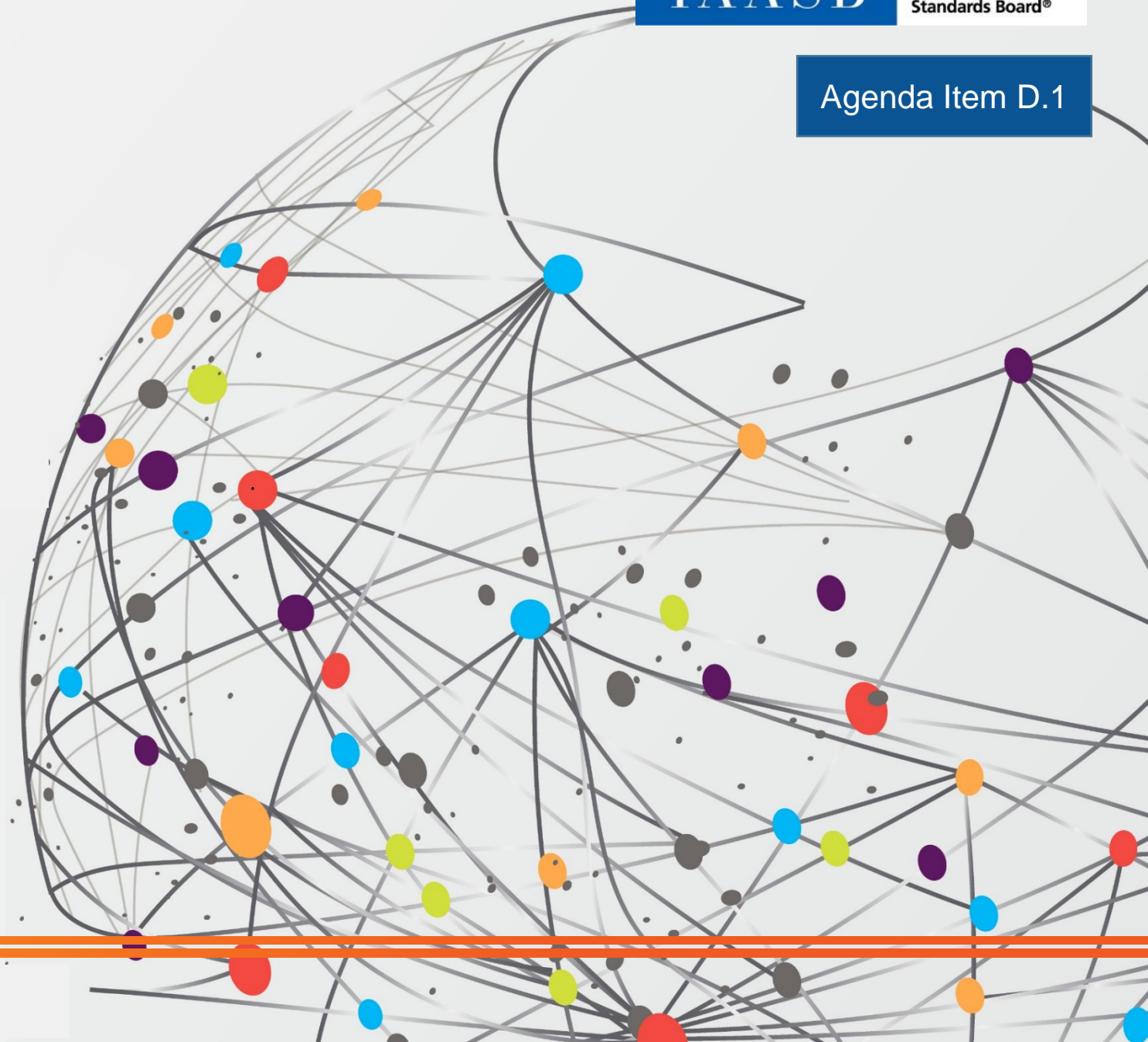


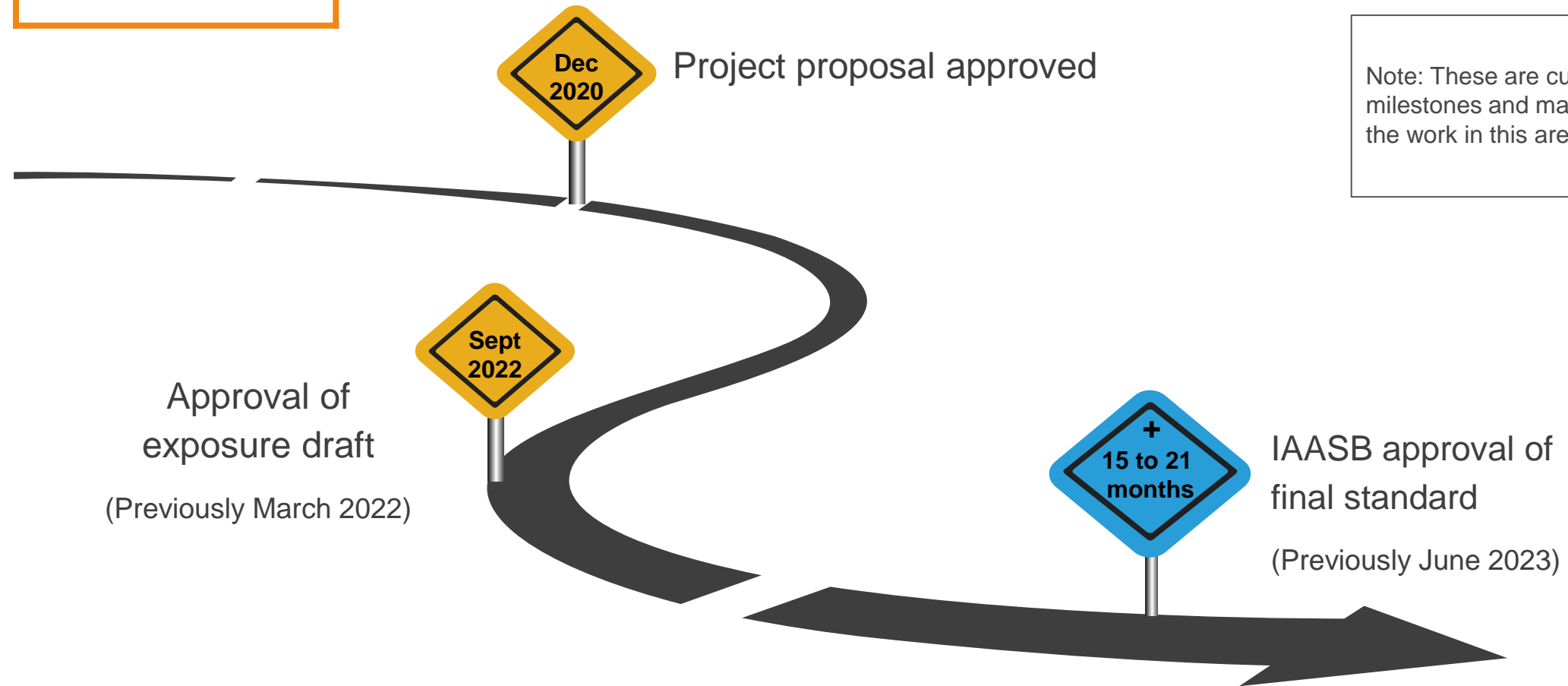
Audit Evidence Update

Sue Almond, *IAASB Member and Audit
Evidence Task Force (AETF) Chair*

IAASB CAG Meeting
September 8–9, 2021



Timeline for Audit Evidence



Progress Since March 2021

- IAASB discussions March 2021 to address issues in the public interest
 - Definition of audit evidence and the meaning of audit procedures
 - Information intended to be used as audit evidence
 - Sufficient appropriate audit evidence and the persuasiveness of audit evidence
 - Designing and performing audit procedures to obtain sufficient appropriate audit evidence.
 - Modernizing ISA 500 through incorporating technology
- Coordination with the IAASB's Technology Working Group and Professional Skepticism Working Group

Progress Since March 2021

- IAASB discussions July 2021 to address issues in the public interest
 - Relevance and reliability of information intended to be used as audit evidence
 - Reinforcing the exercise of professional skepticism with respect to audit evidence
 - The purpose and scope of ISA 500 and the requirements that the standard should address
 - Addressing the concept of detection risk in the requirements of ISA 500
 - Proposed approach in presenting examples to support the application of principles and concepts of the requirements in ISA 500

In this presentation, the following markers are used to indicate the outcome of the Board's discussion on the matters



Board supportive of direction



Board generally supportive of direction, however further consideration or exploration needed

Progress to Date: Purpose and Scope

Project objective:

Clarify purpose and scope of ISA 500 and relationship with other standards

- Proposed meaning of audit evidence and audit procedures
 - Information intended to be used as audit evidence (the input) needs to be subject to audit procedures to become audit evidence (the output)
 - All procedures performed to comply with all ISA requirements are *audit procedures for the purpose of obtaining sufficient appropriate audit evidence*
 - Comprises risk assessment procedures, further audit procedures or other



Progress to Date: Purpose and Scope

- IAASB explored relationship of ISA 500 with other ISAs, and the requirements that need to be included in ISA 500
 - ISA 500 is a reference framework for the auditor throughout the audit when making judgments in relation to audit evidence, including information intended to be used as audit evidence (the input) and the sufficiency and appropriateness of audit evidence (the output)
 - AETF considered
 - What requirements need to exist across the ISAs to address obtaining sufficient appropriate audit evidence?
 - Are the requirements addressed in the ISAs and are they appropriately located?
 - Should any requirements be relocated or added to ISA 500?
 - IAASB uncertain whether a requirement is needed to conclude on whether sufficient appropriate audit evidence has been obtained (already covered in other ISAs)



Key issues still to explore with the Board:

- The objective of ISA 500

Progress to Date: Information to be Used as Audit Evidence

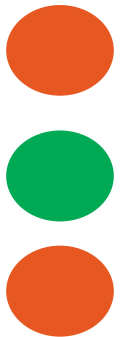
Project objective:

- Enhance and clarify auditor's responsibility for information to be used as audit evidence (internal and external sources) and evaluating sufficiency and appropriateness of audit evidence
 - Develop principles-based approach to considering and making judgments about information to be used as audit evidence and evaluating sufficiency and appropriateness of audit evidence
-
- Proposals to address the relevance and reliability of information to be used as audit evidence
 - Principles-based requirement that applies to all sources of information used in performing all audit procedures
 - Remove outdated statements, such as external sources are more reliable than internal sources
 - Work effort for the requirement: auditor needs to "evaluate" the relevance and reliability of information
 - Further explore "sufficiently" relevant and reliable for the auditor's purposes



Progress to Date: Information to be Used as Audit Evidence

- Proposals to address the relevance and reliability of information to be used as audit evidence (continued)
 - Application material describing various matters, such as
 - Availability and accessibility of information
 - Attributes of relevance and reliability, and emphasizing attributes should not be used as a “checklist”
 - Factors that affect:
 - The relevance and reliability of information
 - Which attributes may need to be considered by the auditor
 - The degree of the auditor’s work effort in evaluating the relevance and reliability of information, including notion that the evaluation of the relevance and reliability of information intended to be used as audit evidence may be performed concurrently with other audit procedures



Progress to Date: Information to be Used as Audit Evidence

- Proposals to address sufficient appropriate audit evidence (continued)
 - Definitions of “appropriateness of audit evidence” and “sufficiency of audit evidence” – retain concepts (with adjustment as necessary to align terms used in the definition)
 - Three factors that an auditor may consider in evaluating whether audit evidence is sufficient appropriate audit evidence
 - Assessed risks of material misstatement and results of audit procedures
 - Information to be used as audit evidence
 - Effectiveness (or responsiveness) of audit procedures and whether audit procedures have been appropriately applied
 - Persuasiveness of audit evidence: explain in application material based on how it is used and described elsewhere in the ISAs



Progress to Date: Information to be Used as Audit Evidence

- Proposals to address sources of information
 - Describing the sources of information to be used as audit evidence
 - Further explore how the various sources relate to “external information source” that is currently defined in ISA 500
 - Consider whether “auditor generated information” is a source

Key issues still to explore with the Board:

- How to incorporate the attributes of “completeness and accuracy” in the requirements in ISA 500, recognizing they may not be applicable in all circumstances

Progress to Date: Technology

Project objective:

Modernize ISA 500 to be adaptable to the current business and audit environment, and to better reflect the digital era

- Proposed approach:
 - Principles-based requirements that can be applied when technology is used
 - Application material emphasizes technology (e.g., technology may be used to perform audit procedures, information may be in a digital format and implications for relevance and reliability of information)
 - Examples demonstrating how principles may apply when technology is involved



Progress to Date: Technology

- Proposed location of examples:
 - Application material: Examples essential to understanding a concept, succinct and not prone to becoming redundant or outdated
 - Appendix: Examples succinct and not prone to becoming redundant or outdated
 - Separate publication: Examples that need to refer to a specific technology to be able to properly demonstrate a principle (i.e., may become easily redundant or outdated)
 - To be developed concurrently with the revisions to the standard and issued with the revised standard
 - Obtain input from the Technology Working Group

Key issues still to explore:

- Following up on exceptions identified when using automated tools and techniques in performing audit procedures (Note: particular focus on whether exceptions affect relevance and reliability of information)

Progress to Date: Professional Skepticism

Project objective:

Emphasize the role of professional skepticism when making judgments about information to be used as audit evidence and evaluating audit evidence obtained

- Proposed new requirements or enhance existing requirements in ISA 500 to reinforce professional skepticism, including:
 - Designing and performing audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or excluding audit evidence that may be contradictory
 - When there are doubts about relevance or reliability of information intended to be used as audit evidence, obtaining additional information
 - If a requirement is added to ISA 500 to conclude on whether sufficient appropriate audit evidence has been obtained, the following requirement may also be included: “The auditor is required to consider all relevant audit evidence regardless of whether it is corroborative or contradictory”

Progress to Date: Professional Skepticism

- Proposal to develop application material to address bias, including automation bias
- Various proposed actions on other topics in ISA 500 also address professional skepticism, including
 - Evaluating the relevance and reliability of information intended to be used as audit evidence
 - Describing the factors that influence whether audit evidence is sufficient appropriate audit evidence



Key issues still to explore:

- The meaning of “a critical assessment of audit evidence” (part of definition of professional skepticism)
- Further linkages with fraud, including authenticity of information
- Detection risk (linkage between audit evidence and quality management at engagement level)

Next Steps

- March 2022 – IAASB and CAG meetings:
 - First read of the draft of ISA 500
 - Accompanying guidance with technology examples
 - Initial direction on conforming and consequential amendments to other ISAs

Note: These are current targeted papers and may change if there are further changes in the Board's timetable (e.g., as a result of the ongoing COVID-19 pandemic).

Questions or Comments?





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