

**Meeting:** IAASB Consultative Advisory Group (CAG)

**Meeting Location:** Virtual Zoom Meeting

**Meeting Dates:** March 8–9, 2022

# Agenda Item E

## Audit Evidence – Cover and Report Back

### Objective of Agenda Item

1. The objectives of this agenda item are to:
  - (a) Obtain Representatives' views on proposed ISA 500 (Revised);<sup>1</sup> and
  - (b) Report back on the CAG Representatives' comments on Audit Evidence at the September 2021 meeting.

### Project Status

2. During the September 2021 IAASB CAG meeting, a general update of the Audit Evidence project was provided to the Representatives. Such update included an overview of the key public interest issues identified, as well as highlighting key matters that were discussed with the Board in July 2021, including:
  - (a) Relevance and reliability of information intended to be used as audit evidence;
  - (b) Reinforcing the exercise of professional skepticism with respect to audit evidence; and
  - (c) The purpose and scope of ISA 500, and the requirements that the standard should address.
3. Since the September 2021 IAASB CAG meeting, the Audit Evidence Task Force (AETF) focused its efforts on developing the first full draft of proposed ISA 500 (Revised), to be discussed with the Board in March 2022. In doing so, the AETF considered the feedback from the Representatives in September 2021 and the Board's discussions in July 2021 (i.e., the last discussion with the Board on audit evidence).
4. As noted to the Representatives in September 2021, the IAASB published a [Revised Detailed Work Plan Table for 2020–2021](#) in May 2021 that takes into account the continued impact of the COVID-19 pandemic on both the Board's operations and stakeholders' capacity to implement new standards. There have been no further changes and the expected approval date of the exposure draft of Proposed ISA 500 (Revised) remains September 2022.
5. The **Appendix** to this paper provides a history of previous discussions with the IAASB CAG and IAASB on the topic of audit evidence.

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<sup>1</sup> Proposed International Standard on Auditing (ISA) 500 (Revised), *Audit Evidence*

## IAASB CAG Discussion in March 2022

6. The IAASB CAG discussion in March 2022 will comprise a high level review of the first draft of proposed ISA 500 (Revised), with a focus on the key public interest issues identified:
  - (a) Responding to changes in the information that is being used by auditors, including the nature and source of the information;
  - (b) Modernizing and supporting a principles-based standard that recognizes the evolution in technology; and
  - (c) Fostering the maintenance of professional skepticism when making judgments about information to be used as audit evidence and sufficient appropriate audit evidence.
7. **Agenda Item E.5** presents a summary of how the project objectives, as included in the [Audit Evidence Project Proposal](#), have been addressed in proposed ISA 500 (Revised). Such summary may assist Representatives in navigating the standard in evaluating the AETF's proposals to address the key project objectives.
8. A presentation to guide the discussion has been provided (see **Agenda Item E.1**).

## Feedback

9. Extracts from the approved [September 2021 IAASB CAG Meeting Minutes](#), as well as an indication of how the AETF has responded to the Representatives' comments, are included in the table below.

Representatives' Comments	Task Force / IAASB Response
GENERAL	
<p>Mr. Ishiwata noted the importance of the different types of sources of information intended to be used as audit evidence. In particular, Mr. Ishiwata emphasized the importance of differentiating between different sources of information, including:</p> <ul style="list-style-type: none"><li>• External sources that are third parties;</li><li>• External sources that are related parties; and</li><li>• Internal sources, given that such information may be subject to management bias.</li></ul>	<p>Point noted.</p> <p>Ms. Almond noted the nuance in distinguishing between different types of external information sources and indicated that the comment will be considered further.</p> <p>Proposals in <b>Agenda Item E.2</b> that address bias, or where information may be subject to the influence of management, include:</p> <ul style="list-style-type: none"><li>• Paragraphs A41–A46 present the proposed application material on sources of information. In particular, paragraphs A43–A44 address the notion of information being subject to the influence of management.</li><li>• Paragraph A49 provides examples of attributes that may be considered by the auditor in considering the degree to which information intended to be used as audit</li></ul>

Representatives' Comments	Task Force / IAASB Response
	evidence is reliable. Such attributes include the concept of bias.
<p>Mr. Ishiwata noted the importance of emphasizing the risk of automation bias, and at the same time encouraging the use of technology given the benefits in using technology in certain circumstances.</p>	<p>Point noted.</p> <p>Ms. Almond agreed that it is important to strike the right balance between addressing automation bias and encouraging auditors to use automated tools and techniques.</p> <p>The AEFT's proposals in <b>Agenda Item E.2</b> to recognize the evolution in technology, include the following:</p> <ul style="list-style-type: none"> <li>• Paragraph A3 explains that the auditor may use manual or automated tools and techniques to perform audit procedures to obtain audit evidence. In particular, it is noted that in some circumstances, an automated tool and technique may be more effective or provide more persuasive audit evidence than a manual technique (examples are also provided).</li> <li>• Paragraphs A18 and A19 explain the concept of automation bias, noting a balance between the benefits (paragraph A18) and the risks (paragraph A19) when using automated tools and techniques.</li> </ul>
<p>Dr. Cela noted that the scope of conforming and consequential amendments, resulting from the proposed revisions to ISA 500,<sup>2</sup> should include revisions to the ISA of Financial Statements of Less Complex Entities (LCE), which has been approved for exposure by the Board at the June 2021 IAASB meeting.</p>	<p>Point noted.</p> <p>Ms. Almond agreed with the comment and indicated that it would be considered, once the ISA for LCE's is approved.</p> <p>The AETF notes that the immediate objective in March 2022 is to obtain the Board's and Representatives' views on proposed ISA 500 (Revised), as presented in <b>Agenda Item E.2</b>. Based on the feedback, the AETF will focus on progressing the possible conforming and consequential amendments arising from the development of the proposed exposure draft of</p>

<sup>2</sup> ISA 500, *Audit Evidence*

Representatives' Comments	Task Force / IAASB Response
	<p>ISA 500 (Revised). The AETF plans to present such proposals at the June 2022 IAASB meeting.</p> <p>The AETF's initial views about its approach to considering such amendments are set out in the section G of <b>Agenda Item E.3</b>.</p>
<p>Ms. Blomme noted the AETF's ongoing work regarding the auditor's responsibilities in relation to technology, professional judgment and external information sources. Ms. Blomme asked the AETF to consider the auditor's work effort, in particular at what point the auditor has undertaken sufficient work to fulfill their responsibilities.</p>	<p>Point noted.</p> <p>In addressing the concept of sufficient appropriate audit evidence, including the auditor's work effort, the AETF has proposed various enhancements in the draft of proposed ISA 500 (Revised) (see paragraphs A9–A15 of <b>Agenda Item E.2</b>).</p> <p>Other proposed enhancements to address the auditor's responsibilities and work effort include application material in <b>Agenda Item E.2</b> to explain:</p> <ul style="list-style-type: none"> <li>• The meaning of audit procedures that are appropriate in the circumstances (see paragraphs A20–A22);</li> <li>• The auditor's responsibilities when dealing with the inherent limitations of an audit, such as difficulties, time or cost, when obtaining audit evidence (see paragraphs A36–A38); and</li> <li>• Factors that may affect the auditor's professional judgment in evaluating information intended to be used as audit evidence (see paragraphs A51–A56). Such guidance explains, for example, that the auditor is not required to document the consideration of every attribute that was taken into account in evaluating the relevance and reliability of information intended to be used as audit evidence.</li> </ul> <p>The AETF notes, however, that the decision about whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an</p>

Representatives' Comments	Task Force / IAASB Response
	acceptably low level is a matter of professional judgment, as also explained in ISA 200. <sup>3</sup>

### Material Presented – IAASB CAG Papers

- Agenda Item E.1                      Presentation
- Agenda Item E.2                      Proposed ISA 500 (Revised)

### Material Presented – IAASB CAG Reference Papers

- Agenda Item E.3                      IAASB Audit Evidence Issues Paper
- Agenda Item E.4                      IAASB Comparison of Introductory Paragraphs, Objective, Definitions, Requirements and Selected Application Material of Extant ISA 500 with Proposed ISA 500 (Revised)
- Agenda Item E.5                      IAASB Summary of How the Project Objectives have been Addressed in Proposed ISA 500 (Revised)

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<sup>3</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph A33

## Appendix

### Project Details and History

#### Project: Audit Evidence – ISA 500

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

#### Task Force Member

The Task Force comprises:

- Sue Almond, IAASB Member and Task Force Chair
- Sachiko Kai, IAASB Member
- Kai-Uwe Marten, IAASB Member
- Eric Turner, IAASB Member
- Susan Jones, IAASB Technical Advisor
- Jamie Shannon, IAASB Technical Advisor
- Dominika Taraszkiewicz (PCAOB Observer)

#### Summary

	IAASB CAG Meeting	IAASB Meeting
Preliminary discussions, information gathering and the development of the Audit Evidence Workstream Plan	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 2021 July 2021

#### IAASB CAG Discussions: Detailed References

Preliminary discussions, information gathering and the development of Audit Evidence Workstream Plan	<p><u>March 2019</u></p> <p>See IAASB CAG meeting material and CAG minutes (Agenda Item D): <a href="https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-1">https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-1</a></p> <p><u>September 2019</u></p> <p>See IAASB CAG meeting material and CAG minutes (Agenda Item E –</p>
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	<p>presentation only):</p> <p><a href="https://www.ifac.org/cag/meetings-IAASB-CAG-Agenda_Item-E">https://www.ifac.org/cag/meetings-IAASB-CAG-Agenda_Item-E</a></p> <p><u>March 2020</u></p> <p>See IAASB CAG meeting material and CAG minutes (Agenda Item I)</p> <p><a href="https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-3">https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-3</a></p>
Project Proposal	<p><u>September 2020</u></p> <p>See IAASB CAG meeting material and CAG minutes (Agenda Item D)</p> <p><a href="https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york">https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york</a></p>
Development of Exposure Draft	<p><u>March 2021</u></p> <p>See IAASB CAG meeting material and CAG minutes (Agenda Item F)</p> <p><a href="#">IAASB CAG Meeting - March 8-9, 2021 (Virtual)</a></p> <p><u>September 2021</u></p> <p>See IAASB CAG Meeting material and CAG minutes (Agenda Item D)</p> <p><a href="#">IAASB CAG Meeting – September 8-9, 2021 (Virtual)</a></p>