

Meeting: IAASB Consultative Advisory Group (CAG)
Meeting Location: Virtual Zoom Meeting
Meeting Date: December 7, 2023

Agenda Item C.2

Audit Evidence – Cover and Report Back

Objective

1. The objective of this Agenda Item is to report back on Representatives' comments made at the September 2023 IAASB CAG meeting.

Project Status

1. The IAASB approved the Exposure Draft (ED-500): [*Proposed International Standard on Auditing \(ISA\) 500 \(Revised\), Audit Evidence and Proposed Conforming and Consequential Amendments to Other ISAs*](#) at its September 2022 meeting, taking into account the input received from the IAASB CAG and the Board. ED-500 was published on October 24, 2022, with a 180-day comment period until April 24, 2023. A total of 70 written responses were received from a broad range of stakeholders from all geographical regions.
2. In September 2023, the Board was presented with an overview of respondents' comments to ED-500 and the Audit Evidence Task Force (AETF) initial proposals to address certain significant themes identified from the responses.
3. At the IAASB's upcoming December 2023 meeting, the Board will be presented the AETF further proposals to address key themes from the responses to ED-500 and updated drafting for proposed ISA 500 (Revised), *Audit Evidence*.
4. The **Appendix** to this paper provides a history of previous discussions with the IAASB CAG and the IAASB on this topic, including links to the relevant IAASB CAG documentation.

Way Forward

5. Following the December 2023 IAASB meeting, and based on the Board's feedback, the AETF will continue to update the drafting for proposed ISA 500 (Revised), *Audit Evidence*, to address the significant comments received on exposure that will be presented to the Board for discussion in March 2024.
6. Based on the current work plan, the IAASB approval of the final pronouncement is expected for June 2024. However, this may be impacted by the outcome of the IAASB's deliberations on the Strategy and Work Plan consultation¹ and related future work plan decisions, particularly with respect to technology related matters.

¹ See the [Consultation Paper](#) on the IAASB Strategy and Work Plan 2024–2027.

Report Back

7. Extracts from the draft September 2023 IAASB CAG meeting minutes relevant to audit evidence, as well as an indication of how the AETF or the IAASB have responded to the Representatives' comments, is included in the table below.

| Report Back on the September 2023 IAASB CAG Meeting | |
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| Representatives' Comments | AETF / IAASB Response |
| TECHNOLOGY | |
| Messrs. Fritz, Ishiwata, Ruthman, Hansen, Drs. Orth and Manabat, noted their support for the AETF high-level proposals to address technology related matters in response to stakeholder feedback on ED-500. | Support noted. |
| Mr. Fritz and Dr. Manabat emphasized the value of the proposals given the significant role that technology plays in the way current audits are undertaken. Mr. Fritz observed that auditors have been increasingly using automated tools and techniques (ATT) in their audits and because this is an area where issues can lead to audit failure, he supported that consistency in practice should be improved. | Support noted. |
| Mr. Ishiwata noted his support for the principle-based approach of ED-500 and highlighted that developing guidance related to technology in a timely manner is critical. He emphasized that because technology is not specifically addressed by the principle-based requirements of the standard, this may cause risks of fragmentation in the audit market. Mr. Ishiwata also encouraged the IAASB to continue coordinating with IESBA ² on this topic and more broadly. | <p>Point noted.</p> <p>As explained in Agenda Item 4 discussed with the Board in September 2023, the AETF emphasized the importance of non-authoritative guidance in support of ED-500, and intends to discuss this matter in further detail with the Board as the work progresses. In addition, there was broad support from the feedback for retaining the principle-based approach to ED-500.</p> <p>Also, at the IAASB-IESBA coordination meeting in May 2023, among other matters discussed, topics relevant to ED-500 were also addressed. The AETF has noted its intent to continue coordinating with IESBA in the course of the project.</p> |
| Dr. Orth expressed support for the principle-based approach, however noted that this objective has | Point noted. |

² International Ethics Standards Board for Accountants

| Report Back on the September 2023 IAASB CAG Meeting | |
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| Representatives' Comments | AETF / IAASB Response |
| not been fully achieved by the revisions to ED-500. He agreed with respondents' views that modernization for technological development and the use of ATT in audits has not been sufficiently addressed in ED-500 and supported a holistic approach to the revisions across the IAASB standards. Dr. Orth supported the conditional approach for a requirement when the auditor uses ATT and emphasized the relevance of developing further guidance. | As explained in Agenda Item 4 discussed with the Board in September 2023, the AETF noted that the proposals in ED-500 were developed in the context of the scope of the project, which specifically excluded certain actions (e.g., possible enhancements to other ISAs, such as ISA 330 ³ and certain standards in the 500-series ⁴). In addition, based on the initial analysis of the technology related feedback, the AETF is of the view that not all of the topics from the feedback could be addressed within the current scope of ED-500. |
| Mr. Ruthman emphasized that addressing technology and the auditor's use of ATT is critical for ED-500 and the IAASB standards more broadly, and relevant for certain standards that are currently under development such as the proposed ISA for LCE ⁵ and ISSA 5000. ⁶ He noted the importance for consistency among the body of IAASB standards in relation to how certain matters are approached (e.g., use of consistent technology related terminology or to reflect more recent thinking for certain matters being considered by ED-500), given that an inconsistent approach across the IAASB standards can impair their overall implementability. | Point noted. In its Strategy and Work Plan Consultation the IAASB is considering several potential projects that would include the technology focused modernization of standards, specifically revising and modernizing ISA 330 and certain standards in the ISA 500-series, and/or undertaking a technology targeted or omnibus project(s), to reflect technological advances and the use of ATT by entities and auditors more broadly, as well as to align with changes proposed in ED-500. |
| Ms. Vanich noted her support for the principle-based approach in ED-500 as a foundational standard addressing audit evidence, and inquired whether respondents provided specific suggestions how to improve the standard for technology related matters, including for the use of ATT. | Point noted. Ms. Almond noted that respondents made various suggestions as to how ED-500 could be enhanced to recognize the evolution in technology and that the AETF will review these in more detail as it continues to discuss the feedback. |

³ ISA 330, *The Auditor's Responses to Assessed Risks*

⁴ For example, ISA 501, *Audit Evidence—Specific Considerations for Selected Items*; ISA 505, *External Confirmations*; ISA 520, *Analytical Procedures*; and ISA 530, *Audit Sampling*.

⁵ The International Standard on Auditing for Audits of Financial Statements of Less Complex Entities

⁶ Proposed International Standard on Sustainability Assurance™ (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*

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| Mr. Hansen emphasized the important principle highlighted within the AETF recommendations that not all matters from the feedback to ED-500 for technology could be addressed given that technology and ATT are continuously evolving. He also noted that non-authoritative guidance could be a suitable mechanism for providing technology related examples without risking dating the standard. | Point noted. Ms. Almond recognized the challenge in this regard and also emphasized the market scans and non-authoritative guidance on technology developed by the IAASB Technology Advisory Group (TAG). She explained that, when developing the application material and examples for technology, the AETF will further consider how these materials and resources could be leveraged. |
| CONDITIONAL REQUIREMENT FOR ACCURACY AND COMPLETENESS | |
| Option 1: | |
| Dr. Orth and Mr. Thompson supported Option 1 for revising the conditional requirement for accuracy and completeness, i.e., removing paragraph 10 of ED-500 and adding essential material to the requirement in paragraph 9 of ED-500 to explain that accuracy and completeness are ordinarily significant attributes for information from sources internal to the entity. | Support noted. |
| Dr. Orth commented that his preference for Option 1 is because it addresses the circularity in paragraphs 9 and 10 of ED-500 and also noted that further guidance is needed to clarify what constitutes an audit procedure for “information” to become “audit evidence.” | Point noted. In September 2023, the Board directed the AETF to continue exploring the proposals for Option 1, or to explore how to retain the requirement in paragraph 10 of ED-500 but enhance the application material to clarify the conditionality used in the requirement for accuracy and completeness. |
| Option 2: | |
| Messrs. Fritz, Ishiwata, Ruthman, Hansen, Dr. Manabat, Mmes. Riggs, Vanich and Landell-Mills noted their support for Option 2, i.e., replacing paragraph 10 of ED-500 with a new requirement to obtain audit evidence about accuracy and completeness for information from sources internal to the entity, supported by essential material. | Support noted. |

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| Ms. Riggs commented that this option is preferred because it imposes a more robust approach and because the term “ordinarily” used in Option 1 may not be sufficiently clear or may be interpreted inconsistently in relation to the auditor’s obligation for testing accuracy and completeness when evaluating information from sources internal to the entity. | Point noted. Based on the direction provided by the Board in September 2023, the AETF will continue to explore providing clarity to the wording in the requirement for accuracy and completeness. |
| Ms. Vanich commented that although Option 1 may also present a workable option, the AETF should consider regulatory expectations when revising the requirement. | Point noted. Based on the direction provided by the Board in September 2023, the AETF will continue to explore how to retain the requirement in paragraph 10 of ED-500 but enhance the application material to clarify the conditionality used in the requirement for accuracy and completeness. In doing so, the AETF will also consider direction by the Board that accuracy and completeness are important attributes regardless of source and may equally apply when evaluating reliability for information from external sources. |
| Mr. Ruthman noted his support for Option 2 on the basis that it is more directly worded, the language is precise and understandable, and the drafting is not open to interpretation. Mr. Dalkin noted that having concise wording for the requirement enables clarity for practitioners. | Point noted. Based on the direction provided by the Board in September 2023, the AETF will continue to explore providing clarity to the wording in the requirement for accuracy and completeness. |
| Work Effort Verb “Evaluate” | |
| Messers. Hansen and Fritz emphasized the relevance for continuing the use of the work effort verb “evaluate” rather than “consider” when evaluating the relevance and reliability of information intended to be used as audit evidence given it is a higher bar of auditor’s work effort. | Point not accepted. Ms. Almond explained that the Board previously discussed and agreed the appropriateness for the step up from a “consideration” to an “evaluation” when determining the appropriate work effort from the auditor to evaluate the relevance and reliability of information intended to be used as audit evidence. |

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| "STAND-BACK" REQUIREMENT | |
| Drs. Orth and Manabat, Ms. Riggs and Mr. Hansen noted their support for the AETF proposals to remove paragraph 13(b) of ED-500. While noting the importance to "stand back", they pointed out that there is a proliferation of "stand-back" requirements across the ISAs and commented that the removal of the paragraph would help address the duplication with ISA 330 noted by respondents to ED-500. Dr. Orth commented that caution is needed not to have too many "stand-backs" in the standards performed at too many different levels and also supported for the AETF to clarify the level at which the evaluation in the requirement in paragraph 13(a) of ED-500 is to be performed. | Support noted. |
| Mmes. Meng and Landell-Mills noted their support to retain the requirement in paragraph 13(b) of ED-500. Ms. Meng emphasized the importance for the auditor to 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. She explained that this is an important requirement to retain as it enables consistency in practice and supports change in auditor behavior. Ms. Landell-Mills inquired whether there is evidence from practice on whether auditors effectively apply the "stand-back" requirements as this could inform the AETF decisions in this regard. | Point noted. Ms. Almond referred to regulatory findings that indicate best practices when auditors "stand-back" throughout the audit process, rather than to defer their overall evaluation at the end of the audit when the opinion is being formed. |
| Mr. Thomson emphasized the relevance for the auditor to "stand-back" and consider all audit evidence obtained when applying professional skepticism, however he also questioned the benefits for the "stand-back" requirement given their increased proliferation across the ISAs. | Point noted. As explained in Agenda Item 4 discussed with the Board in September 2023, the AETF performed an analysis of the various "stand-backs" in the ISAs, and considered respondents comments how they can be optimized to increase their effectiveness. |

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| OTHER MATTERS | |
| Mr. Thompson and Ms. Blomme noted the importance for developing further technology related guidance and examples in support of practical implementation outside of the IAASB authoritative pronouncements. Mr. Thompson provided suggestions that the IAASB could further consider how this may be achieved in an accessible and flexible manner so that the guidance may be kept up to date, more easily supplemented and better linked to the authoritative guidance in the standards (e.g., through a website or in another electronically hyperlinked manner). | <p>Point noted.</p> <p>Through its ongoing mandate, the IAASB TAG and digital initiative, are focusing on issuing targeted guidance for emerging technology related issues as well as scanning the market for new technological trends and developments that may impact the IAASB.</p> <p>For further information see the IAASB TAG project webpage and the IAASB Technology focus webpage.</p> |
| Mr. Dalkin commented that in addition to the proliferation of “stand-backs,” there is also a tendency to more frequently make references to professional skepticism across the IAASB authoritative pronouncements. He noted that this could have the unintended consequence of practitioners becoming desensitized for this fundamental concept by the repeated reminders in the standards. | <p>Point noted.</p> <p>As explained in Agenda Item 4 discussed with the Board in September 2023, there was broad support from respondents for the enhancements made in relation to professional skepticism, including emphasizing the concept in the introductory section of the standard and in doing so setting the tone for the auditor to adopt the required mindset when applying ED-500.</p> |
| Ms. Riggs suggested that, when addressing the threshold for the attributes of relevance and reliability of information intended to be used as audit evidence, the IAASB consider the “degree to which” the attributes are applicable instead of using the threshold “significance”. She noted that the threshold “significant” may be too high when auditors are thinking about relevance and reliability. | <p>Point noted.</p> <p>Ms. Almond explained that when considering how to best to clarify the appropriate threshold, the AETF considered that all attributes of relevance and reliability are applicable in some way when evaluating information intended to be used as audit evidence and that further consideration will be provided for this matter as the AETF develops its proposals in this regard.</p> |
| Ms. Riggs suggested that the definition of audit evidence should include the concept of information that corroborates and contradicts the assertions in the financial statements. Dr. Orth noted that the concept of contradictory information is the right | <p>Point noted.</p> <p>Ms. Almond noted that this matter will be further considered by the AETF and how it can be built in the application material to the definition of audit evidence.</p> |

Audit Evidence – Cover and Report Back
IAASB CAG Public Session (December 2023)

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| Representatives' Comments | AETF / IAASB Response |
| point at which the auditor should “stand back” when evaluating audit evidence. | |

Appendix

Project Details and History

Project: Audit Evidence

Link to IAASB Project Page: [Audit Evidence](#)

Task Force Members

- Sue Almond, IAASB Member and Task Force Chair
- Edo Kienhuis, IAASB Member
- Eric Turner, IAASB Member
- Greg Schollum, IAASB Member

Summary

| | IAASB CAG Meeting | IAASB Meeting |
|-------------------------------|--|--|
| Information Gathering | March 2019 September 2019 March 2020 | March 2019 June 2019 September 2019 June 2020 |
| Project Proposal | September 2020 | December 2020 |
| Development of Exposure Draft | March 2021 September 2021 March 2022 September 2022 | March 2021 July 2021 March 2022 June 2022 September 2022 |
| Consideration of Comments | September 2023 | September 2023 |

IAASB CAG Discussions: Detailed References

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|-------------------------------|--|
| Information Gathering | <p><u>March 2019</u></p> <p>See IAASB CAG meeting material (Agenda Item D)</p> <p><u>September 2019</u></p> <p>See IAASB CAG meeting material (Agenda Item E – presentation only)</p> <p><u>March 2020</u></p> <p>See IAASB CAG meeting material (Agenda Item I)</p> |
| Project Proposal | <p><u>September 2020</u></p> <p>See IAASB CAG meeting material (Agenda Item D)</p> |
| Development of Exposure Draft | <p><u>March 2021</u></p> <p>See IAASB CAG meeting material (Agenda Item F)</p> <p><u>September 2021</u></p> <p>See IAASB CAG Meeting material (Agenda Item D)</p> <p><u>March 2022</u></p> <p>See IAASB CAG Meeting material (Agenda Item E)</p> <p><u>September 2022</u></p> <p>See IAASB CAG Meeting material (Agenda Item C)</p> <p><u>March 2023</u></p> <p>See IAASB CAG Meeting material (Agenda Item I.1)</p> |
| Consideration of Comments | <p><u>September 2023</u></p> <p>See IAASB CAG Meeting material (Agenda Item G)</p> |