doubts about the relevance or reliability of information in accordance with paragraph 12 cannot be resolved, the auditor shall consider the effect, if any, on other aspects of the audit, including whether such doubts indicate a risk of material misstatement due to fraud. (Ref: Para. A83)

**Evaluating Inconsistencies in the Audit Evidence Obtained**

- ~~13. As a basis for concluding whether sufficient appropriate audit evidence has been obtained in accordance with ISA 330,<sup>7</sup> the auditor shall: (Ref: Para. A84–A88)~~
- ~~(a) Evaluate whether the audit evidence obtained meets the intended purpose(s) of the audit procedures; and~~
  - ~~(b) Consider all audit evidence obtained, including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate or contradict the assertions in the financial statements.~~

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<sup>7</sup>—ISA 330, paragraph 26

14. If the auditor obtains audit evidence that is inconsistent with other audit evidence, the auditor shall:  
(Ref: Para. A88BA-A90)
- (a) Determine what modifications or additions to audit procedures are necessary to understand and address the inconsistency; and
  - (b) Consider the effect, if any, on other aspects of the audit.

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## Application and Other Explanatory Material

### Automated Tools and Techniques (Ref: Para. 1)

A2A. Automated tools and techniques (a subset of technological resources)<sup>8</sup> is a broad term that describes information technology enabled processes used by the auditor for the purpose of planning or performing the audit that involve the automation of methodologies and procedures, for example the analysis of data using modelling and visualization, or drone technology to observe or inspect assets. Other examples of automated tools and techniques are artificial intelligence and robotic process automation. The term is deliberately broad because technologies and related audit applications continue to evolve.

A4. This ISA establishes further requirements and provides guidance when the auditor uses automated tools and techniques to design and perform audit procedures. Other ISAs may:

- Describe circumstances when an audit procedure may be performed more effectively by using an automated tool and technique than manually. For example, ISA 240 explains that the use of automated tools and techniques may enable more extensive testing of digital transactions or account files.<sup>9</sup>
- Provide considerations specific to automated tools and techniques that may be relevant in applying this ISA. For example, ISA 315 (Revised 2019)<sup>10</sup> explains that automated tools and techniques may also be used to:
  - Perform risk assessment procedures on large volumes of data, including for analysis, recalculations, reperformance or reconciliations.
  - Observe or inspect, in particular assets, for example through the use of remote observation tools (e.g., a drone).

### Professional Judgement and Professional Skepticism (Ref: Para. 3)

A4A. Relevant ethical requirements such as the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) also may establish requirements for the role, mindset and behavioral

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<sup>8</sup> See International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, paragraphs 32(f), A98–A101 and ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*, paragraphs A63–A67

<sup>9</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph A38

<sup>10</sup> ISA 315 (Revised 2019), paragraphs A21 and A35

characteristics expected of all professional accountants.<sup>11</sup> In an audit of financial statements, professional skepticism and the fundamental principles of ethics are interrelated concepts and the compliance with the fundamental principles, individually and collectively, support the auditor to exercise professional skepticism.<sup>12</sup>

## Definitions

*Audit Evidence* (Ref: Para. 7(b))

A12A. In planning and performing an audit, the auditor may obtain information from a variety of sources and in different forms. Such information ordinarily is expected to result in audit evidence that is necessary to support the conclusions that form the basis for the auditor's opinion and report.<sup>13</sup> However, such information can become audit evidence only after audit procedures are applied to it, including procedures to evaluating its relevance and reliability. For purposes of this ISA, this information is referred to as "information intended to be used as audit evidence."

A12B. The audit procedures applied to the information may vary from simple to extensive procedures and the evaluation of the relevance and reliability of the information intended to be used as audit evidence may be performed concurrently with such audit procedures. The audit procedures applied to the information intended to be used as audit evidence may also include:

- ~~Performing a~~ Audit procedures on certain aspects of the information, such as comparing information to its original source. For example, when using a system-generated trade receivables aging report, the auditor may compare a sample of inputs and outputs of the report to supporting documentation such as the date of a sales invoice and actual payments received.
- ~~Performing a~~ Audit procedures to corroborate the absence of certain conditions. For example, reviewing whether sale returns occurred after the year end for a product or service when corroborating management's assertions related to a recorded warranty provision.

A12C. Audit evidence is cumulative in nature and comprises evidence that supports and corroborates management's assertions and evidence that contradicts such assertions. It is primarily obtained from audit procedures performed during the course of the current audit. Audit evidence obtained from previous audits may also provide audit evidence for the current audit, provided the auditor has performed audit procedures to evaluate whether the audit evidence from the previous audit remains relevant and reliable for the current audit.

*Appropriateness of Audit Evidence* (Ref: Para. 7(a))

A13. The appropriateness of audit evidence refers to the quality of audit evidence. 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.

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<sup>11</sup> See, for example, paragraphs R102.5– 102.5 A2 of the IESBA Code.

<sup>12</sup> See, for example, paragraphs 120.16 A1–120.16 A2 of the IESBA Code.

<sup>13</sup> ISA 200, paragraph A31

*Sufficiency of Audit Evidence* (Ref: Para. 7(d))

A14. The quantity of audit evidence needed is affected by the auditor's assessment of the risks of material misstatement (the higher the assessed risks, the more audit evidence is likely to be required) and also by the quality of such audit evidence (the higher the quality, the less may be required). Additional audit evidence may be obtained by increasing the extent of audit procedures performed, performing different types of audit procedures, or by seeking audit evidence from different sources. Obtaining more audit evidence, however, does not compensate for its poor quality.

*Interrelationship of the Sufficiency, Appropriateness and Persuasiveness of Audit Evidence* (Ref: Para. 7(a), 7(d))

A14A. The sufficiency and appropriateness of audit evidence are interrelated<sup>14</sup> and together they affect the persuasiveness of audit evidence, ~~taking into account in light of~~ the assessed risks of material misstatement and relevant assertions. Information that is more relevant and reliable ordinarily is of a higher quality and, therefore, may provide ~~more persuasive~~ higher quality audit evidence. If the audit evidence is of higher quality, the auditor may determine that the audit evidence is sufficient ~~to in providing~~ provide persuasive audit evidence to support ~~for~~ the conclusions that form the basis for the auditor's opinion. Alternatively, when audit evidence is of lower quality, the auditor may determine that additional audit evidence is needed to obtain persuasive audit evidence to provide support for the auditor's conclusions. However, increasing the quantity of audit evidence by performing the same type of audit procedures may not provide more persuasive audit evidence in all circumstances.

A14B. Certain ISAs provide requirements, or guidance, about circumstances when more persuasive audit evidence is, or may be, required. For example:

- In designing further audit procedures, ISA 330 requires the auditor to obtain more persuasive audit evidence the higher the auditor's assessment of risk, and also requires the auditor to obtain more persuasive audit evidence the greater the reliance the auditor places on the operating effectiveness of a control.<sup>15</sup>
- A revision of the risk assessment in accordance with ISA 315 (Revised 2019),<sup>16</sup> based on the results of audit procedures performed, including whether any instances of fraud or error were identified, may indicate that more persuasive audit evidence is needed to conclude whether sufficient appropriate audit evidence has been obtained.

A14C. Other factors that affect the sufficiency and appropriateness of audit evidence, and therefore its persuasiveness, may include the following:

- The information intended to be used as audit evidence, including the auditor's consideration of the attributes of relevance and reliability of the information.
- Whether the information is from a single source or may be needed from multiple sources.
- Whether there are inconsistencies between multiple pieces of audit evidence.

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<sup>14</sup> ISA 200, paragraph A32

<sup>15</sup> ISA 330, paragraphs 7(b) and 9

<sup>16</sup> ISA 315 (Revised 2019), paragraph 37



- The design and performance of audit procedures, i.e., whether they are appropriate in the circumstances and have been appropriately applied.

Examples:

- Inspection or external confirmation procedures may provide more persuasive audit evidence than inquiry.
- Audit procedures that are more extensive (e.g., a larger sample size for audit sampling purposes) may provide more persuasive audit evidence.

**Designing and Performing Audit Procedures to Obtain Sufficient Appropriate Audit Evidence** (Ref: Para. 8)

A14D. The auditor obtains audit evidence by designing and performing audit procedures. 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, including:-

- Risk assessment procedures performed in accordance with ISA 315 (Revised 2019) or other ISAs that expand on how ISA 315 (Revised 2019) applies to a specific topic;
- Further audit procedures performed in accordance with ISA 330 or other ISAs that expand on how ISA 330 applies to a specific topic; and
- Other audit procedures that are required to be carried out to comply with the ISAs, including procedures to evaluate the relevance and reliability of information intended to be used as audit evidence in accordance with this ISA.

*The Nature of Audit Procedures*

A15. The nature of an audit procedure refers to its purpose and its type. For example, ISA 330 explains that the purpose of further audit procedures may be a test of controls or a substantive procedure.<sup>17</sup> As also explained in ISA 330, the nature of the audit procedures is of most importance in responding to the assessed risks at the assertion level.

Example:

- When the intended purpose of the audit procedure is to test occurrence of expenses, the auditor may perform a test of details (i.e., a substantive procedure to detect material misstatements at the assertion level) by matching a sample of recorded expense transactions to approved purchase orders, invoices received, goods received and payments made to vendors.

A16. The auditor may design and perform one type of audit procedure, or a combination of different types of audit procedures when obtaining audit evidence about, for example, a class of transactions, account balance or disclosure. Appendix 1 describes some of the types of audit procedures and includes illustrative examples.

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<sup>17</sup> ISA 330, paragraph A5



A17. The type of audit procedure may affect the audit evidence obtained for the auditor's purposes.

Examples:

- Inquiry only of knowledgeable persons within or outside the entity ordinarily does not provide sufficient appropriate audit evidence of the absence of a material misstatement at the assertion level.
- Observation provides audit evidence about the performance of a procedure or control. However, observation is limited to the point in time at which the observation takes place, and by the fact that the act of being observed may affect how the procedure or control is performed.
- ~~When performing risk assessment procedures or further audit procedures, the auditor may use automated tools and techniques to interrogate a large data set of transactions more easily. By doing so, the auditor may obtain a more granular or deeper understanding about the characteristics or composition of the transactions, which may result in more persuasive audit evidence.~~

A18. The auditor may design and perform an audit procedure that achieves more than one purpose. For example, ISA 315 (Revised 2019) explains that 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.<sup>18</sup> For an audit procedure to achieve more than one purpose, the auditor complies with the requirements of the relevant ISAs. For example, when an audit procedure serves as both a risk assessment procedure and a further audit procedure ~~concurrently~~, the auditor is required to comply with the requirements of ISA 315 (Revised 2019) and ISA 330, and any other relevant ISAs (e.g., a topic-specific ISA, such as ISA 5740 (Revised))<sup>19</sup> that deal with the design and performance of such audit procedure).

Example:

When identifying events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor may use automated tools and techniques to analyse all journal entries posted to revenue, accounts receivable and cash. ~~In doing so, the auditor may to~~ inspect whether the entity's sources of earnings are consistent with the auditor's understanding of the entity and its environment (i.e., a risk assessment procedure to identify risks of material misstatement). ~~In-While~~ performing the analysis, the auditor may also identify unusual cash activity, such as journal entries posted from an unexpected source or against an unusual account. ~~, that would be further investigated as a~~ A test of details may be performed for such journal entries to respond to an assessed risk of material misstatement ~~associated with-related to~~ the existence of cash (i.e., a substantive procedure to detect misstatements at the assertion level).

<sup>18</sup> ISA 315 (Revised 2019), paragraph A19

<sup>19</sup> ISA 5740 (Revised), *Auditing Accounting Estimates and Related Disclosures* Going Concern

*Designing and Performing Audit Procedures in a Manner That Is Not Biased* (Ref: Para. 8(a))

A19. ISA 220 (Revised)<sup>20</sup> explains that unconscious or conscious auditor biases may affect the engagement team's professional judgments in designing and performing audit procedures, and provides examples of biases that may impede the exercise of professional skepticism. An awareness of such biases when designing and performing audit procedures may help to mitigate impediments to the auditor's exercise of professional skepticism in critically assessing audit evidence and determining whether sufficient appropriate audit evidence has been obtained for the auditor's purposes. Such awareness may also enable the auditor to design and perform audit procedures that seek to avoid:

- Placing more weight on audit evidence that corroborates the assertions in the financial statements than audit evidence that contradicts or casts doubt on such assertions (confirmation bias).
- Using an initial piece of information or audit evidence as an anchor against which subsequent information or audit evidence is evaluated (anchoring bias).
- Placing more weight on information that immediately comes to mind or uses information from sources that are more readily available or accessible (availability bias).
- Placing undue weight or reliance on output from automated systems or information in digital format without performing appropriate audit procedures (automation bias). Also see paragraphs A65K-A65M.

A20. Designing and performing audit procedures in an unbiased manner involves:

- For risk assessment procedures, doing so in a manner that is not biased toward obtaining audit evidence that may corroborate the existence of risks or the auditor's expectations about the risks of material misstatement, or toward excluding audit evidence that may contradict the existence of risks of material misstatement or the auditor's expectations.
- For further audit procedures and other audit procedures in accordance with the ISAs, doing so in a manner that is not biased toward obtaining audit evidence that may corroborate management's assertions or toward excluding audit evidence that may contradict such assertions.

A21. Designing and performing audit procedures to obtain audit evidence in an unbiased manner may involve obtaining information intended to be used as audit evidence from multiple sources within and outside the entity. The need to obtain information from multiple sources may be affected by how persuasive the audit evidence needs to be to provide sufficient appropriate audit evidence to support the conclusions that form the basis for the auditor's opinion.

A21A. The auditor is not required to perform an exhaustive search to identify all possible sources of information intended to be used as audit evidence. The auditor's understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control obtained in accordance with ISA 315 (Revised 2019) may assist the auditor in identifying appropriate sources of information.<sup>21</sup>

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<sup>20</sup> ISA 220 (Revised), paragraph A35

<sup>21</sup> ISA 315 (Revised 2019), paragraphs 19–26

*Audit Procedures that are Appropriate in the Circumstances* (Ref: Para. 8(b))

A25. ~~ISA 200<sup>22</sup> explains that detection risk is a function of:~~

- ~~• The effectiveness of an audit procedure; and~~
- ~~• The application of the audit procedure by the auditor.~~

Audit procedures designed and performed by the auditor are appropriate in the circumstances when the nature, timing and extent of such procedures are designed to be effective in achieving the intended purpose(s) of the audit procedures. An audit procedure may be designed to be effective in achieving a specific purpose, but if the performance or execution of the audit procedure (i.e., its application) is inappropriate, detection risk<sup>23</sup> may not be reduced to an acceptably low level.

A26. ISA 220 (Revised) deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements, and the related responsibilities of the engagement partner. Such responsibilities address factors that may affect the application of audit procedures, such as whether:

- There was adequate planning;
- The audit procedures were performed by engagement team members with appropriate knowledge and experience to properly perform the procedures;
- The engagement team members appropriately exercised professional skepticism; and
- There was appropriate direction, supervision and review.

A26A. When the design and performance of an audit procedure includes selecting items for testing, the auditor may use various approaches to identify and select items for testing. Appendix 2 describes the various approaches to select items for testing and provides illustrative examples.

**Information Intended to Be Used as Audit Evidence** (Ref: Para. 9–12)

*Evaluating the Relevance and Reliability of Information Intended to Be Used as Audit Evidence* (Ref: Para. 9)

A35. The auditor's evaluation of the relevance and reliability of information intended to be used as audit evidence is an iterative process that involves professional judgment and includes performing audit procedures. The nature, timing and extent of such audit procedures may vary and are influenced by the auditor's consideration of the source of the information and the significance of the attributes of relevance and reliability to meet the intended purpose(s) of the audit procedures. ~~that are significant in the circumstances.~~

A37. The evaluation of relevance and reliability may be performed concurrently with the audit procedures applied to the information.

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<sup>22</sup> ~~ISA 200, paragraphs A47–A49~~

<sup>23</sup> ISA 200, paragraphs A47–A49

Examples:

When the purpose of the audit procedure is to test the valuation of investments using pricing information from an external source, the auditor also considers the credibility of the source and whether it is free from bias, ~~such as the reputation and independence of the source~~. In some circumstances, the audit procedures to evaluate relevance and reliability may be straightforward (e.g., comparing the interest rate on a loan that is based on the prime rate established by a central bank of the jurisdiction to published information from the central bank). In other circumstances, audit procedures, including tests of controls, may be performed to evaluate the reliability of information (e.g., the accuracy and completeness of information generated internally from the entity's information system).

A38. Audit evidence from performing other audit procedures in accordance with the ISAs also may assist the auditor in evaluating the relevance and reliability of information intended to be used as audit evidence.

Examples:

Audit evidence obtained from:

- The acceptance and continuance of client relationships and the audit engagement.<sup>24</sup>
- The auditor's understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control obtained in accordance with ISA 315 (Revised 2019).
- Tests of controls over the preparation and maintenance of the information performed in accordance with ISA 330.
- Audit procedures performed when using an auditor's expert in accordance with ISA 620.<sup>25</sup>
- Audit procedures performed in accordance with ISA 402<sup>26</sup> when a user entity uses the services of one or more service organizations.

A40. ISA 230<sup>27</sup> provides requirements and guidance about the form, content and extent of audit documentation that also apply to the documentation of the auditor's evaluation of the relevance and reliability of information intended to be used as audit evidence. These requirements and guidance also apply to the audit procedures performed relating to the attributes of relevance and reliability that are significant ~~in the circumstances to meet the intended purpose(s) of the audit procedures~~. Other ISAs may include documentation requirements that may address the auditor's consideration of the significance of the attributes of relevance and reliability to meet the intended purpose(s) of the audit procedures ~~that are significant in the circumstances~~ (e.g., the credibility of a particular external information source used in auditing an accounting estimate in accordance with ISA 540 (Revised)).<sup>28</sup> However, this ISA does not require the auditor to document the consideration of each attribute of relevance and reliability of information.

<sup>24</sup> ISA 210, *Agreeing the Terms of Audit Engagements*

<sup>25</sup> ISA 620, *Using the Work of an Auditor's Expert*

<sup>26</sup> ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*

<sup>27</sup> ISA 230, *Audit Documentation*, paragraphs 8-11

<sup>28</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

*Form, Availability, Accessibility and Understandability of Information*

A41. Information intended to be used as audit evidence may come in different forms, including:

- Oral information, for example, obtained through a verbal response to an inquiry.
- Visual information, for example, obtained through physical or remote observation.
- Information in written form, for example, obtained through a written confirmation.
- Digital information, which includes:
  - Documents in digital form (e.g., an electronic confirmation), and
  - Data generated and stored in an IT system or obtained digitally from a source outside of the entity (e.g., electronic purchase orders submitted by customers stored in the entity's IT system).

Such digital information may be manually captured, converted into a digital format, or electronically generated (e.g., an electronic data interface between the entity and a service organization).

A42. The form, availability, accessibility and understandability of the information intended to be used as audit evidence may affect the design and performance of the audit procedures in which the information will be used and may also affect the ~~auditor's audit procedures to evaluation-evaluate of~~ the relevance and reliability of the information.

Examples:

- The ability to extract information in a usable form stored in the entity's information system may affect whether the auditor can perform an audit procedure by using automated tools and techniques. For example, the auditor may need to consider if the format of the information extracted can be converted into a format compatible for the inputs to the automated tools and techniques, or whether there are any system limitations preventing extracting large volumes of data.
- The design of an audit procedure to inspect the physical condition of the entity's inventories may differ based on whether the auditor plans to be physically present at specific locations or plans to obtain audit evidence through alternative means, such as remote observation ~~techniques~~tools.
- Screenshots from IT applications provided by management may not be sufficient if the auditor cannot determine when the screenshot was taken.
- Information may be available only at certain points or periods in time, or it may be destroyed after a specific period of time. The auditor may need to design and perform the audit procedures at particular points in time or request retention of some information to facilitate the performance of audit procedures. For example, the entity may overwrite log files after a certain period or the entity may use technology that adapts over time, such as machine learning technology, to predict the recoverability of accounts receivable, which is periodically updated (e.g., for changes in payment history, customer credit scores or economic factors). In these cases, the auditor may need to perform the audit procedures close to the financial reporting date when the information generated is current, since performing audit procedures

at an earlier or later date may render a different outcome or the information may not be relevant for the current audit period (e.g., the machine learning logic may no longer relate to the period being audited).

- Information in digital form may be available to the auditor on a continuous basis. In such circumstances, the auditor may use automated tools and techniques that are designed to operate on a real time basis to test the information (e.g., information maintained in a distributed ledger).

A44. The auditor may receive information in many forms, ranging from information generated from highly complex automated systems to information manually prepared by management and others within the entity. The auditor may have an expectation of the form in which information intended to be used as audit evidence will be received. Remaining alert for information that is received in a form different from the expected form may assist the auditor in mitigating unconscious biases that may impede the auditor's exercise of professional skepticism. In addition, receiving information in a form different from that expected may also be relevant to the auditor's evaluation of the reliability of that information.

Example:

- Remaining alert for information that may be more suitable for the auditor's purposes, instead of information that immediately comes to mind or is readily available, may assist the auditor in mitigating the risk of availability bias.
- Information that is received in a form different from the expected form may be indicative of conditions where information has been inappropriately altered and may affect the auditor's consideration for the attribute of authenticity of the information.

A45. Information intended to be used as audit evidence may exist, but access to such information may be restricted. Such restrictions may be imposed by law or regulation, the source providing the information, or by other conditions.

Examples:

- ~~Access to an entire population of items may not be made available due to restrictions imposed on the entity by data privacy laws or regulations.~~
- Laws or regulations may prohibit transfer of certain information to another jurisdiction and the auditor may only be able to use such information by physically visiting the jurisdiction where the information is available.
- War, civil unrest or outbreaks of disease may present conditions where access to certain information to be used as audit evidence is restricted.

A45A. In some cases, the auditor may be able to overcome restrictions on access to information. ISA 600 (Revised)<sup>29</sup> provides examples of how restrictions may be overcome for an audit of group financial statements.

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<sup>29</sup> ISA 600 (Revised), *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraphs A35 and A180

- A47. In some circumstances, specialized skills or knowledge may be needed to understand or interpret the information intended to be used as audit evidence. Accordingly, the auditor may consider using an auditor's expert to assist in understanding or interpreting the information if the engagement team does not have the appropriate competence and capabilities to do so. Other resources may also be appropriate for such purposes, such as technological or intellectual resources that are available to the auditor, as explained in ISA 220 (Revised).<sup>30</sup>

Examples:

Information where specialized skills or knowledge may be needed to understand or interpret information intended to be used as audit evidence may include:

- The information may be highly dependent on the interpretation of local tax laws and regulations (e.g., a tax opinion on a structured transaction), and the auditor may need a local tax lawyer or tax accountant to help interpret the information.
- The information may be included in a contract that contains complicated legal terminology, and the auditor may need a lawyer to help interpret the information.
- The information may have been generated by an IT application that uses a highly complex system. The auditor may use an IT programming expert to assist in understanding how the information is generated.
- The information may be in another language and may need to be translated.

Difficulty in Obtaining, or the Time or Cost to Obtain, Audit Evidence

- A47A. In explaining the inherent limitations of an audit, ISA 200<sup>31</sup> notes that the matter of difficulty, time or cost involved is not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative or to be satisfied with audit evidence that is less than persuasive. In circumstances when the auditor determines that it is not practicable to obtain or understand the information intended to be used as audit evidence, the auditor may be unable to obtain sufficient appropriate audit evidence. For example, if the auditor does not have a sufficient basis to evaluate the relevance and reliability of information from an external information source, the auditor may have a limitation on scope if sufficient appropriate audit evidence cannot be obtained through alternative procedures. ~~The auditor's inability to obtain sufficient appropriate audit evidence requires the auditor to express a qualified opinion or disclaim an opinion on the financial statements in accordance with ISA 705 (Revised).~~<sup>32</sup> ~~In addition, management's unwillingness to respond to an inquiry or a request from the auditor (e.g., management's refusal to provide a requested representation) may be a limitation on the scope of the audit.~~ ISA 705 (Revised)<sup>33</sup> explains other circumstances when the auditor's inability to obtain sufficient appropriate audit evidence may be a scope limitation. Under these circumstances, the auditor is required to express a qualified opinion or disclaim the opinion on the financial statements in accordance with ISA 705 (Revised).

<sup>30</sup> ISA 220 (Revised), paragraphs A59–A69

<sup>31</sup> ISA 200, paragraph A53

<sup>32</sup> ~~ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*~~

<sup>33</sup> ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*, paragraphs A8 and A9



A47B. In some circumstances, there may be a high degree of difficulty, time or cost involved in accessing or understanding information intended to be used as audit evidence. However, the auditor may determine that there is no alternative information that would provide sufficient appropriate audit evidence and that it is therefore necessary to obtain such information despite the difficulty, time or cost involved.

~~A47C. In circumstances when the auditor determines that it is not practicable to obtain or understand the information intended to be used as audit evidence, the auditor may be unable to obtain sufficient appropriate audit evidence. For example, if the auditor does not have a sufficient basis to evaluate the relevance and reliability of information from an external information source, the auditor may have a limitation on scope if sufficient appropriate audit evidence cannot be obtained through alternative procedures. The auditor's inability to obtain sufficient appropriate audit evidence requires the auditor to express a qualified opinion or disclaim an opinion on the financial statements in accordance with ISA 705 (Revised).<sup>34</sup> In addition, management's unwillingness to respond to an inquiry or a request from the auditor (e.g., management's refusal to provide a requested representation) may be a limitation on the scope of the audit. ISA 705 (Revised)<sup>35</sup> explains other circumstances when the auditor's inability to obtain sufficient appropriate audit evidence may be a scope limitation. Under these circumstances, the auditor is required to express a qualified opinion or disclaim the opinion on the financial statements in accordance with ISA 705 (Revised).~~

*Sources of Information* (Ref: Para. 9(a))

A48. Information intended to be used as audit evidence may come from internal sources or external sources. For example, information may come from:

- The entity's accounting records, management or other sources internal to the entity.
- An external individual or organization that provides information suitable for use by a broad range of users, which the entity uses in preparing the financial statements, or the auditor intends to use as audit evidence. Such sources are referred to as an "external information source" in this ISA. A particular set of information is more likely to be suitable for use by a broad range of users and less likely to be subject to influence by any particular user if the external individual or organization provides it to the public for free, or makes it available to a wide range of users in return for payment of a fee. The auditor's determination of whether the information is suitable for use by a broad range of users, and therefore if it is information from an external information source, is a matter of professional judgment, taking into account the ability of management to influence the external information source.

Example:

Pricing services, governmental organizations, central banks or recognized stock exchanges may provide information such as:

- Prices and pricing related data.
- Macro-economic data, such as historical and forecast unemployment rates and

<sup>34</sup>—ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

<sup>35</sup>—ISA 705 (Revised), paragraphs A8 and A9

economic growth rates, or census data.

- Credit history data.
- Industry specific data, such as an index of reclamation costs for certain extractive industries, or viewership information or ratings used to determine advertising revenue in the entertainment industry.
- Mortality tables used to determine liabilities in the life insurance and pension sectors.

- Independent sources outside of the entity that provide information to the entity, such as the entity's bank, legal counsel, customers or suppliers.
- A management's expert.
- An auditor's expert.
- A service organization.

A49. In some cases, information prepared by an external individual or organization that is used by management in preparing the financial statements is an external information source because it is suitable for use by a broad range of users. In other cases, it is information prepared by a management's expert (see paragraphs A66–A78A). An external individual or organization cannot, in respect of any particular set of information, be at the same time both an external information source and a management's expert, or service organization or auditor's expert.

A50. The source and form of the information intended to be used as audit evidence may affect the availability, accessibility and understandability of the information intended to be used as audit evidence. The source of the information may also affect the auditor's professional judgment regarding the significance of the attributes of relevance and reliability ~~that are significant 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. It may also affect how the auditor responds to matters such as doubts about the reliability of the information, or inconsistencies in audit evidence.

Examples:

- If the source of the information is subject to the influence of management or a related party, the auditor may be concerned about authenticity or management bias in evaluating the reliability of such information (see paragraphs A56G–A56J).
- If the information comes from a highly reputable external information source with proven expertise in the subject matter or with a legislative mandate (e.g., a central bank of the jurisdiction), or an external source that is subject to regulatory oversight (e.g., a recognized stock exchange), the auditor's work effort in considering the reliability of the information may not be as extensive as for a less known source (see paragraphs A56K–A56L).
- If the information is provided by management, such as information generated internally from the entity's information system, the auditor may need to perform audit procedures relating to the accuracy and completeness of the information (see paragraphs A56C–A56F).

- A52. In designing and performing a specific audit procedure, the auditor may use information from a combination of sources.

Example:

In performing substantive analytical procedures to test revenue recorded for a real estate entity, the auditor may use information from:

- The entity's accounting records, such as information that relates to the details of the rental properties and their location; and
- An external information source, such as information that relates to average real estate rental prices for the area where the properties are located (e.g., information available on real estate websites).

*Attributes of Relevance and Reliability of Information* (Ref: Para. 9(b))

- A53. The quality of audit evidence depends on the relevance and reliability of the information upon which it is based. Accordingly, the auditor is required to consider the significance of the attributes of relevance and reliability of the information to meet the intended purpose(s) of the audit procedures ~~that are significant in the circumstances~~ as part of the auditor's evaluation in accordance with paragraph 9. Whether, and the degree to which, certain attributes are of significant ~~significance to meet the intended purpose(s) of the audit procedures in the circumstances~~ is a matter of professional judgment.

- A53A. Significance can be described as the relative importance of a matter, and is judged by the auditor in the context in which the matter is being considered. Although all of the attributes of relevance and reliability apply to the information intended to be used as audit evidence, the significance of the attributes ~~that are significant in the circumstances~~ may vary depending on the importance of the information to meet given ~~the~~ intended purpose(s) of the audit procedures. When making judgments about the attributes of relevance and reliability, significance may be considered in the context of qualitative and quantitative factors, such as:

- The nature and source of the information.
- The controls over the preparation and maintenance of the information.
- How the information has been obtained by the auditor and in what form, for example, whether the information was obtained directly or indirectly by the auditor.
- If the information is intended to be used by the auditor in performing further audit procedures, the nature of the assessed risks of material misstatement, including the reasons for the assessment, and the relevant assertions.
- Whether the information appears to corroborate or contradict management's assertions.
- The extent of change from prior audits, if applicable, in relation to the information, such as changes in how the information has been prepared and changes in underlying controls.
- The implications of actual, suspected, or alleged fraud identified during the audit.

Relevance (Ref: Para. 9(b))

A54. The principal attribute of the relevance of information intended to be used as audit evidence deals with the logical connection with, or bearing upon, the purpose(s) of the audit procedure, including, when appropriate, the assertion being tested. The degree to which the information relates to meeting the purpose(s) of the audit procedure may also be a consideration.

A55. Other factors that may affect the relevance of information intended to be used as audit evidence include:

- The classes of transactions, account balances or disclosures (including relevant assertions) to which the information relates. Information may be relevant to multiple classes of transactions, account balances or disclosures. Some information may be relevant for certain financial statement assertions but not others.

Examples:

- A summary of accounts receivable collected after the end of the period may be relevant to testing the existence and valuation of accounts receivable, and occurrence and accuracy of revenue, but not necessarily to the completeness of accounts receivable and revenue.
- Inspection of a document, such as a stock, bond or a digital copy of a mortgage, may be relevant to the existence assertion for a financial instrument at a certain point in time but may not necessarily provide audit evidence about valuation.

- The period of time to which the information relates.

Example:

- Information used as audit evidence in the prior audit may not be relevant to the current audit due to changes in the circumstances to which the audit evidence relates.

- The level of detail of the information needed given-to meet the intended purpose(s) of the audit procedure.

Examples:

- Information used by management to monitor the entity's operations (e.g., interim operating results) may be relevant for purposes of risk assessment procedures. On the other hand, information related to key performance indicators used by management may not be precise enough to detect material misstatements at the assertion level and therefore may not be appropriate for use by the auditor in performing further audit procedures.
- The level of aggregation of the information may affect the effectiveness of an audit procedure. For example, disaggregated sales information for residential properties by geographical location and property type may provide more relevant information when testing the valuation assertion of loans measured based on fair value of the collateral.

Reliability (Ref: Para. 9(b), 10)

A56. The reliability of information intended to be used as audit evidence deals with the degree to which the auditor may depend on such information.

<i>Attributes that may be considered by the auditor in considering the degree to which information intended to be used as audit evidence is reliable</i>	
Accuracy	The information is free from error in its reflection of the underlying conditions, events, circumstances, actions or inactions, including reflecting the appropriate time period or point in time attributable to the conditions or events.
Completeness	The information reflects all of the underlying conditions, events, circumstances, actions or inactions.
Authenticity	The information has been generated by or provided by a source authorized to do so, and the information has not been inappropriately altered.
Bias	The information is free from intentional and unintentional bias in its reflection of the underlying conditions, events, circumstances, actions or inactions.
Credibility	The source has the competence and capability to generate the information to a required standard, and the source can be trusted.

A56A. In evaluating whether the information intended to be used as audit evidence is reliable, the auditor may consider ~~one or more a combination of~~ attributes to be ~~of significant significance in the circumstances given to meet~~ the intended purpose(s) of the audit procedures, ~~including the interrelationships among them. However~~ Accordingly, it is unnecessary for the auditor to ~~perform audit procedures for always consider each all~~ of the attributes of reliability ~~individually~~ (as in a checklist, for example).

**Example:**

~~When the reputation and authority of a source providing the information is not sufficiently credible to support the reliability of the information, the auditor may also need to consider whether management's selection of the external source may be favourably biased toward corroborating management's assertions or whether alternative sources of information were considered.~~

A56B. ~~The auditor may also evaluate the information intended to be used as audit evidence as reliable by considering the attributes of reliability that are significant in the circumstances individually to meet the intended purpose(s) of the audit procedures.~~

**Examples:**

The credibility of the external source providing a quoted market price at the measurement date is ~~a significant attribute of significance~~ for the reliability of the information when obtaining audit evidence about the valuation assertion of a financial instrument measured at fair value. ~~However, when the reputation and authority of a source providing the information is not sufficiently credible to support the reliability of the information, the auditor may also need to consider whether~~

management's selection of the external source may be favourably biased toward corroborating management's assertions or whether alternative sources of information were considered.

## Accuracy and Completeness

A56C. The attributes of accuracy and completeness ordinarily will be of significant-significance to meet the intended purpose(s) of the audit procedures for information generated internally from the entity's information system used in performing further audit procedures.

### Examples:

- Testing a population (~~for example e.g.~~, payments) for a certain characteristic (for example, authorization), will be less reliable-effective if the population from which items are selected for testing is not complete.
- If a population of journal entries is not complete, this will limit the effectiveness of the audit procedures in responding to the risk of management override of controls associated with fraudulent journal entries and other adjustments.

However, accuracy and completeness may not always be of significant-significance to meet the intended purpose(s) of the audit procedures when performing risk assessment procedures. For example, when identifying the risks of material misstatement for a warranty provision, the existence of a large volume of sale returns for a product or service after year end may be sufficient to support the auditor's assessment ~~that there is of the likelihood of~~ a risk of material misstatement of the warranty provision even though the number of sales returns may be incomplete.

A56D. The source of the information intended to be used as audit evidence may also affect the auditor's consideration of the significance of whether the attributes of accuracy and completeness ~~are significant in the circumstances to meet the intended purpose(s) of the audit procedures~~. For information obtained from a source external to the entity, the auditor may consider that other attributes of reliability, such as authenticity, bias and credibility of the source providing the information, are of significant-significance in the circumstances given to meet the intended purpose(s) of the audit procedures.

A56E. When the information intended to be used as audit evidence has been obtained by management from an external information source for use in preparing the financial statements, obtaining an understanding of why management used the source and how management considered the relevance and reliability of the information may help to inform the auditor's evaluation of the relevance and reliability of that information.

A56F. The reliability of information, in particular the attributes of accuracy, completeness and authenticity, may also be affected by whether the integrity of the information has been maintained through all stages of information processing.

### Example:

An entity's information system may include general IT controls to safeguard and maintain the integrity of the financial information. Based on the auditor's understanding and evaluation of the entity's information system and control activities in accordance with the requirements of ISA 315

(Revised 2019),<sup>36</sup> the auditor may determine that the integrity of the entity's financial information has been maintained through all stages of information processing, including when information is extracted for financial reporting purposes.

## Authenticity

A56G. The potential for improper initiation or alteration of information to occur and not be detected may be greater if information is initiated, recorded, processed, or reported only in digital form, and appropriate controls are not operating effectively. Also, for certain digital documents, such as an electronic confirmation, it may be more difficult to establish proof of origin and authority of the source.

Examples of audit procedures when authenticity of the information is a significant attribute:

- ~~Obtaining an understanding~~Testing of controls for authorizing and approval of the information.
- Obtaining an understanding of authenticity features used to secure digital documents (e.g., encryption techniques to provide proof of original or unmodified documents such as digital signatures).
- Inquiring with the individual or organization providing the information.
- Confirming directly with a third party.

A56H. Certain conditions may also cause the auditor to investigate further whether a document may not be authentic or whether terms in a document have been modified but not disclosed to the auditor (e.g., unusual document styles and formats, missing authorizations or approvals, serial numbers used out of sequence or duplicated or unusual terms of trade). ISA 240 deals with circumstances in which the auditor has reason to believe that a document may not be authentic, or may have been modified without that modification having been disclosed to the auditor.<sup>37</sup> However, irrespective of the auditor's consideration of the authenticity of the information intended to be used as audit evidence, the auditor is neither trained as, nor expected to be, an expert in the authentication of records or documents.<sup>38</sup>

## Bias

A56I. The susceptibility to management bias, whether intentional or unintentional, may be greater for certain types of information, for example, when there is a higher degree of estimation uncertainty, complexity and subjectivity involved in making an accounting estimate or when making judgments about uncertain future events or conditions. On the other hand, information from certain external sources may be less susceptible to management bias when it is less likely for management to influence such information source. For example, information suitable for use by a broad range of users is less likely to be subject to influence by any particular user. However, the auditor may still need to consider whether management's selection of an external source may be favorably biased

<sup>36</sup> ISA 315 (Revised 2019), paragraphs 25-26

<sup>37</sup> ISA 240, paragraph 14

<sup>38</sup> ISA 200, paragraph A52



toward corroborating management's assertions or whether an alternative source of information was available that may contradict the information used.

A56J. When there is intention to mislead, management bias is fraudulent in nature and the auditor may need to consider whether the bias may represent a material misstatement due to fraud. ISA 240 provides further requirements and guidance in relation to the identification and assessment of the risks of material misstatement due to fraud.<sup>39</sup>

#### Credibility

A56K. The auditor's consideration for the credibility of information may be influenced by past experience of the auditor with the reliability of the information provided by the source, and other factors such as the integrity and competence of the source, or whether the source is internal or external to the entity. Credibility may be dependent on the reputation and authority of the source providing the information, including whether the process used by the external source to develop the information is generally accepted for use by a broad range of users and the source enables continued availability of standardized information. For example, information from a central bank or government, such as an inflation rate, ~~or a single recognized industry body~~.

A56L. In some circumstances, there may be only one provider of certain information. When this is the case, ~~the auditor may consider whether there~~ may be ~~is~~ evidence of general market acceptance by users of the ~~relevance or~~ reliability of information from the information source, ~~for a similar purpose to that for which the information has been used by management or the auditor~~. If a source is not considered assessed as credible, the auditor may determine that more extensive procedures are necessary ~~appropriate~~.

#### *Use of Automated Tools and Techniques (Ref: Para. 10A)*

A65A. The auditor may perform audit procedures manually or using automated tools and techniques, individually or in combination with each other, to obtain audit evidence. In some circumstances, due to the form of the underlying information, an automated tool and technique may be more effective or provide more persuasive audit evidence, or the auditor may need to use an automated tool and technique because it may not be possible or practicable to perform an audit procedure manually.

##### Examples:

The use of automated tools and techniques may:

- Be more effective in analyzing, processing, organizing, structuring or presenting large volumes of information.
- Provide more persuasive audit evidence by assisting the auditor to apply an audit procedure to an entire population of items and enable the auditor to obtain a more granular or deeper understanding about the characteristics or composition of the transactions or manage sampling risk<sup>40</sup> more effectively.
- Assist the auditor to critically assess audit evidence from multiple sources within and outside

<sup>39</sup> ISA 240, paragraphs 26-28

<sup>40</sup> ISA 530, *Audit Sampling*, paragraph 7

the entity.

A65B. As explained in ISA 300,<sup>41</sup> when establishing the overall audit strategy, the auditor may consider the effect of information technology on the audit procedures, including the availability of data and the expected use of automated tools and techniques to be deployed for specific audit areas. In doing so, ISA 220 (Revised) requires that the engagement partner determine that sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team and provides other guidance relevant to the use of technological resources, that include automated tools and techniques, on the audit engagement.<sup>42</sup>

## Inputs

A65C. The appropriateness of the inputs to the automated tools and techniques, as the information intended to be used as audit evidence, may include the auditor's consideration of how the integrity of the inputs has been maintained during collection or extraction from an identified source and how such integrity is preserved when transferring and transforming the inputs into a usable form.

### Examples:

- Inputs may become corrupted during collection (e.g., due to data specific issues or technical errors) or extraction may be incomplete because of system issues or lack of expertise to undertake the collection or extraction. In such circumstances, the auditor may consider the involvement of members of the engagement team with specialized skills or knowledge to assist the auditor during collection or extraction, or to determine the reliability of extraction tools used by the entity.
- Inputs may be altered inappropriately during transfer (e.g., due to inadequate security over stored data) or unintentionally changed (e.g., errors when preparing a large amount of data manually to be loaded into automated tools and techniques). The auditor may reconcile the transformed inputs to those extracted or to the identified source to determine whether the integrity of the inputs has been maintained.
- When information has been transformed from its original medium (e.g., documents that have been transformed to digital form), the reliability of that information may depend on the controls over the information's transformation and maintenance. In some situations, the auditor may determine that additional audit procedures are necessary to address the reliability of the inputs (for example, inspecting underlying original documents to validate the authenticity of information in electronic form). In other situations, the auditor may determine that it is necessary to test controls over the transformation and maintenance of the information.

A65D. The greater the complexity and volume of transactions or events that form part of the inputs to the automated tools and techniques, the less likely it is that the auditor will be able to support the accuracy and completeness of such input through tests of details alone. In such circumstances, the auditor may plan to test the operating effectiveness of the controls over the preparation and maintenance of

<sup>41</sup> ISA 300, *Planning an Audit of Financial Statements*

<sup>42</sup> ISA 220 (Revised), paragraphs 25, A63–A67

the inputs. In addition to testing the completeness and accuracy of the inputs, the auditor may also plan to test the operating effectiveness of general IT controls that address risks related to inappropriate or unauthorized program changes to the inputs. In other circumstances, when the volume and complexity of transactions that form part of the inputs to the automated tools and techniques are lower, the auditor may, for example agree a sample of items from the inputs to supporting documentation to test the accuracy of the inputs.

A65E. The auditor's consideration of the appropriateness of the inputs to automated tools and techniques may depend on the intended purpose(s) of the audit procedures for which the inputs will be used.

Examples:

The following are examples of circumstances where the inputs may be used in relation to multiple or different purposes:

- When concurrently performing a risk assessment procedure and a further audit procedure.
- When using the same inputs for multiple audit procedures, for example for an audit procedure to respond to an assessed risk of material misstatement at the assertion level for one account balance and the same input is also used for an audit procedure to respond to a significant risk for another account balance.

Operation of the Automated Tools and Techniques

A65F. ISQM 1<sup>43</sup> explains that the firm's policies or procedures may include required considerations or responsibilities for the engagement team when using firm approved automated tools and techniques to perform audit procedures and may require the involvement of individuals with specialized skills or expertise in evaluating or analyzing their output. The firm's policies or procedures may also:

- Specifically prohibit the use of certain IT applications or features of IT applications (e.g., software that has not yet been specifically approved for use by the firm).
- Require the engagement team to take certain actions before using an IT application that is not firm approved to determine it is appropriate for use.

A65G. In some circumstances the firm's policies or procedures may not specifically address the use of certain automated tools and techniques (e.g., complex spreadsheets developed by the engagement team or obtained from outside the engagement team or the firm). In such circumstances, the auditor applies professional judgment in considering whether the use of the automated tools and techniques is appropriate in the context of the audit engagement, and if so, how the automated tools and techniques are to be used. The auditor may consider whether:

- Confidentiality of data is preserved.
- The automated tools and techniques are used and secured in compliance with general policies or procedures of the firm relating to technological resources.
- The automated tools and techniques operate as intended and their use is appropriate in the circumstance to meet the intended purpose(s) of the audit procedures.

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<sup>43</sup> ISQM 1, paragraphs 32(f) and A100 – A101

- The automated tools and techniques are operated by members of the engagement team that have the competence and capabilities required to use the automated tools and techniques.
- Specific documentation should be included in the audit file (e.g., testing or explaining the logic applied by the automated tools and techniques to generate the results and any related decisions).

## Outputs

A65H. When performing an audit procedure, such as a risk assessment procedure or a further audit procedure, the outputs generated by automated tools and techniques may identify items that are inconsistent with the auditor's expectations or that exhibit characteristics that are unusual for the population. Different terminology may be used to describe these items, for example, exceptions, outliers, notable items, or items of audit interest. These items may indicate a possible misstatement in the financial statements that warrants further investigation. They may also indicate inconsistencies in audit evidence, particularly when other audit evidence has not identified similar exceptions or outliers, or cast doubt on the reliability of the information. Paragraphs 12 and 14 apply in such circumstances.

A65I. The initial outputs generated by automated tools and techniques may include a large volume of items that exhibit characteristics that are unusual based on the distribution of the population. Examples of possible causes of large volumes of items exhibiting unusual characteristics may include when the inputs are incomplete, inaccurate, or in a form which does not facilitate a meaningful analysis or when the initial expectation for the population based on the auditor's understanding of the entity and its environment is not precise or is inappropriately defined due to insufficient understanding about the population itself. When the initial population is inappropriately defined, the parameters may be re-calibrated, and the auditor may re-apply the automated tools and techniques to the population.

### Example:

When testing journal entries, a pre-set filter of the automated tools and techniques may be applied to identify all items posted on weekends. Those items would not be unusual for the population if accounting personnel routinely post journal entries on weekends.

A65J. The extent of the auditor's procedures to further investigate the outputs generated by automated tools and techniques that is inconsistent with the auditor's expectations or that exhibit characteristics that are unusual for the population may depend on the intended purpose(s) of the audit procedures.

### Examples:

- For risk assessment procedures, the auditor may perform inquiries to determine how the item may affect the population through the identification of a new risk of material misstatement or a revision of an assessed risk of material misstatement. However, as a risk assessment procedure is not intended to detect individual misstatements or deviations, the auditor may not need to investigate every unusual item in order to meet the purpose of the procedure performed.
- For further audit procedures, such as tests of controls or substantive procedures, the outputs further investigated by the auditor may determine whether a control deviation or a misstatement exists. For example, the auditor may perform further testing on a sample of

items when there is a reasonable basis on which to draw conclusions about the entire population of exceptions in the output. When the population of exceptions is not homogeneous, the auditor may consider whether the population of exceptions can be stratified into homogeneous sub-populations for the purposes of testing the exceptions<sup>44</sup> or if this is not possible perform further testing on all items of exceptions.

#### Automation Bias

A65K. Digital Information or output that has been generated by the entity's automated systems or through the entity's application of automated tools and techniques, may give rise to a risk of automation bias, resulting in an overreliance on the relevance and reliability of such information. An awareness of automation bias when evaluating the relevance and reliability of information intended to be used as audit evidence may help the auditor to design and perform audit procedures in a manner that seeks to avoid such bias.

A65L. The auditor's use of automated tools and techniques may also give rise to a risk of unconscious biases, including automation bias. The vulnerability to automation bias may be greater when the audit procedures performed using automated tools and techniques are complex, such as when they involve multiple inputs and multiple relationships between the inputs, or when there is reduced transparency about how the automated tools and techniques are generating the output.

A65M. Possible actions that the auditor may take to mitigate the risk of automation bias when using automated tools and techniques include:

- Explicitly alerting the engagement team to instances or situations when vulnerability to automation bias may be greater.
- Providing relevant training to members of the engagement team who use automated tools and techniques.
- Emphasizing the importance of the involvement of more experienced members of the engagement team, or engagement team members with specialized skills and knowledge, when necessary, to:
  - Understand the data inputs and processing steps, including calculations and modifications to data, used in the automated tools and techniques;
  - Design and perform audit procedures using the automated tools and techniques; or
  - Interpret the results from applying the automated tools or techniques.
- Determining whether the auditor's firm permits the use of the automated tools and techniques and whether the firm has determined that the automated tools and techniques are appropriate for use.

#### *Information Intended to be Used as Audit Evidence Prepared by a Management's Expert (Ref: Para. 11)*

A66. Management may employ or engage experts in fields other than accounting or auditing (e.g., actuarial, valuation, engineering, or climate change and sustainability) to obtain information necessary to prepare the financial statements.

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<sup>44</sup> ISA 530, paragraph A8

A67. As explained in paragraph A49, in some cases information prepared by an external individual or organization that is used by management in preparing the financial statements is an external information source, and in other cases it is information prepared by a management's expert. Professional judgment may be needed in determining whether information intended to be used as audit evidence has been prepared by a management's expert, and therefore whether the requirement in paragraph 11 of this ISA applies.

Examples:

- An individual or organization may provide information about real estate prices that is suitable for use by a broad range of users and is therefore determined to be an external information source with respect to that information (e.g., information made generally available about a geographical region). The same individual or organization may also act as a management's expert in providing commissioned valuations for the entity's real estate portfolio specifically tailored for the entity's facts and circumstances.
- Some actuarial organizations publish mortality tables for general use that, when used by an entity, would generally be considered to be information from an external information source. The same actuarial organization may also be a management's expert for different information tailored to the specific circumstances of the entity to help management determine the pension liability for several of the entity's pension plans.

~~A68. The auditor's evaluation of the information prepared by a management's expert may assist the auditor in complying with other ISAs. For example, when information prepared by a management's expert is used by management for purposes of making an accounting estimate, the auditor's evaluation may assist the auditor in meeting the requirements of ISA 540 (Revised) regarding:~~

- ~~• The selection and application of the methods, significant assumptions and the data used by management in making the accounting estimate; and~~
- ~~• How management selected the point estimate and developed related disclosures about estimation uncertainty.~~

The Competence, Capabilities and Objectivity of the Management's Expert (Ref: Para. 11(a))

A69. When evaluating the relevance and reliability of information intended to be used as audit evidence, paragraph 9(b) requires the auditor to consider the significance of the attributes of relevance and reliability ~~that are significant in the circumstances to meet the intended purpose(s) of the audit procedures~~. When such information is prepared by a management's expert:

- The competence and capabilities of that expert may inform the auditor's consideration of the attribute of credibility. The credibility of the source providing the information affects the degree to which information intended to be used as audit evidence is reliable.
- The objectivity of that expert may inform the auditor's consideration of the attribute of bias. Bias in the information intended to be used as audit evidence affects the degree to which information is reliable. In some cases, information prepared by a management's expert may be subject to bias, as management may have an influence on the judgments of the management's expert. Reviewing the terms and conditions of the engagement performed by the management's expert

may assist the auditor to understand the respective roles and responsibilities of management and that expert and inform the auditor's consideration of the attribute of bias.

### Competence and capabilities

A70. Competence relates to the nature and level of expertise of the management's expert. Factors that may affect whether the management's expert has the appropriate competence include:

- Whether the expert's work is subject to technical performance standards or other professional or industry requirements, for example, ethical standards and other membership requirements of a professional body or industry association, accreditation standards of a licensing body, or requirements imposed by law or regulation.
- The matter for which the management expert's work will be used, and whether they have the appropriate level of expertise applicable to the matter, including expertise in a particular area of specialty.

#### Examples:

- ~~• An actuary may specialize in health insurance but have limited expertise regarding pension calculations compared to a pension actuary.~~
- ~~An actuary that specializes in life insurance may have limited experience with property and casualty insurance.~~

- The management's expert's competence with respect to relevant accounting requirements, for example, knowledge of assumptions and methods, including models when applicable, that are consistent with the applicable financial reporting framework.

A71. Capabilities relates to the ability of the management's expert to exercise the competence in the circumstances. Factors that may influence capabilities may include geographic location, and the availability of time and resources.

### Objectivity

A72. A broad range of circumstances may influence the judgments of the management's expert, which may threaten the management's expert's objectivity, for example, self-interest threats, advocacy threats, familiarity threats, self-review threats and intimidation threats. Interests and relationships creating threats may include:

- Financial interests.
- Business and personal relationships.
- Provision of other services.

Such threats may be addressed by eliminating the circumstances that create them, or reduced to an acceptable level by applying safeguards. The existence of certain conditions, policies and procedures established by the management's expert's profession, legislation or regulation (e.g., educational, training and experience requirements), or by the management's expert's work environment (e.g., quality management policies or procedures) may impact the evaluation of the level of the threats.



- A73. In some cases, it may not be possible to eliminate circumstances that create threats to a management's expert's objectivity or apply safeguards to reduce threats to an acceptable level. For example, the threats to objectivity created by being an employee of the entity will always be present, and therefore a management's expert employed by the entity cannot ordinarily be regarded as being more likely to be objective than other employees of the entity. However, threats such as intimidation threats may be of less significance to a management's expert engaged by the entity than to a management's expert employed by the entity.

Obtain an Understanding of the Work Performed by the Management's Expert (Ref: Para. 11(b))

- A74. Matters relevant to the auditor's understanding of the work performed by the management's expert may include:

- The relevant field of expertise;
- The nature, scope and objectives of the management's expert's work;
- Whether there are professional or other standards, and regulatory or legal requirements that apply in preparing the information;
- How the information has been prepared by the management's expert, including:
  - The assumptions and methods used by the management's expert, and whether they are generally accepted within that expert's field and appropriate for financial reporting purposes; and
  - The underlying information used by the management's expert; and
- The relevance and reasonableness of that expert's findings or conclusions, and their consistency with other audit evidence.

- A75. The auditor may decide to involve an auditor's expert<sup>45</sup> to assist in understanding the work performed, including the information prepared, by, the management's expert. For example, the auditor may not have sufficient knowledge or expertise in the management expert's field.

Obtain an Understanding of How the Information Prepared by the Management's Expert Has Been Used by Management in the Preparation of the Financial Statements (Ref: Para. 11(c))

- A76. Understanding how management has considered the appropriateness of the information prepared by the management's expert may assist the auditor in evaluating the relevance and reliability of the information intended to be used as audit evidence.

Examples:

- If management has implemented controls to understand and evaluate significant assumptions made by the management's expert and test the data used by the management's expert, the auditor's procedures to evaluate the relevance and reliability of the information prepared by the management's expert may take into account the controls implemented by management.

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<sup>45</sup> ISA 620, paragraph 7

- If management relies on the controls of the management's expert in preparing the information and accepts the information provided by the management's expert without further evaluation or consideration, the auditor's procedures to evaluate the relevance and reliability of the information prepared by the management's expert may be focused on the significant assumptions and data used by the management's expert.

- A77. The auditor's understanding of how information prepared by a management's expert has been used by management in the preparation of the financial statements may help the auditor understand whether the expert's findings or conclusions have been appropriately reflected in the financial statements. In some circumstances, management may need to modify the information prepared by the management's expert, such as when the information provided is too general and requires adjustment to reflect the circumstances unique to the entity. Understanding the modifications made by management to the information prepared by the management's expert may assist the auditor in evaluating whether the information is relevant and reliable in accordance with paragraph 9. For example, management's adjustments may give rise to bias, or management may not have the appropriate competence and capabilities to adapt or adjust the information, which may cause the information to be inaccurate, incomplete or lack credibility.
- A78. Based on the auditor's understanding of how information prepared by the management's expert has been used by management in the preparation of the financial statements, the auditor may identify a deficiency in internal control. For example, the control deficiency may be due to management not assessing whether the information is appropriate for their intended purpose. ISA 265<sup>46</sup> deals with the auditor's responsibility to communicate deficiencies in internal control to those charged with governance and management.

Evaluating the Appropriateness of the Management's Expert's Work (Ref: Para. 11(d))

A78A.Considerations when evaluating the appropriateness of the management's expert's work as audit evidence for the relevant assertion may include:

- The relevance and reasonableness of that expert's findings or conclusions, their consistency with other audit evidence, and whether they have been appropriately reflected in the financial statements;
- If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods; and
- If that expert's work involves significant use of source data, the relevance and reliability of that source data.

Doubts About the Relevance or Reliability of Information (Ref: Para. 12, 12A)

- A78BA.As explained in ISA 200,<sup>47</sup> in cases of doubt about the reliability of information or indications of possible fraud, the ISAs require the auditor to investigate further and determine what modifications or additions to audit procedures are necessary to resolve the matter.

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<sup>46</sup> ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

<sup>47</sup> ISA 200, paragraph A24

- A78~~CB~~. The auditor may be able to perform audit procedures to resolve doubts about the relevance or reliability of information intended to be used as audit evidence. For example, if the auditor has doubts about the reliability of the response to a confirmation request, the auditor may be able to resolve such doubts by contacting the confirming party to verify the source and contents of the response.<sup>48</sup> In other circumstances, the auditor may need to seek alternative or additional information, which may include information from external sources.
- A79. Paragraph A55 explains that the relevance of information intended to be used as audit evidence may be affected by the period of time to which the information relates. For example, the relevance of such information may change based on the passage of time or due to events or conditions, such as the identification of new information. Such circumstances may occur when the auditor identifies information from an alternative or more credible source which negates, or causes doubt about, the relevance of the initial information intended to be used as audit evidence.
- A80. Factors or circumstances that may give rise to doubts about the reliability of information intended to be used as audit evidence include:
- An inability to evaluate the attributes that are significant in the circumstances, such as whether the information is authentic.
  - Misstatements identified during the audit.
  - Deficiencies in internal control identified by the auditor, particularly when there is a significant deficiency in internal control.
  - When audit procedures performed on a population result in a higher rate of deviation than expected.
  - When information intended to be used as audit evidence is inconsistent with other information or audit evidence.
- A83. ISA 580<sup>49</sup> provides requirements and guidance for circumstances when the auditor has doubt as to the reliability of written representations. Doubts about the reliability of information from management may indicate a risk of fraud. ISA 240 deals with the auditor's responsibilities relating to fraud in an audit of financial statements.

#### ~~Evaluating the Audit Evidence Obtained (Ref: Para 13)~~

~~A84. Audit evidence is obtained from designing and performing audit procedures. ISA 315 (Revised 2019) requires the auditor to evaluate whether the audit evidence obtained from risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement.<sup>50</sup> ISA 330 requires the auditor to design and implement overall responses to address the assessed risks of material misstatement at the financial statement level, and to design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level.<sup>51</sup> As explained in ISA 315~~

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<sup>48</sup> ISA 505, *External Confirmations*, paragraph A14

<sup>49</sup> ISA 580, *Written Representations*, paragraphs 16-18

<sup>50</sup> ~~ISA 315 (Revised 2019), paragraph 35~~

<sup>51</sup> ~~ISA 330, paragraphs 5-6~~

~~(Revised 2019), risks of material misstatement at the financial statement level may also affect individual assertions, and identifying these financial statement level risks may assist the auditor in assessing risks of material misstatement at the assertion level, and in designing further audit procedures to address the identified risks.<sup>52</sup>~~

~~A85. The auditor considers all audit evidence obtained during the audit to provide a basis for concluding whether sufficient appropriate audit evidence has been obtained in accordance with ISA 330.<sup>53</sup> As explained in ISA 330, the auditor's judgment as to what constitutes sufficient appropriate audit evidence is influenced by a number of factors, including the persuasiveness of the audit evidence and the results of the audit procedures performed.<sup>54</sup> As explained in paragraph A84, ISA 330 requires the nature, timing and extent of further audit procedures to be based on and responsive to the assessed risks of material misstatement at the assertion level. The auditor's evaluation required by paragraph 13(a) is made in the context of the requirements of ISA 330 and therefore is focused on whether the audit evidence obtained meets the intended purpose(s) of the audit procedures performed for relevant assertions for significant classes of transactions, account balances and disclosures.~~

~~A86. If the auditor has not obtained sufficient appropriate audit evidence related to a relevant assertion about a class of transactions, account balance or disclosure, ISA 330 requires the auditor to attempt to obtain further audit evidence.<sup>55</sup> This may be the case, for example, if the audit evidence obtained does not meet the intended purpose(s) of the audit procedures. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor is required to express a qualified opinion or disclaim an opinion on the financial statements in accordance with ISA 705 (Revised).~~

~~A87. Other ISAs also address the auditor's evaluation of whether sufficient appropriate audit evidence has been obtained for specific topics, such as ISA 570 (Revised).<sup>56</sup>~~

~~A88. As explained in paragraph A25, an audit procedure may be designed to be effective in achieving an intended purpose(s), but if the performance or execution of the audit procedure (i.e., its application) is inappropriate, detection risk may not be reduced to an acceptable level. Paragraph A26 explains how ISA 220 (Revised) addresses the specific responsibilities of the auditor regarding quality management at the engagement level, and the related responsibilities of the engagement partner, which may affect the application of audit procedures. In addition, ISA 220 (Revised)<sup>57</sup> explains that the review of the engagement team's work consists of considering whether, for example:~~

- ~~● The evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion; and~~
- ~~● The objectives of the audit procedures have been achieved.~~

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<sup>52</sup>—ISA 315 (Revised 2019), paragraph A194

<sup>53</sup>—ISA 330, paragraph 26

<sup>54</sup>—ISA 330, paragraph A64

<sup>55</sup>—ISA 330, paragraph 27

<sup>56</sup>—ISA 570 (Revised), *Going Concern*, paragraph 17

<sup>57</sup>—ISA 220 (Revised), paragraph A88

*Inconsistencies in Audit Evidence* (Ref: Para. 14)

~~A88A. Maintaining professional skepticism throughout the audit is necessary to the critical assessment of audit evidence. It includes remaining alert for audit evidence that may contradict other audit evidence and for new information that may be inconsistent with other audit evidence obtained.~~

A88B. Other ISAs include requirements and guidance when there are inconsistencies in the information intended to be used as audit evidence that may be relevant when applying the requirement in paragraph 14. For example:

- ISA 315 (Revised 2019)<sup>58</sup> requires the auditor to revise 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.
- ISA 230 addresses circumstances when the auditor identifies information that is inconsistent with the auditor's final conclusion regarding a significant matter and requires the auditor to document how the auditor addressed the inconsistency.<sup>59</sup>

A89. In some cases, the audit evidence obtained may corroborate the assertions in the financial statements (e.g., for a particular account balance), but when considered with other audit evidence, may indicate possible management bias.

Example:

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

A90. When audit evidence is inconsistent with other audit evidence, it may indicate that some of the information used as audit evidence is not reliable. This may be the case, for example, when responses to inquiries of management, those charged with governance, internal auditors, or others are inconsistent, or if written representations are inconsistent with audit evidence obtained from another source. Such inconsistencies may therefore call into question the appropriateness of the auditor's evaluation of the relevance and reliability of such information, in accordance with paragraph 9. Paragraph 12 addresses the auditor's responsibilities when the auditor has doubts about the relevance and reliability of information intended to be used as audit evidence. The extent to which the auditor may need to modify or add to the audit procedures to resolve the doubts and the effect on other aspects of the audit may vary.

<sup>58</sup> ISA 315 (Revised 2019), paragraph 37

<sup>59</sup> ISA 230, paragraph 11

## Appendix 1

(Ref: Para. 3, A16)

### The Relationship of Proposed ISA 500 (Revised) to the Other ISAs and Examples of Types of Audit Procedures

This appendix explains the relationship of ISA 500 (Revised) to the other ISAs regarding the responsibilities of the auditor in obtaining audit evidence. The appendix also describes some of the types of audit procedures designed and performed by the auditor to obtain audit evidence. Some audit procedures described in this appendix are defined in the ISAs. This appendix is non-exhaustive; other types of procedures may be designed and performed by the auditor.

#### Responsibility to Design and Perform Audit Procedures

1. As explained in paragraph 3, this ISA is applicable to all audit evidence obtained during the audit. Other ISAs address the audit evidence to be obtained for specific matters, for example:
  - ISA 315 (Revised 2019) deals with the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements.
  - ISA 505<sup>60</sup> deals with the auditor's use of external confirmation procedures to obtain audit evidence in accordance with ISA 330 and ISA 500 (Revised).
  - ISA 520<sup>61</sup> deals with the auditor's use of analytical procedures as substantive procedures, and the auditor's responsibility to perform analytical procedures near the end of the audit;
  - ISA 570 (Revised) deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report.
- 1A. The auditor obtains audit evidence by designing and performing audit procedures, including:
  - Risk assessment procedures performed in accordance with ISA 315 (Revised 2019)<sup>62</sup> or other ISAs that expand on how ISA 315 (Revised 2019) applies to a specific topic;
  - Further audit procedures performed in accordance with ISA 330, or other ISAs that expand on how ISA 330 applies to a specific topic, which comprise:
    - Tests of controls, when required by the ISA or when the auditor has chosen to do so; and
    - Substantive procedures, including tests of details and substantive analytical procedures; or
  - All Other other audit procedures that are performed to comply with the ISAs.

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<sup>60</sup> ~~ISA 505, External Confirmations~~

<sup>61</sup> ISA 520, *Analytical Procedures*

<sup>62</sup> ISA 315 (Revised 2019), paragraphs 13–14

1B. The auditor may also use automated tools and techniques to perform audit procedures.

Examples:

Risk Assessment

- Data analysis of an entire population of journal entries to identify unusual or unexpected trends, relationships and activities that may be relevant to the identification and assessment of risks of material misstatement such as the existence of manual journal entries within a routine sales process.
- Use of artificial intelligence technologies to gather information from various sources to assist the auditor in identifying risks of material misstatement. For example, aggregated news and social media analysis filtered for relevance ~~or sentiment~~ that may indicate areas of audit risk, such as changes in operations, regulations or other new events and conditions.

Test of Controls

- Use of automated tools and techniques for evaluating certain IT general access rights and configurations or reperforming the operation of the automated portion of controls throughout the period.

Substantive Procedure

- Use of technologies such as robotic process automation to automate administrative aspects of audit procedures such as obtaining external confirmations.
- Use of machine reading technology to automatically vouch items selected for tests of details to underlying documentation, such as invoices.

1C. The use of automated tools and techniques may assist the auditor to design and perform audit procedures that achieves more than one purpose concurrently, and they can also combine types of audit procedures together. In such circumstances it is relevant for the auditor to focus on the appropriateness of the audit procedure to achieve its intended purpose(s) rather than the type of audit procedure performed. Paragraph A18 contains an example demonstrating how the auditor may concurrently perform an audit procedure that achieves more than one purpose.

## Types of Audit Procedures

### Inspection

2. Inspection involves an examination (being physically present or using remote observation tools) of an asset or an examination of records or documents, whether internal or external, in paper form, digital form, or other media.

Examples:

- To test a control, the auditor may inspect records, using manual or automated tools and techniques, for evidence of authorization.
- The auditor may inspect the terms of revenue contracts with customers using automated tools and techniques, which may extract key information such as pricing and payment terms to use as audit evidence relevant to revenue recognition.



3. Inspection of records and documents provides audit evidence of varying degrees of reliability, depending on their nature and source and, in the case of internal records and documents, on the effectiveness of the controls over their production. Some documents represent direct audit evidence of the existence of an asset, for example, a document constituting a financial instrument such as a stock or bond. Inspection of such documents may not necessarily provide audit evidence about ownership or value.
4. Inspection of tangible assets may provide reliable audit evidence with respect to their existence, but not necessarily about the entity's rights and obligations or the valuation of the assets. Inspection of individual inventory items may accompany the observation of inventory counting.

#### *Observation*

5. Observation consists of looking at a process or procedure being performed by others. Similar to inspection, observation may involve being physically present or using remote observation tools. Observation provides audit evidence about the performance of a process or procedure, but is limited to the point in time at which the observation takes place, and by the fact that the act of being observed may affect how the process or procedure is performed. ISA 501 provides further guidance on observation of the counting of inventory.<sup>63</sup>

#### *Examples:*

- In understanding the entity's system of internal control as part of risk assessment procedures, the auditor may observe control activities of the entity, for example:
  - Physical controls, such as the safeguarding of assets;
  - Management's procedures to monitor or capture the actual time worked of wage employees; or
  - Management may use automated controls to monitor or observe inventory movements, for example, by assigning a unique bar code or quick response code to all inventory items.
- Subject to certain exceptions, ISA 501<sup>64</sup> requires the auditor to attend the physical inventory counting of the client to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory. The auditor may perform the required audit procedures by using manual or automated tools and techniques, individually or in combination with each other. Automated tools and techniques may include live video, screensharing or video footage from a drone.
  - As a test of control, the auditor may observe entity personnel performing the controls.
  - As a further substantive procedure, the auditor may observe inventory counting by the entity's personnel through the use of satellite tracking devices.

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<sup>63</sup> ISA 501, *Audit Evidence—Specific Considerations for Selected Items*

<sup>64</sup> ISA 501, paragraph 4

### *Confirmation*

6. An external confirmation requested by the auditor is directed to a third party, who is requested to provide a direct response to the auditor on a particular matter. The third party's (the confirming party) response may be in paper form, or by digital or other media. See ISA 505 for further guidance.

#### Examples:

The auditor may request an external confirmation of:

- Bank accounts and bank facilities with the bank. In some cases, this may be facilitated through third-party web-based and automated platforms.
- Account balances, such as accounts receivable and accounts payable.
- The terms of agreements or transactions an entity has with third parties.
- Whether any modifications have been made to an agreement and, if so, what the relevant details are.
- Whether "side agreements" have been entered into that may influence revenue recognition.

### *Recalculation*

7. Recalculation consists of checking the mathematical accuracy of information.

### *Reperformance*

8. Repperformance involves the independent execution of procedures or controls that were originally performed as part of the entity's internal control.

#### Examples:

The auditor may:

- Develop an auditor's point estimate or range to evaluate management's point estimate and related disclosures about estimation uncertainty, in accordance with ISA 540 (Revised).
- Repperform the reconciliation of accounts payable balances at year end, through matching creditor's statements to the transactions in the underlying accounting records.

### *Analytical Procedures*

9. Analytical procedures consist of evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.
10. The auditor may perform analytical procedures for various purposes, including as:
- Risk assessment procedures in accordance with ISA 315 (Revised 2019),<sup>65</sup>

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<sup>65</sup> ISA 315 (Revised 2019), paragraph 14(b)

Example:

In identifying and assessing the risks of material misstatement regarding revenue, the auditor may perform analytical procedures in order to identify transactions that do not meet certain criteria, such as transactions with unauthorized customers, transactions without matching shipping documents or transactions with unusual delivery timeframes. Such transactions may be assessed as having a higher risk of material misstatement.

- Substantive analytical procedures, or analytical procedures performed near the end of the audit that assist the auditor when forming an overall conclusion on the financial statements. See ISA 520 for further guidance.

*Inquiry*

11. Inquiry consists of seeking information of knowledgeable persons within the entity or outside the entity. Inquiry is often used in performing risk assessment procedures and may range from formal written inquiries to informal oral inquiries. When performing further audit procedures, inquiry may provide audit evidence and may produce evidence of a misstatement. However, inquiry alone ordinarily does not provide sufficient appropriate audit evidence of the absence of a material misstatement at the assertion level, nor of the operating effectiveness of controls.
12. Evaluating responses to inquiries is an integral part of the inquiry process. Responses to inquiries may provide the auditor with new information, or with information that either corroborates or is inconsistent with other audit evidence. Responses to inquiries may provide a basis for the auditor to modify or perform additional audit procedures.
13. Although audit evidence obtained through inquiry may need to be supplemented by performing other audit procedures, when making inquiries about management intent, the information available to support management's intent may be limited. In these cases, understanding management's past history of carrying out its stated intentions, management's stated reasons for choosing a particular course of action, and management's ability to pursue a specific course of action may provide additional audit evidence to supplement the audit evidence obtained through inquiry.

Examples:

The auditor may inquire of management about their intent related to a particular matter. The auditor may corroborate management's intent through:

- Inspecting management's past history of carrying out its stated intentions;
- Understanding management's stated reasons for choosing a particular course of action, and inspecting information to corroborate such reasons; and
- Considering management's ability to pursue a specific course of action, based on the auditor's understanding of the entity, the matter to which management's intent relates and other audit evidence.

14. In respect of some matters, the auditor may consider it necessary to obtain written representations from management and, when appropriate, those charged with governance to confirm responses to oral inquiries. See ISA 580 for further guidance.

## Appendix 2

(Ref: Para. A26A)

### Selecting Items for Testing in Designing and Performing an Audit Procedure

1. When the design and performance of an audit procedure includes selecting items for testing, the auditor may use various approaches to identify and select items for testing. Such approaches may involve:
  - Selecting all items;
  - Selecting specific items; and
  - Audit sampling.

The application of any one or a combination of these approaches may be appropriate depending on the circumstances. The auditor may also use automated tools and techniques to identify and select items for testing.
2. The appropriateness of an approach or technique in selecting items for testing depends on a number of factors, such as:
  - The intended purpose(s) of the audit procedure;
  - How the audit procedure is designed;
  - Whether the auditor is performing the audit procedure manually or using automated tools and techniques;
  - The characteristics of the population being tested; and
  - The persuasiveness of audit evidence that is needed in the circumstances.

#### Selecting all items

3. The auditor may determine that it is possible to apply an audit procedure to the entire population of items. If the audit procedure has been designed appropriately, the application of the audit procedure to an entire population may result in more persuasive audit evidence. Applying an audit procedure to an entire population may be appropriate when, for example:
  - The population constitutes a small number of large value items;
  - There is a significant risk and other means of selecting items do not provide sufficient appropriate audit evidence; or
  - Automated tools and techniques can be used to perform the audit procedure.

#### Selecting specific items

4. The auditor may determine that it is appropriate to select specific items from a population. The judgmental selection of specific items is subject to non-sampling risk. Specific items selected may include:
  - *High value items.* The auditor may decide to select specific items within a population because they are of high value.

- *All items over a certain amount.* The auditor may decide to select items whose recorded values exceed a certain amount so that the audit procedure is applied to a large proportion of the population.
  - *Key items.* The auditor may decide to select specific items within a population based on other characteristics, for example, items that are suspicious, unusual, particularly risk-prone or that have a history of error.
  - *Items to obtain information.* The auditor may examine items to obtain information about matters such as the nature of the entity or the nature of transactions.
5. While selecting specific items from a population will often be an efficient means of obtaining audit evidence, it does not constitute statistical sampling. The results of audit procedures applied to items selected in this way cannot be projected to the entire population; accordingly, selecting specific items from a population does not provide audit evidence concerning the remainder of the population.
6. The auditor may use automated tools and techniques to identify and select specific items for testing. For example, ISA 315 (Revised 2019) explains that, when automated procedures are used to maintain the general ledger and prepare financial statements, non-standard journal entries may exist only in electronic form and may therefore be more easily identified through the use of automated tools and techniques.<sup>66</sup>

#### Audit sampling

7. Audit sampling involves the application of audit procedures to less than 100% of items within a population and is designed to enable reasonable conclusions to be drawn about an entire population on the basis of testing a sample drawn from it. Selecting specific items from a population does not constitute statistical sampling. Audit sampling is addressed in ISA 530.

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<sup>66</sup> ISA 315 (Revised 2019), paragraph A161